MONEY BOX

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TRANSMISSION: 4th APRIL 2009 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, the Government tells Money Box it's extending the deadline to pay national insurance contributions after the pension forecast system collapsed with the volume of enquiries. We talk to the Nationwide executive who clinched the deal to buy Dunfermline Building Society. Why did taxpayers get landed with all the bad bits? Bob Howard's been trying to value property in a falling market. Bob?

HOWARD: Some sellers and estate agents say surveyors are undervaluing and that means no sale.

BOLTON KING: There is no excuse for taking the absolute worst case scenario and then, by the sound of it, knocking something else off as well.

LEWIS: And new moves to make sure that pensions and other investments really can be as safe as cash.

But, first, a government computer that tells people what state pension they can expect collapsed this week after ten times the normal number of people asked for pension forecasts. They needed to know their state pension, the one they'd already earned, so they could decide whether to boost it by buying extra national insurance contributions. And the rush came because the cost of buying those contributions shoots up by 50% from Monday. That's an extra £200 for each year you buy. Money Box listener Will Haines was one frustrated customer.

HAINES: I went to try it on Saturday and found that the system was down until Monday. That was rather worrying because getting the forecast is just the first step in the procedure. I tried accessing the system frequently during Monday and Tuesday. I tried accessing on Wednesday morning at 3.30 a.m. and it was still timing out. Cynics might wonder if delaying people paying until the cost of extra years goes up by 50% isn't seen as something advantageous to the Government.

LEWIS: Well that's one experience. Customers calling the telephone line to order a printed forecast were also suffering long delays, hours in some cases. Well when Money Box raised this with the Department for Work and Pensions earlier this week, at first it was denied there had been serious problems. But then there was a change of heart. Terry Moran is Chief Executive of the Pension Service. That's the bit of the department that deals with these matters.

MORAN: Firstly let me apologise to Mr Haines and other customers who have had difficulties getting forecasts from us, but we've frankly faced quite an unprecedented level of demand over the last few weeks and particularly this last two weeks we've seen interest in obtaining a pension forecast rise from something like 5,000 to 6,000 we would expect in a month this time last year, and in March this year we're looking at something like 50,000. The one thing that I want to say particularly in relation to Mr Haines' concern about is this a cynical ploy to stop people buying at the lower rate - absolutely not. In fact we've agreed with colleagues at the Revenue that any customer who has tried to contact us and will not get their state pension forecast before 6th April, that will be taken as an application at the lower rate.

LEWIS: So what brought about this change of heart?

MORAN: Well I don't know that there's been a change of heart.

LEWIS: Well you've extended the deadline.

MORAN: Well what we've said, which is always the case I think with public service policies, that if as a result of anything that we provide that leads to difficulties for customers, we will always look carefully at whether or not that means that customers are going to lose out, and it was pretty clear that we should act and do the right thing.

LEWIS: And just explain exactly what people can now do to get their pension?

MORAN: If a customer who has tried to get through has been unable to do so and as a consequence of that will no longer receive their pension forecast in time for 6th April to register their interest with the Revenue & Customs, so long as …

LEWIS: Let me just interrupt you there and ask what that means because people might have received it Friday or Saturday morning. That's still too late to buy the contributions.

MORAN: In the last two days, 10,000 forecasts were issued, which is in two days what we issued in January and February last year in totality. So we know that some customers will be receiving their forecasts at a point that they're unable to act in time for 6th April. If your listeners act within one month of receiving that forecast, Revenue & Customs will ensure that buying of the national insurance contribution will be at the lower level, not at the post-6th April level.

LEWIS: And what about the people who are just hearing about this - and I'm sure there are some - and they think goodness me, I'll go online. Then they discover they've got to get a number from you, post it back, it's going to take seven days before that happens. Are they too late?

MORAN: I think we have to look at those on an individual basis. If they've acted to obtain their forecast before 6th April and we have evidence that that is supported or that they maintain that they have, where it's not evident from our own records we will look at those on an individual case by case basis.

LEWIS: Terry Moran who runs the Pension Service. So who should be doing what? Well with me is one of the few people in the world who understands this arcane system: Malcolm McLean from the Independent Pensions Advisory Service. Malcolm, good news the deadline's been extended. Who do you understand it helps?

McLEAN: Well I would certainly confirm there's been an unprecedented amount of interest in this subject in recent times and my understanding is that the Government is agreeing now that if a person requests a pension forecast before April 6th but receives the forecast afterwards, that they will accept payments of the voluntary contributions at the pre-6th April 2009 rate if the payment is made within one calendar month of the customer receiving the forecast. And they're also I think extending that a little bit to say that if anybody has tried unsuccessfully to get a forecast in recent weeks and has given up as it were, that if they reapply as it were that their case will be considered sympathetically as well.

LEWIS: Yes because I mean some people may well have given up and just thought oh well, I'm too late, I'll have to do it later. Now this is hideously complicated and of course if you miss the deadline you can still buy contributions in most cases …

McLEAN: Of course.

LEWIS: … you just pay normally a higher rate. Who should be sitting back today who hasn't come to this before and thinking should I be paying extra contributions?

McLEAN: Well I think the first question that people should ask themselves is whether they do in fact have gaps in their national insurance contribution; and if they do whether they're actually allowed to bridge those gaps by paying voluntary contributions because it's not everybody that can do it. At the moment the rules allow you to go back to 1996, but that's changing very soon to something else. So the first thing is establish whether there's a gap in your record and then really to ask yourself well how much is it going to cost me to bridge that gap and what's the potential return for doing that.

LEWIS: And roughly speaking, what are those two figures quickly?

McLEAN: Well for a year - currently if you pay £421, that should get you an increase on your state pension of around about £160 a year, which means that if you claim your pension and live for a minimum of 3 years, you're back in profit. So it is worth considering.

LEWIS: It's a pretty good deal. Malcolm McLean of the Pensions Advisory Service, thanks. And you can order your pension forecast over the phone from 4 today until 8 tonight, and from 4 o'clock … sorry from 8 in the morning till 4 o'clock tomorrow. And online until 11.30 on Sunday night. All those details on our website, bbc.co.uk/moneybox.

More than 300,000 members of Dunfermline Building Society have a new home this week: they're now members of Nationwide - Britain's … well the UK's, in fact the world's biggest building society. Last weekend hopes of a rescue or takeover by other building societies were abandoned and the Treasury decided to take the risky bits of Dunfermline - taxpayers have to pay for those - leaving others to bid for the good bits. In a sort of reverse auction, Nationwide won. It's going to be given something like £69 million to cope with the cost of integrating the two organisations. And, as I said, taxpayers take on a rather larger sum - one and a half billion pounds of loans - up to £100 million of which may never be repaid. Well live now to talk to Nationwide's Matthew Wyles. He's Executive Director, Group Distribution. And, Matthew, you were involved in these negotiations with the Treasury. From outside it seems Nationwide gets all the good bits - another 69 million quid - and us poor taxpayers take all the risk.

WYLES: Well, Paul, we spent a lot of time, several weeks looking at the whole of Dunfermline and questioning whether it was possible for Nationwide to take the whole business lock, stock and barrel. And we came to the regrettable conclusion that that simply wasn't economically feasible and that if we'd done that, we'd have destroyed a huge amount of value for Nationwide members and of course our only key driver is to optimise the interests of our members. So in the end we sat down with the Treasury - and I know the Treasury talked to other parties as well - and we worked out a deal based upon what we thought was fair and reasonable and what we could do under the circumstances.

LEWIS: You do though get 300,000 new members, don't you? You get, roughly speaking, two and a bit billion pounds of their savings; you get the mortgages, which of course are a big asset. And Dunfermline members sort of become Nationwide members. But not fully, do they, because your members get a much better mortgage rate - 2.5%. They're stuck with 5.19%.

WYLES: Well, as I said Paul, we took the Dunfermline member mortgages on, as you rightly say, and of course their savers, and their existing mortgage borrowers were already signed up to their existing standard variable rate. If we were to start at this very early stage fiddling with the Dunfermline standard variable rate, we'd also have to look at cutting the rates we were paying, as you rightly say, the 300,000 Dunfermline savers.

LEWIS: Okay.

WYLES: The alternative would be that we just transfer the value from the existing Nationwide members.

LEWIS: And you're not willing to do that. But you might look at it again. Let's bring in Ralph Silva. Stay with us, Matthew, but Ralph Silva is banking analyst with Tower Group. Ralph, Nationwide now so big. Is it a building society? I know technically it is, but is it really almost a bank?

SILVA: Well I think it sort of sits in the middle of the two. I think it's, let me put it this way, a building society on steroids if you want to call it that. *(Lewis laughs)* I think that they have the size where they can in fact act like a bank in certain circumstances, but yet they're small enough to act like a building society. So I think it's the best of both worlds for their members.

LEWIS: And what about this deal? Was it really a good deal for taxpayers despite all this risk we're taking on?

SILVA: As a taxpayer, I would like to thank Matthew and Nationwide for taking this off our hands because if they had not done this, the cost to us as taxpayers would have been four, five, maybe six times greater than it is. So I think it's a good thing for all of us.

LEWIS: Sure, they've taken it on, but of course they have left this one and a half billion pounds worth of toxic assets and estimates are that we're going to lose at least a hundred million on that. We're also going to pay the people who had more than £50,000 in their accounts - that's going to come through from the Treasury - and we're giving Nationwide 69 million quid. It doesn't sound a good deal.

SILVA: Well it may not sound like a good deal, but if you really look at the overall picture and what the costs are if they hadn't done it, it would have been significantly higher. And let's put it this way. Nationwide's a great organisation. We don't want to make it bad for them. We don't want to hurt them like HBOS hurt Lloyd's. We don't want to do that to them.

LEWIS: No, absolutely not. But do you think Nationwide is now in danger of perhaps overstretching itself?

SILVA: I think that they're very close to that. I don't think they should be looking at another acquisition in the foreseeable future, and I think there'll be a lot of options for acquisitions, especially in the building society world, within the next few months. So I think they should stay away from that for a while, but that's just a recommendation.

LEWIS: Matthew, a recommendation. Are you going to buy another building society or take one over?

WYLES: Well we're certainly not engaged in any sort of discussion along those lines at the moment, Paul. But I should make it clear that …

LEWIS: You don't rule it out?

WYLES: I'm sorry?

LEWIS: You don't rule it out?

WYLES: Well we shouldn't ever rule it out. I mean we've only taken three relatively small societies on since the credit crunch began. I think we've been very successful in the way we've integrated the Cheshire and the Derbyshire, and they're actually now becoming hugely powerful weapons within our armoury. So you know we have a big infrastructure and we're now very well set up to manage mergers and acquisitions as they arise, and I actually think the current environment will create some exciting opportunities for Nationwide. So I think Ralph's right - we have to balance the need to grow in a controlled way, but equally we mustn't miss some great opportunities.

LEWIS: Let's talk now to John Goodfellow, Chairman of the Building Societies Association. I mean, John, you represent 53 building societies and Nationwide's much bigger than the other 52 put together. Is it healthy to have such a dominant player in your organisation?

GOODFELLOW: Morning, Paul. Can I start off and say we are absolutely delighted that the members of Dunfermline remain members of a mutual. As far as your question is concerned, the Nationwide is one member out of 53. They as members of the BSA have shown no appetite in the slightest to exercise their size in a way that you seem to be suggesting, and you know we still work together happily from the smallest to the biggest.

LEWIS: Well everyone seems to love Nationwide on the programme this morning. But what of the coming year, John? Do you think we're going to have other societies disappearing one way or another? We'll soon have lost 6, after all, in little more than 12 months.

GOODFELLOW: Well it's a sort of Darwin theory, isn't it? When you get a credit crunch, it's survival of the fittest, and those who have a weakness will tend to at least flutter or stall.

LEWIS: So more are going to do that?

GOODFELLOW: It's the $64,000 question. You know I'd love to say to you no, but that may be impractical.

LEWIS: Okay, I haven't got $64,000 and I think Ralph Silva's going to answer it anyway.

SILVA: I think our estimates at Tower Group and we're just a research firm in this area, we suspect that one third of the mutuals within this country will disappear. I'm not saying they'll vanish …

LEWIS: So that's 16 or 17, isn't it?

SILVA: Yes. … but we do feel that the vast majority of those will be merged into other mutuals or banks. They are not going to disappear; they're just going to be part of someone else.

LEWIS: And is that good or bad for customers? Is it better to be in Nationwide or a big one than one of the tiddlers?

SILVA: I think that from a customer perspective being a Nationwide customer might be more beneficial at this time because they have access to more funds, so they can provide preferential treatment to some of their members. Some of the smaller ones are more hard pressed to do that.

LEWIS: And, Ralph, in the past we've seen a lot of building societies become banks. It was a failed policy; they've all disappeared. Do you think Nationwide might do that?

SILVA: Well that's a question for Matthew. I personally think that they'd be very well positioned. But there's a size difference here. If you take Nationwide, I think they have 20,000 employees. HSBC has 330,000. The scale of these organisations is completely different.

LEWIS: So it would be a tiny bank. Matthew Wyles, are you going to tell us, are you going to deny again, as many of your predecessors have, that you'll ever become a bank?

WYLES: Well I'm going to deny it, absolutely Paul. But I'll tell you why, which is more important, which is that we think that we present a really important alternative choice to Britain's consumers in being a business that is the size, the scale, the reach and the power of the banks, but which has a mutual ethos and a mutual model. And we're very proud of that and actually we think we'd much rather be a uniquely important global mutual than a wannabe me too bank in the UK.

LEWIS: John Goodfellow, you have five seconds to say what you think about it.

GOODFELLOW: I absolutely refute Ralph’s number - 16 to 17 failures. I don’t think, if there are some, it will be anything like that.

LEWIS: Okay. Thank you very much John Goodfellow from the Building Societies Association, Matthew Wyles of Nationwide, and Ralph Silva of Tower Group.

Now anyone buying a home with a mortgage has to let the lender value the property to make sure they’re not paying more than it’s worth. But with prices falling, how easy is it to get an accurate valuation? Some estate agents are claiming surveyors are undervaluing properties, making it impossible for buyers to agree a price with the seller. Bob Howard reports.

CHRIS: That’s it just there - typical urban living in a nice landscaped area with a nice mixed community roundabout.

HOWARD: Chris is showing me the one bedroom flat he wanted to buy earlier this year in South East London. It was on the market for £175,000 - a price he was more or less willing to pay after having looked at a similar property on for a higher price last year. To secure his mortgage offer, his lender, who was putting up 80% of the cash, needed to make its own valuation. When it came through, it blew a huge hole in Chris’s plans.

CHRIS: Last year, these probably would have been nudging towards the £200,000 mark. The survey came back at £140,000, which we found - not only myself but also the mortgage broker and the estate agents as well - astonishing.

HOWARD: Chris persuaded the seller to come down to £160,000. But with a valuation £20,000 below that, he still couldn’t buy. He decided to challenge how the surveyor had made his calculation.

CHRIS: The valuations were being brought down so low because in other parts of the development properties were going to auction because people had defaulted on their mortgages and they were going to the banks and the banks were selling them at £135,000. So those people looking to sell on the open market just weren't going to get their value and it left people like me stranded.

HOWARD: But there are strict rules for how surveyors are supposed to value properties. Barry Hall, who represents the Royal Institution of Chartered Surveyors on issues regarding residential valuations, explains.

HALL: The valuer values the property without fear or favour. His approach is market value, which is the estimated amount for which a property should exchange on the date of the valuation between a willing buyer and a willing seller.

HOWARD: That's exactly the situation Chris thought he was in, and Barry Hall agrees surveyors are not supposed to base a valuation on the price repossessed properties are reaching at auction.

HALL: When the market is difficult, there is a temptation to be cautious, if not overly cautious, and that's a temptation that's to be avoided. An auction of repossessed or distressed sale is not totally a willing buyer and a willing seller.

HOWARD: Some caution is understandable - if the surveyor gets it wrong, he or she can be sued by the lender for negligence. Peter Bolton King from the National Association of Estate Agents worries that in order to play it safe, some surveyors are ignoring the principle of the willing buyer and seller.

BOLTON KING: When you're prepared to sell a property for a certain figure, you've got a purchaser who's prepared to pay that figure, it's very frustrating when you then get people running scared who are saying, "No, no, no, I'm going to come in at an even lower figure". To my mind, there is no excuse for taking the absolute worst case scenario and then, by the sound of it, knocking something else off as well.

HOWARD: Ultimately it's the bank or building society which instructs the surveyor, so we asked three of the biggest lenders whether they had tightened their valuation procedures. Whilst Halifax and Abbey said they hadn't, Nationwide said it had, but all three insisted they still asked for valuations based on the open market, not on forced sales. But Michael Coogan, Director General of the Council for Mortgage Lenders, admits there are cases when banks are forced to do this.

COOGAN: You're looking at whether or not you'd be able to sell that property on the open market. Some flats, for example, have lost a lot of value and they're concerned that the only resale value you'd get is through forced sale. That's going to be a lower valuation. So there are different approaches on valuation that the lenders are taking because of their experience of either fraud or losses as a result of past loans.

HOWARD: But some surveyors believe any problem in securing sales is down to unrealistic expectations on behalf of sellers, not their valuations. Chris Shaw is the Managing Director of surveyors and valuers Countrywide.

SHAW: People still tend to look at the asking prices of unsold properties nearby and base their expectations on value on those figures rather than known sales. Houses that are priced correctly are selling. I don't think that the valuation exercise is necessarily the problem here.

HOWARD: Back in South East London, first-time buyer Chris has failed to persuade his surveyor to change the valuation; and when he went to a second lender, they valued it the same. Some might argue both surveyors were doing him a favour by stopping him paying over the odds, but he thinks in principle if a seller and a buyer agree a price that is the property's value unless there's strong evidence otherwise.

CHRIS: All roads are leading back to them to lessen the restrictions. There should be a bit of flexibility there between what I think is a reasonable price to pay for it, the security that I offer up against what the seller is willing to sell for.

LEWIS: That was Chris ending Bob Howard's story. And you can have your say on property valuations on our website, bbc.co.uk/moneybox.

Over the last year share based investments have gone down by around 25%, and despite the recent rally on the stock market there's still a big demand for funds that won't go down, especially among people approaching retirement. So a new category of investment's been proposed this week by the insurance industry - funds that are what it calls capital secure. They would invest mainly in cash or things like cash, so that your investment shouldn't shrink in value, as Maggie Craig, Director of Life and Savings at the ABI explains.

CRAIG: There will be stricter limits in the new sector on the types of investment that the funds can use. What that basically will mean is that there will be less risk and more liquidity in the funds that form part of this sector. It's aiming for what you might call capital stability because that's what we've realised and we've been told a lot of advisers and customers are looking for.

LEWIS: You could of course call it a cash fund and have the money in cash.

CRAIG: We could, but the evidence we have so far is that what people actually want is a fund that is just a little bit more than cash - it isn't just a pure cash fund, you know - so that's why we're going for the proposal that we're going for at the moment.

LEWIS: So if it's not in cash, what type of investments are now going to be in this new category?

CRAIG: Right, the funds would have significant sums in bank accounts, so there would be a significant amount in cash. We'll need to work on the actual detail of that. But they'd also be able to invest in instruments like UK government securities, so it's just a little bit wider than cash and that lets the fund be a little bit more diversified than a theoretically pure cash fund.

LEWIS: Yes, I mean there's a couple of government securities in there, Treasury bills which basically you buy today and then they give you a bit more when you sell them back in 9 months time. But there's also commercial things, aren't there? There's what's called commercial paper, which is a similar short-term loan from a bank, and there are certificates of deposit, time deposits. These are things most people don't really understand and they're not completely safe, are they?

CRAIG: The idea of a complete no risk fund is probably you know …

LEWIS: Enormously attractive I think is the phrase many people use to me.

CRAIG: Enormously attractive, but very difficult to achieve. I mean what I need to stress here, Paul, is this is a proposal. You know we're putting out a proposal. These are the suggestions we've made. The consultation's on our website. If any of your listeners who are our consumers would like to comment, we'd love to hear from them.

LEWIS: And you want comments in about the next 5 weeks?

CRAIG: Yes.

LEWIS: When you get those, how quickly can you get this through to create this new category and have it available to customers?

CRAIG: We really want it in really sooner rather than later. We need to make sure that we get the definition and the detail of the funds right.

LEWIS: But are we talking months or a year?

CRAIG: Well we're not talking a year. You know I very much hope we would be able to bring it in in a very few months, I would hope.

LEWIS: And if after your consultation you get sufficient people saying this is all very well, it's not a bad category, but we would also like something that was cash and means cash and *cannot* go down, would you consider another category for that?

CRAIG: If there were sufficient demand and if it were something that we could conceivably do, then we would look at it. We're launching a very open consultation, but I would want to leave that open.

LEWIS: Maggie Craig of the Association of British Insurers. And details of how to comment on those proposals on our website.

Well that's it for today. But first a just reminder to say don't forget to buy your first and second class stamps before they rise by around 12% on Monday. So buy them today, use them for the rest of the year, save yourself in fact up to 17%. More from the BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. Listen again, download a podcast, sign up for the newsletter, have your say on valuing property. Some of you are. Email us: moneybox@bbc.co.uk. I'm back on Wednesday with Money Box Live, taking questions on state benefits. Rules change next week. Back with Money Box next weekend. Today the reporter was Bob Howard, the producer Lesley McAlpine, and I'm Paul Lewis.