

## WHAT IS A COMPARISON RATE?

The comparison rate is an indicative interest rate that combines the nominal interest rate with any foreseeable fees and charges associated with the loan, to give borrowers a more comprehensive picture of what their loan is going to cost them over the life of the loan.

Comparison rates may help consumers to compare one loan against another on a cost basis, but they should also consider other features of the loan such as redraw and direct debit facilities, loan portability and repayment options that increase the flexibility of the loan and can make a large difference to the overall cost of a loan.

*Comparison rate includes:*

- nominal interest rate
- loan approval and any other up-front fees
- known ongoing fees

*Comparison rate excludes:*

- government and statutory fees these are standard regardless of lender or loan type
- insurance or valuation charges if they are uncertain
- fee waivers personal discounts that may apply to the loan
- fees and charges that are event-based and may, or may not, apply throughout the life of your loan eg redraw fees or early repayment fees

Not all home loan products are included within the comparison rate legislation. It only applies to fixed-term products.

### **How is the comparison rate calculated?**

The comparison rate is calculated in accordance with a standard formula, specified by the regulations, which takes into account:

- the amount of the loan
- the term of the loan
- the repayment frequency
- the interest rate
- ascertainable fees and charges connected with the loan except for government charges

### **Comparison rate schedule**

A comparison rate schedule details the rates that apply to the lenders products at various loan amounts and various loan terms.