

Business Banking Loans

May 2021



What is Canstar’s Business Loan Star Ratings?

Canstar’s Business Loan Star Ratings uses a sophisticated and unique star ratings methodology that compares both Price and Features across business 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.

Star Ratings range from five to one-star. 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 Ratings?

Canstar recognises that businesses have different needs and wants when it comes to the Business Loans that they need. Hence, Canstar’s Business Loan Star Ratings aim to provide businesses with results that suit their borrowing profile. Business Loans included in the Star Rating are assessed across the following product types:

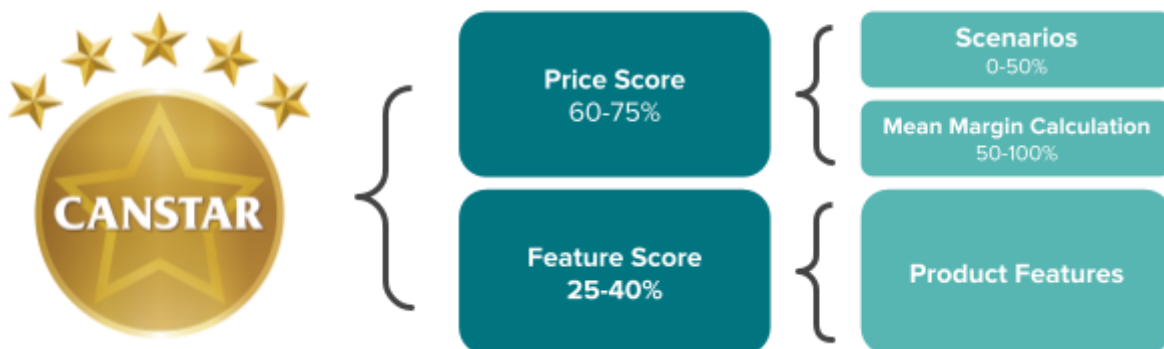
Loan Type	Security Type
Term Loan	Residentially Secured
	Commercially Secured
	Unsecured
Overdraft	Residentially Secured
	Commercially Secured
	Unsecured

How are Star Ratings calculated?

Each business loan reviewed in Canstar’s Business Loan Star Ratings is awarded points for its comparative Pricing 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 Score and Feature Score. This weight will vary from profile to profile and will reflect the relative significance of either costs or features. This method can be summarised as

$$\text{Total Score} = \text{Price Score} + \text{Feature Score}$$



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

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

Category	Overdraft			Term Loan		
	Residential	Commercial	Unsecured	Residential	Commercial	Unsecured
Application	30%					
Purpose Availability	40%	40%	60%	40%	40%	60%
Approval Requirements	20%	20%	40%	20%	20%	40%
Guarantee & Security Options	40%	40%	-	40%	40%	-
Management	55%		60%	40%		
Repayments	-			50%		
Redraw/Transactional functionality	-			50%		
Overdraft Account**	100%			-		
Variation	5%		0%	20%		
Split Facility	-	-	-	34%	34%	50%
Switch Facility	-	-	-	33%	33%	50%
Security Portability	100%	100%	-	33%	33%	-
Support	10%					

** For the Overdraft Account feature category, the Business Savings and Transaction Account Star Ratings methodology is used with a weighting of 50% to High Transactor and 50% to Low Transactor profiles for the applicable overdraft account used when accessing the overdraft facility. This looks at the overall costs and features of each transaction account.

What are the Outstanding Value - Business Loan Awards?

Canstar's Outstanding Value - Business Loan Awards recognises the Business Loan products that provide Outstanding Value to consumers. The Business Loan products that achieve a 5-Star Rating in one of Canstar's Business Loan Star Ratings profiles are recognised as having provided Outstanding Value to consumers and are Awarded an Outstanding Value - Business Loan Award. Products must have been available for a minimum of 6 consecutive months to be eligible for an Award.

How often are products reviewed for Star Ratings and Award purposes?

Ratings and awards 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.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



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