

# Home Loan Awards

2022



## What are the Canstar Outstanding Value - Home Loans awards?

Canstar's Outstanding Value - Home Loans awards recognise the lenders that provide outstanding value to borrowers through their suite of home loan products available to New Zealand consumers.

These awards leverage a sophisticated Home Loans Star Ratings methodology, unique to Canstar, to identify the lenders who have best served a range of home loan customers over the preceding 6-month observation period.

There are 7 individual awards that make up the Outstanding Value - Home Loans awards:

- **Home Lender:** awarded to Outstanding Value lenders across all residential profiles
- **Floating Home Lender:** awarded to Outstanding Value lenders within the residential floating profile
- **Fixed Home Lender:** awarded to Outstanding Value lenders within the residential fixed rate profile
- **Investment Home Lender:** awarded to Outstanding Value lenders across all investment profiles
- **Investment Floating Home Lender:** awarded to Outstanding Value lenders within the investment floating profile
- **Investment Fixed Home Lender:** awarded to Outstanding Value lenders within the investment fixed rate profile
- **Line of Credit:** awarded to Outstanding Value lenders within the line of credit profile

## Eligibility requirements:

To be eligible for the Outstanding Value - Home Loans awards, lenders must have had home loan products available for six months and information required to complete the review made available to Canstar.

## Which products are used in this calculating the awards:

All Star Rating eligible home loan products that have been in the market for a period of six months are eligible for consideration in the Outstanding Value - Home Loans awards. Each lender will be represented by the product that has been the best performing against its peers for each profile that forms part of the award assessment.

## Which profiles are considered in Canstar's Outstanding Value - Home Loans awards?

Borrower profiles that are assessed in the Awards are as follows:

Profile	Product Type
Residential	An individual who is either refinancing an existing property, purchasing a new property or constructing a new property.
Investor	An individual who is either refinancing an existing investment property or purchasing an investment property.

## 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](http://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), the fixed terms are grouped into short, medium and long term groups. A provider's best performing term in each group is used and a weighted average performance of the short, medium and long term groups is taken by assigning weightings to each group. Weightings are allocated as follows:

Fixed Loan Term Groups	Weight
Short Term (Best of 12-18 months or 2 years)	60%
Medium Term (3 Year Fixed)	20%
Long Term (Best of 4 or 5 Year Fixed)	20%

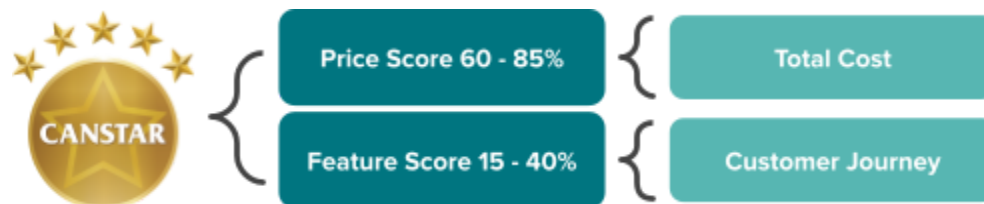
Products specific to certain groups or with restrictions on eligibility are not included in the Star Ratings. Where an institution offers a special home loan rate with the criteria of 20% equity, salary credit into a transactional account and one other product, these home loans may be included in the 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 underlying 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	\$885,000	80%	\$708,000
Investment		60%	\$531,000

## 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
Floating	N/A	Remaining borrowing period following intro period (where applicable)	10 years	

1 Year Fixed	2	60 days	3 years + 60 days	30 Years
18 Month Fixed	1	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 floating 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 170 product features and is comprised 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	Floating
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%

## What profiles are considered in the Outstanding Value awards and how are they weighted?

The following weights are applied to the scores achieved by eligible products in determining the respective awards:

	Floating Home Lender	Investment Floating Home Lender	Fixed Home Lender	Investment Fixed Home Lender
<b>Fixed Loan Term Weights</b>				
Short Term (Best of 12-18 months or 2 year Fixed)			60%	60%
Medium Term (3 Year Fixed)			20%	20%
Long Term (Best of 4 or 5 Year Fixed)			20%	20%

	Investment Home Lender	Home Lender
<b>Floating Home Lender</b>		15%
<b>Investment Floating Home Lender</b>	15%	
<b>Fixed Home Lender</b>		85%
<b>Investment Fixed Home Lender</b>	85%	

## How are the Outstanding Value Home Lender and Investment Home Lender Awards calculated?

Each institution reviewed for Canstar's Outstanding Value - Home Lender and Outstanding Value - Investment Home Lender Awards is awarded points for its best performing product in the underlying star rating profiles which accounts for both the price and features of these individual products.

To arrive at the Total Score, Canstar applies a weight against the components considered within Product Assessment. This weight will reflect the relative significance of available loans across both fixed rate and floating rate loans available for the respective segments (Residential or Investment) in determining the lenders providing Outstanding Value to consumers through their suite of available home loans. This method can be summarised as:



## 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 components considered within Product Assessment. This weight will reflect the relative significance of products considered within the assessment across both residential and investment loans in determining a home loan provider of the year. This method can be summarised as:

TOTAL SCORE = 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](http://www.canstar.co.nz) if you would like to view the latest Star Ratings reports of interest.

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