

# **CANSTAR** **PERSONAL LOANS STAR RATINGS** **METHODOLOGY**



# STAR RATING OVERVIEW – PERSONAL LOANS

## What is the CANSTAR Personal Loan star ratings?

CANSTAR Personal Loan Star Ratings is a sophisticated and unique ratings methodology that compares both Cost and Features of Personal Loans. CANSTAR star ratings represent a shortlist of financial providers, enabling consumers to narrow their search to providers that have been reviewed, assessed and ranked.

## What are the categories used by CANSTAR Personal Loans star rating?

CANSTAR appreciates the clear distinction of personal loan users as two separate groups. One group of borrowers uses personal loans mainly to purchase cars while the other group uses personal loans to finance other interests such as debt consolidation or holidays. The latter group may either require a secured or an unsecured loan. In recognition of these differences, the CANSTAR personal loan star ratings methodology has been modified to reflect the distinction between the above mentioned groups.

Category	Loan Amount	Loan Period
Unsecured Personal Loan	\$10,000	3 Years
Secured Personal Loan	\$20,000	5 Years



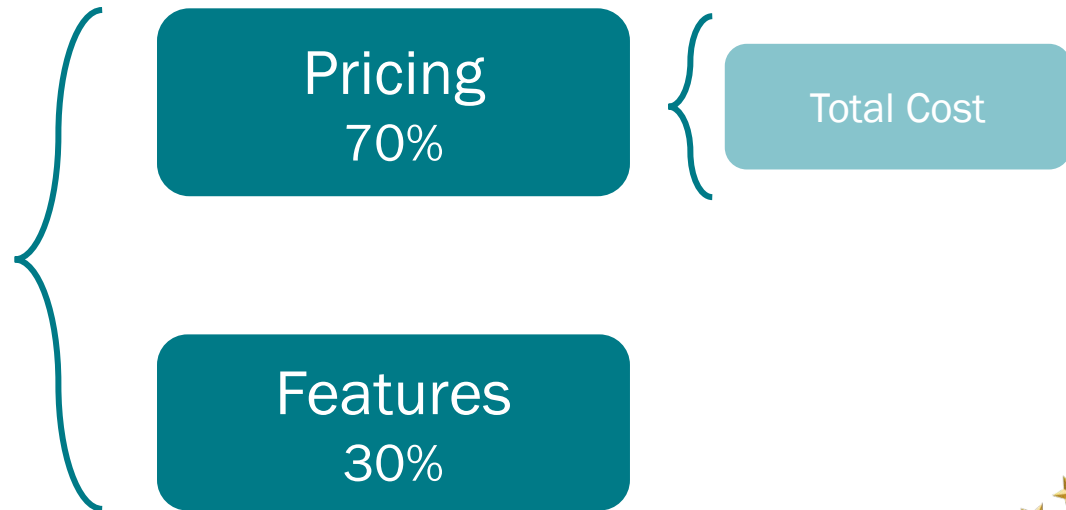
# METHODOLOGY– SUMMARY

## How are the 'stars' calculated?

Each provider reviewed for the CANSTAR Personal Loan Star Ratings is awarded points for its comparative pricing and for the array of positive features attached to the product. These features include the availability of product functionality, flexibility, additional fees & charges and the application process. Points are aggregated to achieve a Pricing score and a Feature score.

To arrive at the total score CANSTAR applies a weight against the Pricing and Feature scores. This weight will reflect the relative importance of either costs or features in determining the best product. This method can be summarised as:

$$\text{Total Score} = \text{Pricing} + \text{Features Score}$$



# METHODOLOGY– PRICING SCORE

CANSTAR compares the current and historical loan pricing data to calculate the cost component of each product's overall score.

Included in the total cost is; the interest rate, upfront fees and ongoing fees, which are used to calculate the total cost to repay each loan by the borrower for the loan scenario used for each category (scenarios below). For secured loans we also take into consideration one – off documentation & documentation release fees.

For the products with tiered interest rates based on loan amount and period the appropriate tiers based on the below table is considered. If the product has a rate range, the midpoint rate is considered for calculation. The interest rate is the average interest rate for the applicable six month period equally weighted.



Category	Loan Amount	Loan Period
Unsecured Personal Loan	\$10,000	3 Years
Secured Personal Loan	\$20,000	5 Years



# METHODOLOGY – FEATURE SCORE

The feature component takes into account over 80 product features and allocated points. These product features are grouped into 4 different categories and 10 Sub-Categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories per profile:

Feature Category	Secured	Unsecured	Example of data captured
<b>Product Flexibility</b>	<b>25%</b>	<b>20%</b>	
Lending Terms	50%	70%	Loan Pre-approval. Life of Pre-approval
Loan Insurance	5%	5%	Loan Insurance is available
Security Requirements	15%	-	Unsecured/partial/bill of sale/lien over TD/other
Deposit Requirements	15%	-	100% loan availability, min-max deposit requirements, rate variation for deposit
Loan Purpose	15%	25%	Motorcycles/new or used cars/ holidays/debt consolidation/renovations etc
<b>Product Functionality</b>	<b>40%</b>	<b>45%</b>	
Repayment capabilities	50%	50%	Minimum repayments requirements, repayment options, additional repayments
Redraw, Top Up Facility & Offset	35%	35%	Availability, conditions, fees and offset facility
Statement Options	15%	15%	Frequency options/online options
<b>Fees and Charges</b>	<b>10%</b>	<b>10%</b>	
Additional Fees and Charges	100%	100%	Missed payment fees, Partial repayment fees, early repayment fees
<b>Application Process</b>	<b>25%</b>	<b>25%</b>	
Application Process	100%	100%	Branch/internet/mobile lend/broker/phone

## DOES CANSTAR RATE ALL PRODUCTS AVAILABLE IN THE MARKET?

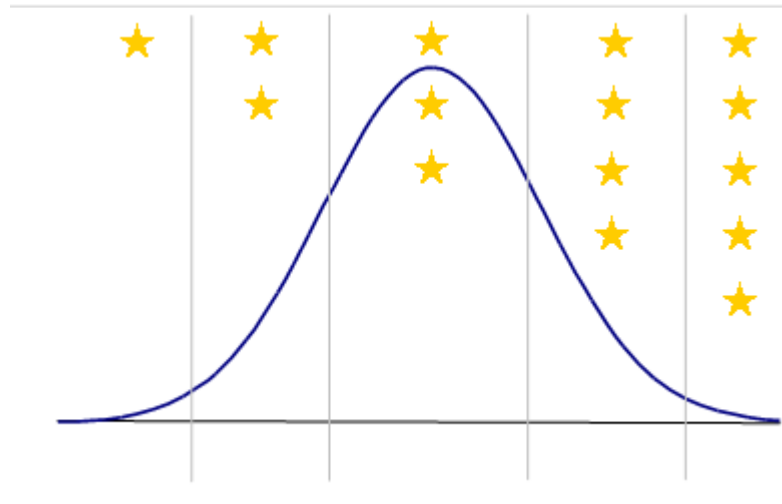
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that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

## HOW OFTEN ARE ALL THE PRODUCTS REVIEWED FOR RATINGS PURPOSES?

All 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.).

## HOW ARE STARS AWARDED?

The products are ranked with each category based on the total score received. 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 five-star rating. The results are reflected in a consumer-friendly CANSTAR star rating concept, with five stars denoting outstanding value.



# DOES CANSTAR RATE OTHER PRODUCT AREAS?

CANSTAR researches, compares and rates the suite of banking 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.

- Business deposits
- Term Deposit
- Credit cards
- Credit card rewards
- Home loans
- Kiwisaver
- Online banking
- Personal loans
- Savings accounts
- Transaction accounts



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