



# Home Loans Star Rating

## What is the CANSTAR Home Loan Star Rating?

CANSTAR Home Loan Star Ratings use a sophisticated and unique ratings methodology that compares both Cost and Features across home loan products. CANSTAR star ratings represent a shortlist of financial products, enabling consumers to narrow their search to products. 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. Rising Stars are products that would be rated five-star but have not been in the market for six months; these products will be formally rated in the next report once more historical data is available.

## What types of products are evaluated by CANSTAR Home Loan Star Rating?

CANSTAR recognised that consumers have different needs and wants when it comes to Home Loans that they need. Hence CANSTAR's Home Loan Star Rating is 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:



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%

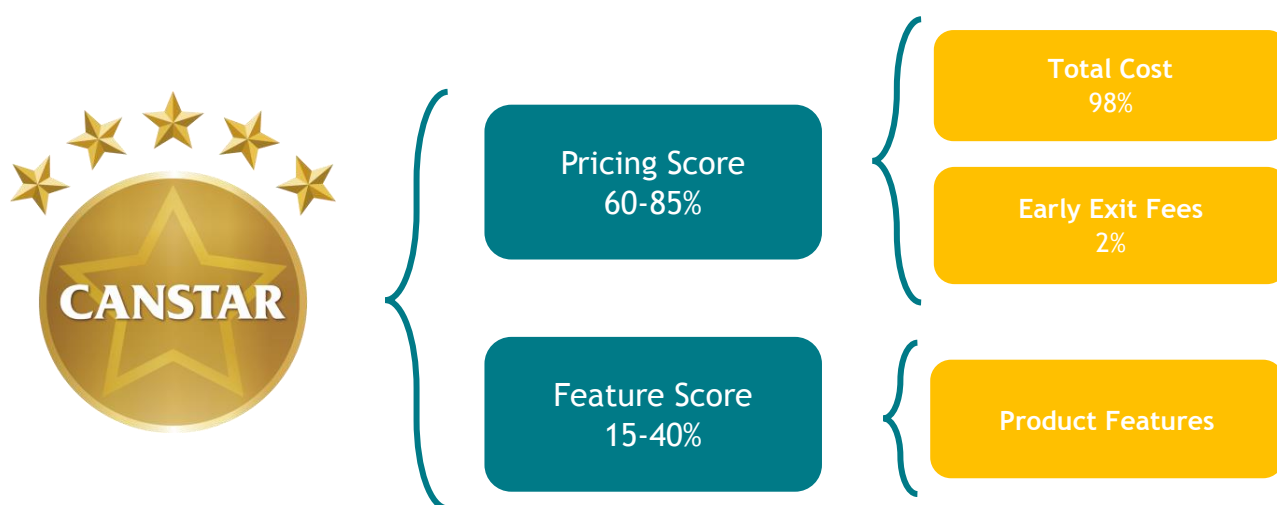
Products specific to certain groups or with restrictions on eligibility are not included in the ratings. Home loans that do not conform to the pricing scenario are also not included so as to ensure like-for-like comparison.

## How is the Star Rating calculated?

Each home loan reviewed for the CANSTAR *Home Loan Star Ratings Report* is awarded points for its comparative Pricing and for the array of positive Features attached to the product. Points are aggregated to achieve a Pricing score and a Feature score.

To arrive at the total score, CANSTAR applies a weight (w) against the Pricing and Feature scores. This weight will vary from profile to profile and will reflect the relative significance of either costs or features in determining the best-value home loan product. This method can be summarised as

$$\text{TOTAL SCORE} = \text{PRICING} + \text{FEATURES SCORE}$$



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%

## Total Cost

CANSTAR accounts for both current and historical interest rate in the calculation of the Pricing component of each product's overall score. Total Cost will be determined by the size of the loan amount (\$400,000), and the Loan to Value Ratio (LVR) of 80% for Residential and Line of Credit Loans, and 60% for Investment Loans.

**Total Cost**  
Based on \$400,000 loan amount  
over 25 years at 80% LVR for  
residential and 60% LVR for  
investors.

Total Cost is based on the following:

- Six Months' historical data
- Interest rate cost plus upfront, ongoing & discharge fees

## Fixed Rollovers

For fixed rate loans, there is at least one rollover for 5 year fixed, while the other terms rollover twice.

Product Category	Number of Rollovers	Loan Term
1 Year Fixed	2	3 years
2 Year Fixed	2	6 years
3 Year Fixed	2	9 years
5 Year Fixed	1	10 Years

## Early Exit Fees

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

Fixed Term	Weight
Year 1	5%
Year 2	5%
Year 3	20%
Year 4	30%
Year 5	40%

## Feature Score



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:

Category	Residential Floating	Residential Fixed	Investment Floating	Investment Fixed	Line of Credit
Loan Terms	50%	45%	45%	45%	40%
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%	-
Product Functionality	40%	30%	40%	30%	45%
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%
Fixed Rate	-	10%	-	10%	-
Rate Details	-	100%	-	80%	-
Interest in Advance	-	-	-	20%	-
Loan Fees	5%	10%	10%	10%	10%
Switch Fees	55%	55%	55%	55%	50%
Mortgages Fees	45%	45%	45%	45%	50%
Loan Application/Approval	5%	5%	5%	5%	5%

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

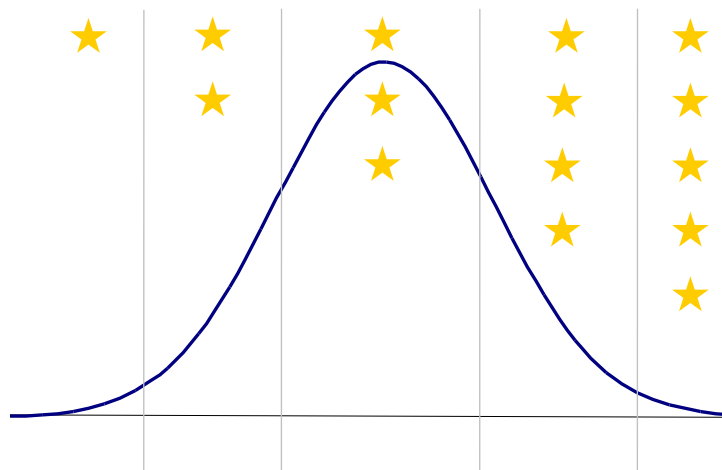
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However complete coverage is not always possible and it may be that not every product in the market is included in the rating nor every feature compared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