



# Personal and Car Loans Star Ratings and Awards

November 2021

## What are the Canstar Personal and Car Loans Star Ratings?

Canstar's Personal and Car Loans Star Ratings use a sophisticated rating methodology, unique to Canstar, which compares both price and features across personal loan products available to Australian consumers.

Canstar's Personal and Car Loan Star Ratings represent a shortlist of products, enabling consumers to narrow their search to products that have been assessed and ranked.

Ratings range from five to one star. Five-star rated products have been assessed as being in the top 10% of products considered within the group of products being assessed.

## Borrower Profiles

Canstar appreciates the clear distinction of borrowers seeking personal loans as two separate groups.

One group uses personal loans for financing motor vehicle purchases while the other group uses personal loans to finance or refinance other scenarios including debt consolidation or holidays.

Borrowers seeking a personal loan for non-automotive intentions may seek either a secured or unsecured loan product depending on their individual needs and circumstances.

In recognition of these differences, the Canstar Personal and Car Loan Star Ratings methodology has been tailored to reflect the distinction between these groups.

Consumer	Description
New Car Loan	Loans must be available for the purchase of a motor vehicle, of at least \$30,000 in value over loan terms up to 5 years.
Used Car Loan	Loans must be available for the purchase of a motor vehicle, of at least \$15,000 in value over loan terms up to 5 years.
Unsecured Personal Loan	Loans must be available for either debt consolidation or holidays, of at least \$15,000 in value over a 3-year term.
Secured Personal Loan	Loans must be available for either debt consolidation or holidays, of at least \$20,000 in value over a 5-year term.

## Tiered Products

Tiered products, including those with varying fees, principal amounts, terms and rates depending on the applicant's individual circumstances or credit rating are assessed on their individual tiers. Where the rates advertised for a product are a range, the midpoint of the available rates and fees are considered.

## Star Ratings Methodology

Each product reviewed for the Canstar Personal and Car Loan Star Ratings is awarded points for its comparative pricing and for the array of features attached to the product. These features include product functionality, flexibility, additional fees & charges and the application process. Points are aggregated to achieve a Price Score and a Feature Score.

To arrive at the Total Score, Canstar applies a weight against both the Price and Feature Scores. This weight reflects the relative significance of either price or features. This method can be summarised as:



### Price Score

Canstar compares both current and historical loan pricing data to calculate the total cost component of each product's Price 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 for the scenarios detailed below. For secured loans Canstar also takes into consideration one-off documentation & documentation release fees.

Products with interest rates tiered based on loan principal and term are considered. Where a product has a rate range, the midpoint rate is taken into consideration during calculations. The interest rate incorporated into the calculation of each product's total cost is the equal weighted average interest rate for the applicable six month period.

Consumer Profile	Loan Amount	Term
New Car Loan	\$30,000	5 Years
Used Car Loan	\$15,000	5 Years
Unsecured Personal Loan	\$15,000	3 Years
Secured Personal Loan	\$20,000	5 Years

## Feature Score

The Feature Score considers the journey of a typical customer, with individual features allocated points and each category assigned a weighting. The product with the highest feature score is allocated the maximum score, with all remaining products indexed against it.

Subcategory	Car Loans	Secured Personal Loan	Unsecured Personal Loan	Description
Research and Calculators		5%		Availability of information and calculators regarding the product
Application and Settlement		40%		Product features, and ease of application process including personal identification, approval and settlement
Loan Purpose	-	15%	35%	Availability for different purposes
Application, Pre-approval and Identification	30%	20%	20%	Application channels, pre-approval and pre-approval time frame
Approval Requirements and Terms	30%	30%	20%	Loan terms, eligibility and deposit requirements
Security Options	20%	20%	-	Security requirements and associated fees
Settlement and Drawdown	20%	15%	25%	Settlement, approval and drawdown timeframes
Management		30%		Management of product during loan life including repayment, redraw, online self service
Loan Repayment		45%		Repayment requirements, repayment options, missed payment fees, early repayment fees
Redraw, Top Up, Offset and Switching Facilities		40%		Availability, conditions and fees of offset, redraw and top up
Online Self Service		15%		View balance online, statement options, cost of ordering paper statements
Customer Service and Support		15%		Online, call centre and physical support
Support Services		90%		Customer service representative availability and accessibility
Branch Availability		10%		Physical presence
Loan Closure		10%		Ease of closing loan facility

## What are the Canstar Outstanding Value Personal and Car Loan Awards?

Canstar's Awards for Personal Loans and Car Loans recognise the lenders that provide Outstanding Value to borrowers through their suite of personal and car loan products available to a range of Australian consumers.

These awards leverage Canstar's Personal and Car Loans Star Ratings methodology combined with detailed pricing scenarios that are unique to Canstar.

These scenarios assess how lenders serve a range of customers by factoring in borrowing metrics such as the loan amount, loan purpose and general credit assessment criteria.

There are 3 individual awards that make up the Canstar Personal and Car Loan Awards:

**Outstanding Value - Personal Loans:** awarded to Outstanding Value personal loan lenders across 6 unique scenarios

**Outstanding Value - Car Loans:** awarded to Outstanding Value car loan lenders across 6 unique scenarios

**Outstanding Value - Excellent Credit Personal Loans:** awarded to Outstanding Value lenders across 2 unique scenarios

### Eligibility requirements:

In addition to the eligibility requirements of Canstar's Personal and Car Loan Star Ratings, lenders must participate through the provision of interest rate quotes for the supplied scenarios and/or confirmation of whether a specific product is likely to be available to a consumer outlined within the scenario. In other words, lenders must outline if there is anything within the scenario that would rule the hypothetical applicant to be deemed ineligible for the loan.

### How are the Canstar Personal loan and Car loan Awards calculated?

Personal and car loan products included in the Canstar Personal and Car Loans Awards are assessed across a total of 6 scenarios across 3 profiles.

To arrive at the Total Score, Canstar applies a weight against each of the Scenario Scores as detailed in the table below:



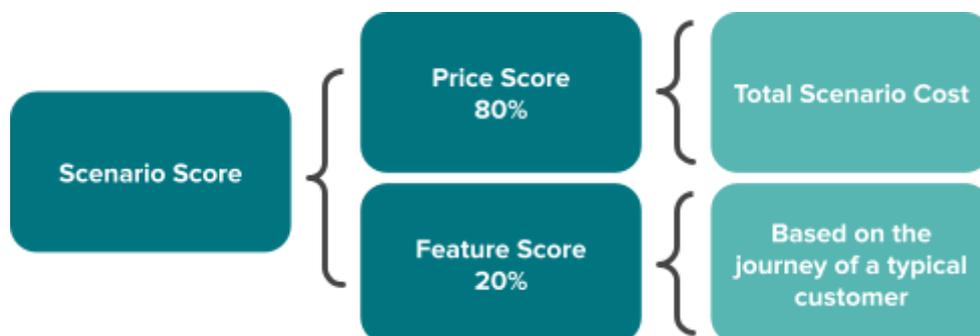
Award	Scenarios considered	Weight
Outstanding Value - Personal Loans Outstanding Value - Car Loans	1	10%
	2	10%
	3	20%
	4	20%
	5	20%
	6	20%
Outstanding Value - Excellent Credit Personal Loans*	5	50%
	6	50%

\*Credit scores are a component of a loan application, but are not the only factor that is considered in Canstar's Excellent Credit scenarios

## How is the Scenario Score for each lender calculated?

To arrive at the Scenario Score, Canstar applies a weight against both the Price and Feature Scores. This weight reflects the relative importance of either costs or features in determining the best product. Each lender is represented by its best performing product for each scenario that forms part of the award assessment. This method can be summarised as:

$$\text{SCENARIO SCORE} = \text{PRICE SCORE} + \text{FEATURE SCORE}$$



## What are the scenarios?

The Price Score is based on pricing information for products which are eligible in each of the 6 scenarios categorised into 3 risk profiles, ranging from Average Credit to Excellent Credit..

Each scenario contains 23 pieces of information regarding a hypothetical applicant's demographic, financial information and credit bureau information. These scenarios can be summarised as follows:

Risk Profile	Scenario	Description
Average Credit	1	<ul style="list-style-type: none"> <li>• A young single part-time employee</li> <li>• Renter with low to modest earnings</li> <li>• Maxed out credit card</li> <li>• Average credit score - 520</li> </ul>
	2	<ul style="list-style-type: none"> <li>• A single parent in their forties with two dependants</li> <li>• Renter employed full time with modest earnings</li> <li>• High credit card limit with existing BNPL debt</li> <li>• Previous default history</li> <li>• Average credit score - 600</li> </ul>
Very Good Credit	3	<ul style="list-style-type: none"> <li>• A single full-time employee in their thirties</li> <li>• Renter with modest to high earnings</li> <li>• Maxed out credit card</li> <li>• Very good credit score - 750</li> </ul>
	4	<ul style="list-style-type: none"> <li>• A married parent in their thirties of one dependant</li> <li>• Renter with high earnings</li> <li>• A modest credit card limit with no revolving balance</li> <li>• Very good credit score - 800</li> </ul>
Excellent Credit	5	<ul style="list-style-type: none"> <li>• A married parent in their forties with two dependants</li> <li>• High earnings with a mortgage</li> <li>• Excellent Credit score - 900</li> </ul>
	6	<ul style="list-style-type: none"> <li>• A married full-time employee in their fifties with no dependants</li> <li>• High earnings with a mortgage</li> <li>• Has an average personal credit card limit</li> <li>• Excellent credit score - 1100</li> </ul>

Individual lenders will consider a range of factors when assessing a loan against their credit policy. The scenarios used in this review intend to identify loans that an applicant will not qualify for and an indicative interest rate that they would likely receive. The scenarios do not account for all factors that will determine if a loan is ultimately approved.

## Credit Scores:

Credit scores are a measure of your financial risk which is derived from personal financial information held on file by a credit bureau.

As credit scores are calculated differently and consider different factors from credit bureau to credit bureau, it is likely that most borrowers will have a range of different credit scores depending on where the credit score is sourced. For the purposes of Canstar's Personal and Car Loan Awards, customer scenarios have been designed with hypothetical credit scores based on the Equifax Apply Comprehensive Credit Score.

The Equifax Apply Comprehensive Credit Score rating is based on historical analysis that determines how likely an adverse event, such as default or personal insolvency is to be recorded on a credit report in the next twelve months. This is a key determining factor in whether you are likely to be able to repay future credit. Equifax define the different credit tiers and typical credit score ranges as follows:

- **Below average** - There is an above average possibility an adverse event will be recorded on a Credit Report the next 12 months. **A Score of 0-459.**
- **Average** - There is an average possibility an adverse event will be recorded on a Credit Report in the next 12 months. **A score of 460-660.**
- **Good** - Scores in this category indicate that an adverse event is less likely than average to be recorded on a Credit Report in the next 12 months. The odds of no adverse events occurring on your Credit Report in the next 12 months are better than the average population odds. **A Score of 661-734.**
- **Very Good** - It is unlikely an adverse event is to be recorded on a Credit Report in the next 12 months. In other words, the odds of no adverse events occurring on your Credit Report in the next 12 months are more than 2 times better than the average population odds. **A Score of 735-852.**
- **Excellent** - An adverse event is highly unlikely to be recorded on a Credit Report in the next 12 months. In other words, the odds of no adverse events occurring on your Credit Report in the next 12 months are more than 5 times better than the average population odds. **A Score of 853-1200.**

Most credit providers take into account your credit score when you apply for a loan, however, it is usually not the only factor taken into account when applying for credit. In some instances a credit score could qualify you in or out of a specific loan, however, other factors will likely contribute to the approval decision and interest rate that you are offered. As such, while credit scores are a consideration within Canstar's scenarios, other factors are also considered. More information about credit scores can be found [here](#).

## How are the scenarios priced?

A total cost is calculated using indicative interest rates provided by the lender for the scenario along with any upfront and ongoing fees attached to the loan. The loan details for each scenario that apply to the award profiles are outlined below:

Scenario	Personal Loan			Car Loan		
	Loan Amount	Term	Purpose	Loan Amount	Term	Purpose
1	\$5,000	3 years	Household Items	\$15,000	5 years	Used Car
2	\$15,000	3 years	Debt consolidation	\$15,000	5 years	Used Car
3	\$10,000	3 years	Holiday	\$15,000	5 years	Used Car
4	\$10,000	3 years	Debt consolidation & Household items	\$30,000	5 years	New Car
5	\$10,000	3 years	Household Items	\$30,000	5 years	New Car
6	\$15,000	3 years	Household Items	\$30,000	5 years	New Car

## How often are products reviewed for Award and Star Rating purposes?

Awards and Star Ratings are recalculated annually based on the latest features offered by each provider and 6 months of historical pricing performance. 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.

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- Home & contents
- Life insurance
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