



# Home Loan Star Ratings and Award

MARCH 2019

## How is the Canstar's Home Loans Methodology structured?

Canstar's Home Loans Methodology consists of two levels, individual profile star ratings and an overall award. The Individual Profile Star Ratings analyse performance of home loans based on different loan amounts, product types and consumer profiles. The Award represents the cumulative performance of an institution (within certain categories) using the individual profile outcomes for the institution's best performing product. The process for these two levels employs a separate methodology consistent with the price and features model of the Canstar Star Ratings.

## What are the Canstar Home Loan Star Ratings?

Canstar's Home Loan Star Ratings use a sophisticated and unique ratings methodology that compares both Price and Features across home loan products. Canstar Star Ratings represent a shortlist of financial products, enabling consumers to narrow their search to products that represent outstanding value. Canstar Home Loan Star Ratings are a transparent analysis comparing all types of home loan products.

Ratings range from five to one-star. Five-star rated products have been assessed as offering outstanding value to consumers.

## What types of products are evaluated by Canstar's Home Loan Star Rating?

Canstar recognises that consumers have different needs and wants when it comes to the Home Loans that they need. Hence, Canstar's Home Loan Star Ratings are aimed to provide consumers with results that suit their borrowing profile. Home Loans included in the Star Rating are assessed across the following product types:

Profile
Residential Floating
Residential Fixed
Investment Floating
Investment Fixed
Line of Credit

For the fixed rate product types (Residential Fixed and Investment Fixed), a weighted average of the fixed rate terms of 1, 2, 3 and 5 years is taken by assigning weights to each term. Weightings are allocated to each of the fixed rate terms as follows:

Fixed Profile Term	Profile Weight
1 Year Fixed	40%
2 Year Fixed	40%
3 Year Fixed	15%
5 Year Fixed	5%

Products specific to certain groups or with restrictions on eligibility are not included in the ratings. Where an institution offers a special home loan rate with the criteria of 20% equity, salary credit into a transactional account and one other product, these home loans may be included in the Star

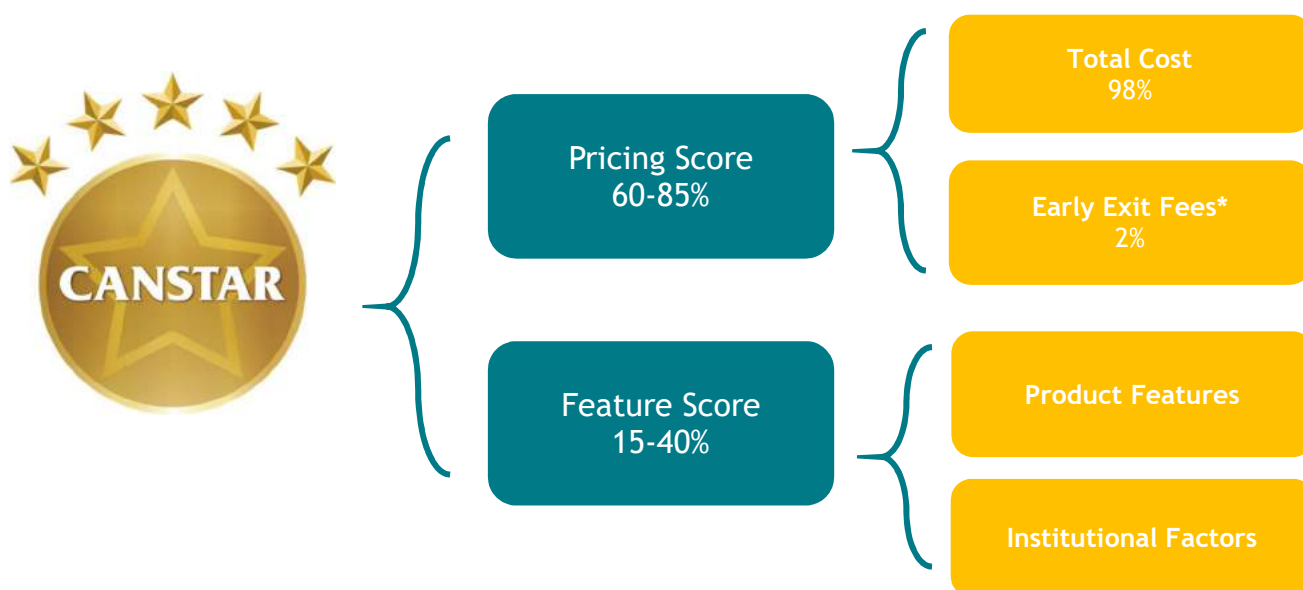
Ratings. Home loans that do not conform to the pricing scenario are also not included so as to ensure like-for-like comparison.

### How is the Star Rating calculated?

Each home loan reviewed for Canstar’s *Home Loan Star Ratings* is awarded points for its comparative price and for the array of features attached to the product. Points are aggregated to achieve a Price Score and a Feature Score.

To arrive at the Total Score, Canstar applies a weight against the Price and Feature Scores. This weight will vary from profile to profile and will reflect the relative significance of either price or features in determining outstanding value home loan products. This method can be summarised as:

$$\text{TOTAL SCORE} = \text{PRICE SCORE} + \text{FEATURE SCORE}$$



\*Early Exit Fees are not considered in the Line of Credit and Residential Floating profiles.

The weights for each product type are summarised below:

Profile	Price Weight	Feature Weight
Residential Floating	75%	25%
Investment Floating	80%	20%
Residential Fixed	85%	15%
Investment Fixed	85%	15%
Line of Credit	60%	40%

## Price Score

### Total Cost

Canstar accounts for both current and historical interest rates in the calculation of the Pricing component of each product's overall score.

The total cost is determined by the loan amount over 25 years and interest rate at the loan to value ratio (LVR) of 80% for Owner Occupiers and 65% for Investors.

	Median House Price	LVR	Loan Amount
Residential	\$562,000	80%	\$449,600
Investment		65%	\$365,300

Total cost is based on the following:

- Six months' historical data (12 observations)
- Interest rate cost plus upfront, ongoing & discharge fees
- For fixed rate loans, there is at least 1 rollover of the fixed rate and a minimum loan term of 5 years.

### Early Exit Fees

The fee to terminate the loan, excluding any interest adjustment cost where applicable, is included with the following weightings assigned:

Exit Year	Weight
Year 1	5%
Year 2	5%
Year 3	20%
Year 4	30%
Year 5	40%

## Feature Score

The following recognition of the product features and institutional features is as follows:

Profile	Product Features	Institutional Assessment
Residential Floating	80%	20%
Investment Floating	80%	20%
Residential Fixed	80%	20%
Investment Fixed	80%	20%
Line of Credit	80%	20%

## Product Features

The features component takes into account more than 200 product features and allocated points. These product features are grouped into 5 different categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories per profile:

	Residential Floating	Residential Fixed	Investment Floating	Investment Fixed	Line of Credit
<b>Loan Terms</b>	<b>50%</b>	<b>45%</b>	<b>45%</b>	<b>45%</b>	<b>40%</b>
Lending Terms	65%	65%	65%	65%	40%
Security Requirements	15%	15%	15%	15%	10%
Guarantee Options	15%	15%	15%	15%	10%
Line of Credit Details	-	-	-	-	40%
Construction Loan	5%	5%	5%	5%	-
<b>Product Functionality</b>	<b>40%</b>	<b>30%</b>	<b>40%</b>	<b>30%</b>	<b>45%</b>
Additional Repayments	20%	35%	25%	35%	-
Redraw Facility	25%	-	10%	-	60%
Offset Facility	25%	-	30%	-	-
Split Facility	15%	35%	20%	35%	30%
Top Up Facility	10%	15%	10%	15%	-
Portability	5%	15%	5%	15%	10%
<b>Fixed Rate</b>	<b>-</b>	<b>10%</b>	<b>-</b>	<b>10%</b>	<b>-</b>
Rate Details	-	100%	-	80%	-
Interest in Advance	-	-	-	20%	-
<b>Loan Fees</b>	<b>5%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
Switch Fees	55%	55%	55%	55%	50%
Mortgage Fees	45%	45%	45%	45%	50%
<b>Loan Application</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>
Application Channels	60%	60%	60%	60%	60%
Loan Application	40%	40%	40%	40%	40%

## Institutional Assessment

Category	Weights
<b>Accessibility</b>	<b>40%</b>
Call Centre Hours	50%
Branches*	25%
Online Live Chat	25%
<b>Market Information/Education</b>	<b>40%</b>
Educational Material, Property Reports/Market Statistics	70%
Tools & Calculators	30%
<b>Online Self Service</b>	<b>20%</b>

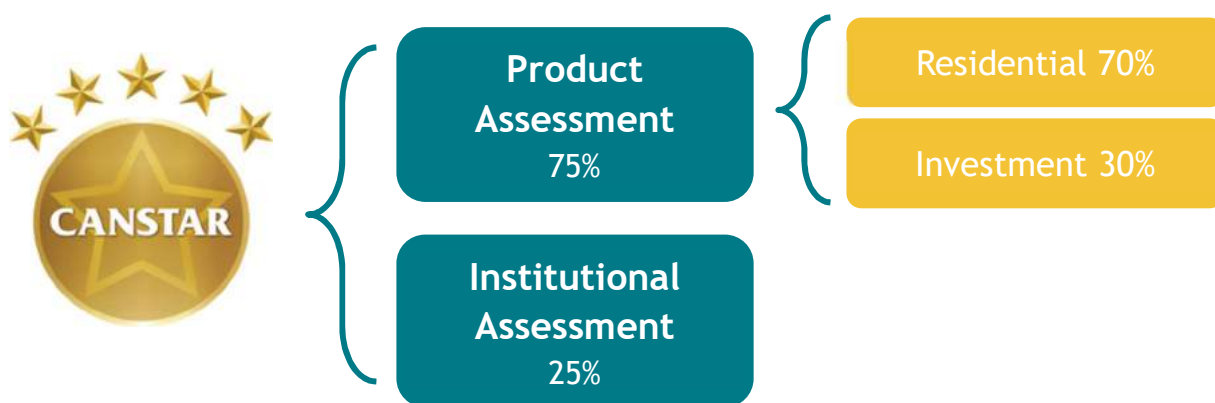
\*The ratio of the total number branches across New Zealand (both islands) against the New Zealand population is calculated against a cap of 25,000 people per branch. Any institution that exceeds the branch cap will receive full points, with the remaining institutions being indexed against the cap.

## How is the Award calculated?

Each institution reviewed for the *Canstar Bank of the Year - Home Loan Award* is awarded points for its best performing product in the underlying star rating profiles and for the array of institutional factors on offer. Points are aggregated to achieve a Product Assessment score and an Institutional Assessment score. This award considers a weighting of 20% to the 90% loan to value ratio with 80% to the 80% loan to value ratio which is to account for the differentiation between lenders low equity margins.

To arrive at the Total Score, Canstar applies a weight against the Product Assessment and Institutional Assessment scores. This weight will reflect the relative significance of product and institutional factors in determining a home loan provider of the year. This method can be summarised as:

$$\text{TOTAL SCORE} = \text{PRODUCT ASSESSMENT SCORE} + \text{INSTITUTIONAL ASSESSMENT SCORE}$$



## Product Assessment

The Product Assessment is made up of Residential Home Loans, and Investor Home loans. Weights applied to Residential and Investor home loans are proportional to the ratios derived from Canstar's website traffic and the latest figures from RBNZ.



Both Residential and Investment are further broken down into Floating and Fixed Rate home loans.

## Institutional Assessment

Category	Weight	Description
<b>Loan Research</b>	<b>30%</b>	
<b>Tools/Calculators</b>	<b>40%</b>	
Budgeting Tools	40%	Includes features, such as budget planners, savings & goal calculators, and spending/transaction categorisation and graphing
Home Loan Calculators	40%	Includes features, such as borrowing power, mortgage repayments calculators
Additional Calculators/Tools	20%	Includes calculators and tools for KiwiSaver, insurance, etc.
<b>Education</b>	<b>60%</b>	
Process of Buying a Home	50%	Guides, definitions, case studies, and seminars on buying a home.
Property & Market Research	50%	Property reports, market statistics and information on the property market.
<b>Loan Application</b>	<b>30%</b>	
Deposit Requirements	40%	Max LVR; Guarantee Options; Financial Gifts.
Online Application	30%	Functionality of institutions' online home loan application form; such as the ability to save and return after, or, approval upon completion of the application online.
Online ID Verification	30%	The availability and type of online ID verification the institution offers with online application of their home loan products.
<b>Ongoing Services</b>	<b>40%</b>	
Accessibility	30%	Branch and mobile lender accessibility
Support	40%	Call centre availability and hours, and online support through online chat, or, Facebook/twitter, etc.
Additional Services	30%	Additional services available to customers, such as home and contents insurance, KiwiSaver, services pertaining to home loan repayments.

## Does Canstar rate all products available in the market?

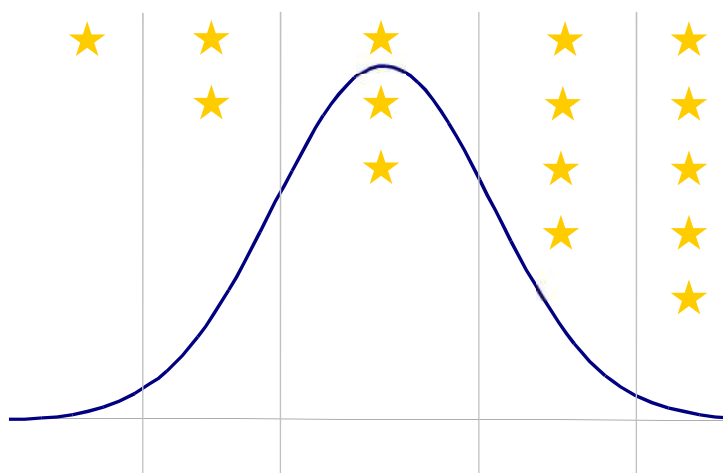
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However complete coverage is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

## How often are products reviewed for awards or star ratings purposes?

All ratings are fully recalculated every twelve months based on the latest features offered by each provider. Canstar also monitors changes on an ongoing basis. The results are published in a variety of mediums (newspapers, magazines, television, websites, etc.)

## How are the stars awarded?

The total score received for each profile ranks the products. The stars are then awarded based on the distribution of the scores with the objective to award the top 5-10% of products with the Canstar 5-star Rating.



## Does Canstar rate other product areas?

Canstar researches, compares and rates the suite of banking and insurance products listed below. These star ratings and awards use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers, who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Access the Canstar website at [www.canstar.co.nz](http://www.canstar.co.nz) if you would like to view the latest star ratings and awards reports of interest.



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The ratings and awards results do not include all providers and may not compare all features relevant to you. The rating or award is only one factor to take into account when considering these products. Canstar acknowledges that past performance is not a reliable indicator of future performance.

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