



What is Canstar's Business Loan Star Ratings?

Canstar's Business Loan Star Ratings uses a sophisticated and unique ratings methodology that compares both Cost and Features across business loan products. Canstar star ratings represent a shortlist of financial products, enabling consumers to narrow their search to 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 Business Loans Star Rating?

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



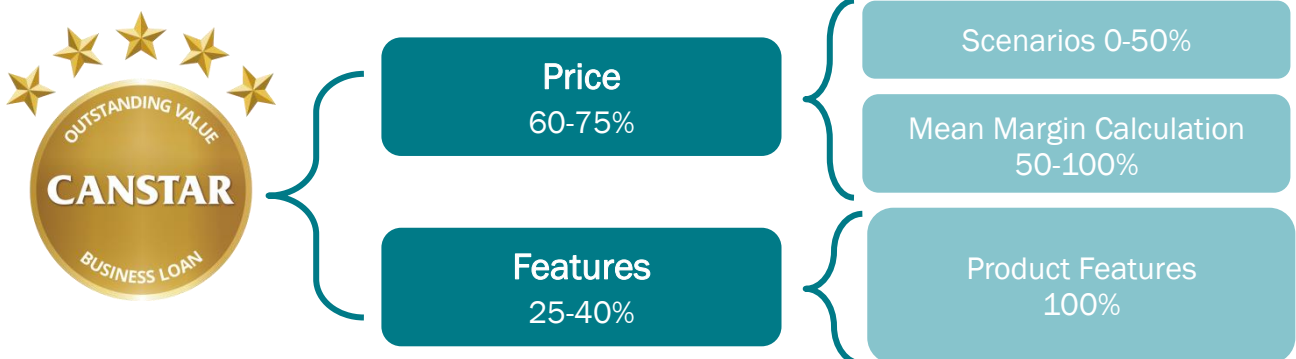
- Term Loan - Residentially Secured
- Term Loan - Commercially Secured
- Term Loan - Unsecured
- Overdraft - Residentially Secured
- Overdraft - Commercially Secured
- Overdraft - Unsecured

How is the Star Rating calculated?

Each business loan reviewed for the CANSTAR Business Loans Star Ratings Report is awarded points for its comparative Pricing and for the array of 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 business loan product. This method can be summarised as

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



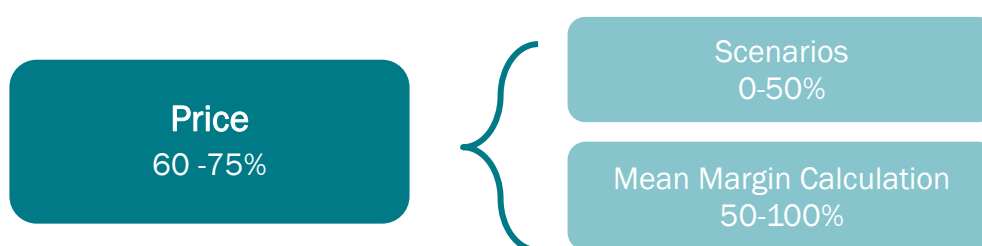
The weights for the borrowing profiles are as follows:

Product Category	Price Weight	Feature Weight
Term Loan - Residentially Secured	65%	35%
Term Loan - Commercially Secured	65%	35%
Term Loan - Unsecured	75%	25%
Overdraft - Residentially Secured	60%	40%
Overdraft - Commercially Secured	60%	40%
Overdraft - Unsecured	60%	40%

Price Score

The Pricing score is made up of two components, Mean Margin Calculation and Scenarios.

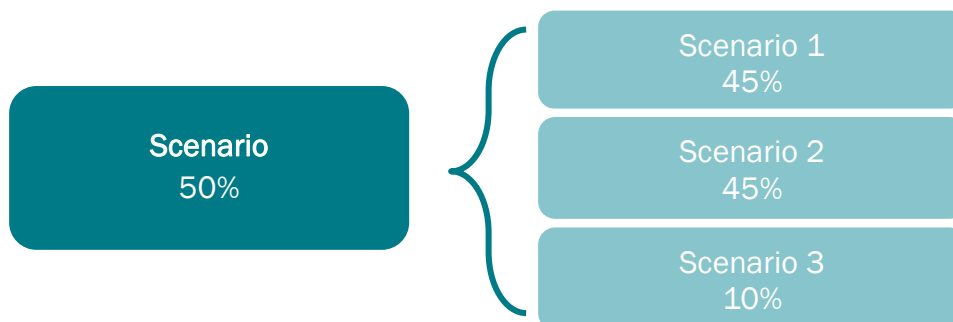
The Scenario calculation is based on 3 different scenarios. The Scenarios used, evaluate each institution's pricing responses to different businesses with different levels of risk.



The Price Score for secured profiles has a 50/50 weight between Scenarios and Mean Margin Calculation, while unsecured profiles have a 100% weight allocation to Mean Margin Calculation.

Description	
Mean Margin Calculation	<p>Mean margin calculation compares the cost of loans written over a six month period for each institution. Mean margin is based on the total customer margin and total number of loans settled over the six month period</p> $\text{Mean Margin} = \frac{\text{Total Customer Margin}}{\text{Total Number of Loans}}$
Scenarios	Based on 3 different scenarios. The Scenarios used, evaluate each institution's pricing responses to different businesses with different levels of risk.

Scenarios



The Scenario calculation is based on 3 different scenarios. The Scenarios used evaluate each institution's pricing responses to different businesses with different levels of risk. The Scenarios have been developed by Canstar and reflect three businesses in different industries and their respective financial capacity.

Scenario	Risk	Description
Scenario 1	Low	Strong Balance Sheet, good growth and profitability. Positive servicing on actual and sensitised basis- exceeds benchmarks on both.
Scenario 2	Medium	Business is profitable, however sales are decreasing. Positive servicing on actual and sensitised basis - just meets benchmarks on both.
Scenario 3	Medium-High	Nominal profits. Servicing is on actual basis and not sensitised basis - meets benchmark on one but not both

Mean Margin Calculation

Mean Margin Calculation considers pricing over different loan amounts and security: Overdrafts are assumed to be only 50% utilised - all the fees will be based on the total facility but interest rate will be calculated on the 50% utilisation of the facility

Calculation is based on the following

- Interest rate cost - Base/reference with negative/positive margins applied
- Total cost - Interest rate cost, plus upfront, ongoing and discharge fees

The above calculation will be undertaken for each month of the six month period and the relevant customer margin will be applied to the base/reference rate applicable at that time.

	Term Loan		Overdraft	
	Loan Amount 1	Loan Amount 2	Loan Amount 1	Loan Amount 2
Residential Security	\$250,000	\$500,000	\$50,000	\$125,000
Commercial Security	\$250,000	\$500,000	\$50,000	\$125,000
Unsecured	\$20,000	\$50,000	\$20,000	\$50,000

Feature Score

Features
25-40%

The features component takes into account more than 100 product features, with points allocated for positive features. These product features are grouped into 2 different categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories per profile:



Category	Secured		Unsecured		Examples of Data
	Term Loans	Overdrafts	Term Loans	Overdrafts	
Loan Terms	55%	45%	55%	45%	
Lending Terms	65%	55%	70%	60%	Min loan amount, repay frequency, PI or IO
Security Requirements	10%	5%	-	-	Unsecured, commercial, residential, lien over assets
Loan Purpose Availability	25%	10%	30%	10%	Borrowing entity, purpose such as franchise, development finance, property, bridging
Overdraft Terms	-	30%	-	30%	Interest capitalisation, interest payment when in credit, loan review periods
Product Functionality	45%	55%	45%	55%	
Redraw Facility	35%	-	40%	-	Redraw facility available, Min redraw, No per period, Offset account linked
Portability	25%	10%	-	-	Transfer to another security
Repayment Capabilities	20%	-	40%	-	Lump sum allowed, min lump sum, repay holiday if payment in advance, balloon payments
Split Facility	10%	-	10%	-	Split option available, split fee, min amount, max no. of splits allowed
Switch Facility	10%	-	10%	-	Switching allowed from variable to fixed
Overdraft Functionality**	-	90%	-	100%	Access channels, o/d service fee, credit interest, no. of free transactions

** For the overdraft terms feature category, the business transaction account methodology is taken into account with a weighting of 50% High and 50% Low Transactor. This looks at the overall costs of the accounts and the features of each transaction account.

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.

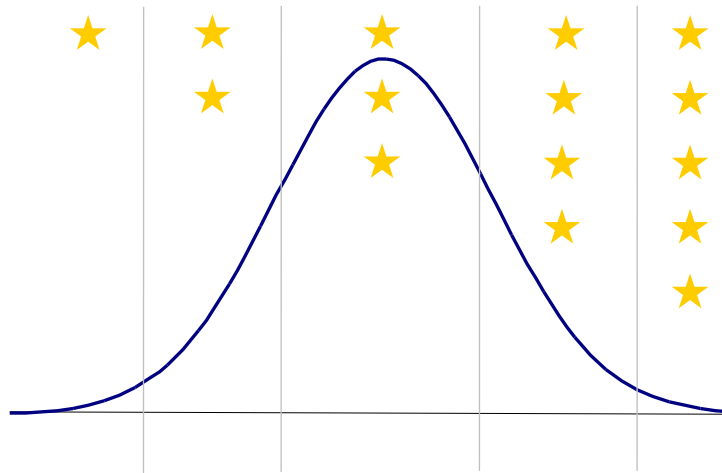
How often are products reviewed for awards or star ratings purposes?

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 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.com.au if you would like to view the latest star ratings reports of interest.



- Account based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Landlord insurance
- Margin lending
- Package banking
- Reward programs
- Travel insurance
- Agribusiness
- Car insurance
- Direct life insurance
- Home & contents
- Life insurance
- Online banking
- Personal loans
- Superannuation
- Travel money cards
- Business banking
- Credit cards
- First home buyer
- Home loans
- Managed investments
- Online share trading
- Pet insurance
- Term deposits
- Youth banking

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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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