

Home Loan Star Ratings & Awards

April 2021



What are the Canstar Home Loan Star Ratings?

Canstar 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 have been reviewed, assessed and ranked. 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 being in approximately the top 10% of products considered within the group of products being assessed.

Eligibility Requirements

To be eligible for a Star Rating, Price and Feature information required to complete the review must be made available to Canstar. In the event the required information is not available to Canstar to complete its review, the product will be noted as 'Not Rated'.

An institution must also meet the following selection criteria to be considered for inclusion in this rating:

- Available for 80% LVR or greater for residential loans
- Available for 60% LVR or greater for investment loans
- Floating and fixed rate options have to be available to new customers for the respective profiles

Profiles

There are 5 consumer profiles in the Canstar Home Loan Star Ratings, which are listed in the table below:

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

Each of the above profiles is segmented on www.canstar.co.nz with the Star Rating received being applied to each relevant product displayed on the Canstar website.

For fixed rate profiles (residential fixed and investment fixed), a weighted average of the fixed rate terms 1, 2, 3, 4 and 5 years is taken by assigning weightings 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%
4 Year Fixed	3%
5 Year Fixed	2%

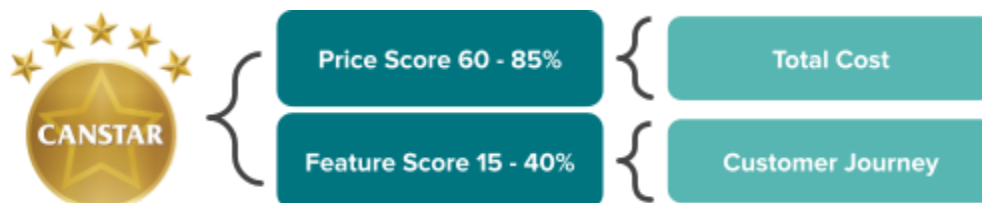
Products specific to certain groups or with restrictions on eligibility are not included in the Star Ratings. Where an institution offers a special home loan rate with the criteria of 20% equity, salary credit into a transactional account and one other product, these home loans may be included in the Star Ratings. Home loans that do not conform to the pricing scenario are also not included so as to ensure like-for-like comparison.

Methodology

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 the value proposition of home loan products. This method can be summarised as:

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



The weights for each product type are summarised below:

Profile	Price Score	Feature Score
Floating (owner occupier & investment)	80%	20%
Fixed (owner occupier & investment)	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.

Total cost is determined by the loan amount over 30 years and interest rate at the loan to value ratio (LVR) of 80% for Owner Occupiers and 60% for Investors.

	Median House Price	LVR	Loan Amount
Residential	\$725,000	80%	\$580,000
Investment		60%	\$435,000

Scenarios

The cost of each home loan is calculated based on a scenario which captures the amount paid by consumers over a specified borrowing period.

Loan Type	Rollovers	Time on revert rate	Borrowing Period	Loan Term
Variable	N/A	Remaining borrowing period following intro period (where applicable)	10 years	30 Years
1 Year Fixed	2	60 days	3 years + 60 days	
2 Year Fixed	1	60 days	4 years + 60 days	
3 Year Fixed	1	60 days	6 years + 60 days	
4 Year Fixed	1	60 days	8 years + 60 days	
5 Year Fixed	1	60 days	10 years + 60 days	

The above scenarios are applied to each of the loan amounts assessed to ensure that the relative impact of fees and interest is accounted for in each of the consumer profiles.

These scenarios consider:

- Interest charges based on the advertised interest rate (including discounts where applicable)
- Upfront, ongoing and discharge fees (not capitalised into borrowing amount)
- Introductory interest rates for any applicable introductory period
- At least one rollover of the fixed rate for fixed rate loans
- 60-day period where a product reverts to a variable product interest rate (revert rate) at the end of each fixed term scenario
- Repayments made based on monthly repayments for a home loan with a 30-year loan term

Calculation of Loan Cost

To calculate the cost of a home loan to the consumer, Canstar measures the loan repayments made throughout the borrowing period plus upfront, ongoing and discharge fees.

To account for the direct impact that the interest rate has on the amount of principal paid down during the borrowing period, the principal repaid over the borrowing period is deducted from the repayments made when calculating the cost of the loan to the consumer.

Observations

Canstar calculates the total cost of the loan using six months of historical information for each home loan product, taking 12 independent observations of the rates and fees applicable to all products eligible for each consumer profile.

Where a product has more than one eligible interest rate advertised at a point in time (e.g. during a period where a promotional interest rate is on offer), then the pricing that is most favourable to the consumer will be taken for each observation where the pricing is available.

Average Total Cost and Price Score

The average total cost of each home loan is calculated by averaging the cost of the loan for each of the 12 observations calculated for each home loan.

The Price Score is then calculated by indexing and weighting each home loan considered in each consumer profile along a normal distribution.

Feature Score

The Feature Score of each home loan takes into account more than 180 product features and consists of 6 categories which follow a customer's journey through the life of the home loan.

The first stage of the journey is research, followed by application. Products are then assessed based on the day-to-day management of the product, any variations to the product that may be required and the availability of support throughout the life of the loan and the ease of having the loan discharged.

Scores are then indexed against their peers and weighted according to the following table:

	Owner Occupier	Investor	Line of Credit
	Floating/Fixed	Floating/Fixed	Variable
Research	5%	5%	5%
Application	20%	20%	20%
Purpose	20%	20%	20%
Application Channels	20%	20%	20%
Pre-approval	20%/15%	20%/15%	20%
Fixed Loan Application	0%/15%	0%/15%	0%
Guarantee and Deposit Requirements	20%/15%	20%/15%	20%
Security Options	20%/15%	20%/15%	20%
Management	35%	35%	45%
Repayment	20%/85%	20%/85%	0%
Offset Account Facilities	30%/0%	40%/0%	0%
Redrawing and Transactional	40%/0%	30%/0%	55%
Line of Credit	0%	0%	35%
Construction Loan	5%	5%	0%
Online Self Service	5%/10%	5%/10%	10%
Variation	20%	20%	10%
Split and Switch Facilities	34%	34%	0%
Top Up Facilities	33%	33%	0%
Portability	33%	33%	100%
Support	15%	15%	15%
Discharge	5%	5%	5%

Methodology - Awards

How are the Outstanding Value Awards calculated?

Canstar recognises products that perform well within each Star Rating profile to deliver outstanding value to customers. The Canstar awards of 'Outstanding Value - Fixed Home Loan', 'Outstanding Value - Floating Home Loan' and 'Outstanding Value - Line of Credit' are awarded to products which have achieved 5-Stars in the relevant Star Rating profile.

How is the Bank of the Year Award calculated?

Each institution reviewed for the Canstar *Bank of the Year - Home Loans Award* is awarded points for its best performing product in the underlying star rating profiles which account for both the price and features of these individual products.

To arrive at the Total Score, Canstar applies a weight against the Product Assessment. This weight will reflect the relative significance of product assessment across both residential and investment loans in determining a home loan provider of the year. This method can be summarised as:

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



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 Floating and Fixed Rate home loans are further broken down into price and features.

How often are products reviewed for Star Ratings purposes?

Home Loan Star Ratings are recalculated annually 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, magazine, television, websites, etc.).

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, this process 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.

Does Canstar rate other product areas?

Canstar researches, compares and rates the suite of banking, wealth and insurance products listed below. These Star Ratings 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.

Please access the Canstar website at www.canstar.co.nz if you would like to view the latest Star Ratings 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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