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MONEY BOX

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LEWIS: Hello. In today's programme, the Government takes urgent action to prevent exploitation of people in mortgage difficulties by companies that buy their home and rent them back. Will regulation stop the abuse? Now, who is this?

HOWARD: Voice biometrics believe me to be Bob Howard. Could banks choose this as a better way of identifying us on the phone?

LORD ERROLL: I think it's brilliant. Safer than PIN numbers, certainly much safer than dates of birth and stupid things like that. This stuff's out there. People are using this right now.

LEWIS: With interest rates down to 1%, what hope for savers? And is it really good news for most borrowers? And why does the Department for Work and Pensions assume people get a return of up to 10% on their savings?

But first, in the last 24 hours the Government has announced it's taking urgent action to regulate the sale and rent back business. As Money Box has reported before, sale and rent back companies buy homes off people in mortgage difficulties at a big discount and rent the home back to them, often promising they can stay there as long as they like. The problem is that as tenants, the former homeowners have no security beyond the 12 months of a shorthold tenancy. Treasury Minister Ian Pearson told Money Box exclusively why he was taking action now.

PEARSON: We’ve seen the sale and rent back market grow very rapidly just over the last couple of years. It isn’t regulated and we think it should be, to provide people with the protection that we think they deserve.

LEWIS: One of the real central problems of sale and rent back is that people give up the security of owning their home for a shorthold tenancy, and within 6 or 12 months they can perfectly legally be evicted by a landlord who will then sell the property at a hefty profit. That isn’t in the regulations. They can still do that.

PEARSON: We want to get this right and we’ll listen to views about this, but we want to move ahead as quickly as possible with regulating this market so we can provide people with reassurances that they’re going to be able to stay in their own homes.

LEWIS: Wouldn’t another alternative be to just ban sale and rent back, as some campaigners have called for in the past?

PEARSON: I know some people have argued for this, but we think a properly regulated sale and rent back market might provide some advantages for people because we want to give people choice but we want to also at the same time ensure that people are secure in their own homes.

LEWIS: Because the matter is seen as urgent, the Government will introduce interim regulation by July with full regulation by the middle of next year. One organisation which has criticised sale and rent back is the housing charity Shelter. Chief Executive Adam Sampson explains his concerns.

SAMPSON: A lot of the advertising attached to these schemes is entirely misleading, making claims that no landlord is intending to live up to. The sale transaction needs a huge amount of protection because the price that’s paid for these houses and the procedures followed, you’re in danger of ripping off the seller. And finally in terms of the rental element, too many of the cases that we've come across, the former owner doesn't get a decent rented period. There's no rent book, there's no proper tenancy involved. The promises made about the length that somebody can rent their homes is simply never lived up to.

LEWIS: Well listening to that is Chris Norris of the National Landlords Association. Chris Norris, you're responsible for sale and rent back at the National Landlords Association. Do you recognise that characterisation of your industry?

NORRIS: I think for the most part Adam raises some good points. There certainly have been a number of instances of very bad practice, highlighted by Shelter, by the Office of Fair Trading. We very much welcome this new and quite novel approach they've taken to bring about regulation.

LEWIS: One of the problems though that I've discussed with your organisation before is that people are swapping the security of homeownership for the uncertainty of a shorthold tenancy that might only last 6 or 12 months. That isn't actually dealt with in this regulation, is it?

NORRIS: The main issue really is the transparency and the communication in sale and rent back.

LEWIS: So as long as you say to people you could be evicted after 12 months, that's okay?

NORRIS: I think what we need to remember is this certainly isn't right for every person in the market. By no stretch of the imagination, do we make that argument. But for many people, this actually represents a valid optional alternative to repossession, and as long as those people are able to make informed decisions with all of the information made available to them - and that is to say that if they were only offered a 5 year tenancy or a 3 year tenancy or even if in some cases (although we'd like to see longer) a 1 year tenancy - as long as they know that prior to the negotiations, they're able to assess all of the options available to them, then we think that really is a step in the right direction.

LEWIS: I thought the problem with shorthold tenancies though was they could be no longer than 12 months - so, whatever the landlord says, after 12 months you could be evicted?

NORRIS: Not necessarily. An assured shorthold tenancy, the tenancies that tend to be used in these circumstances, can really be for any length. The difficulty that comes about is that most of the sale and rent back companies, certainly that I've spoken to, use standard buy-to-let finance; and a condition of most buy-to-let mortgages is that you can't provide for longer than 12 months as security of tenure, which means that a landlord, even a landlord who wishes to provide longer tenancies, isn't actually able to. What we hope will come about because of the FSA regulation is greater confidence in the mortgage market as well and bespoke products available that allow landlords who wish to, to provide for 5 year tenancies, 10 years and beyond.

LEWIS: Adam Sampson, isn't the problem of buy-to-let very often that people *are* promised 3, 5, 10 years, or even for life, and yet 6 or 12 months down the line they're out on their ear?

SAMPSON: That's certainly what seems to be happening on the ground. If this new regulatory regime prevents that happening and gives the sort of transparency that has been talked about, then that is a very good step in the right direction.

LEWIS: Do you think that there is a place for this in the housing market? Or would a simpler way, rather than regulating it, be just to ban it if it's been behaving so badly?

SAMPSON: We have toyed in Shelter with calling for this to be banned, but in the end the problem is not the concept here but it's the way the concept's been applied. The notion that somebody in trouble with their mortgage should be able to exit gracefully out of owning their home but stay on within that home as a tenant rather than an owner, that's a perfectly good idea and indeed the Government's adopted it itself in its own government sponsored sale and leaseback scheme. So the problem is not with the idea. The problem is with the very many rogue landlords that have engaged in this. We've seen far too high a proportion of sharks in the sale and leaseback end of the spectrum.

LEWIS: Chris Norris, some of your members are sharks. Is it going to get rid of them and make this into a respectable and useful part of housing policy?

NORRIS: I certainly wouldn't go so far as to say some of our members are sharks. I mean we are very careful to police our membership. But Adam's right, there are some irresponsible players currently in the sale and rent back market. Regulation will help drive out those who haven't been responsible or ethically minded and haven't been investing for the long-term. But I think what's really important to remember, particularly about a regulated sale and rent back market, is that it can provide a much needed option for homeowners facing financial difficulty and we're going to see this more and more.

LEWIS: Chris Norris of the National Landlords Association and Adam Sampson of Shelter. And there's lots of links to that story on our website, bbc.co.uk/moneybox.

PINs and passwords have become part of our lives as we transact more and more financial business on the phone, but a new system is being developed which the makers claim is a simpler and more secure way to identify customers. The computer compares the caller's voice with a sample stored when the account was opened. It's already been adopted by one firm in Australia, so will it catch on here? A man the computer anyway says is Bob Howard reports.

RECORDED VOICE: Welcome to the voice registration system. Please say your ten digit customer number.

HOWARD: 1, 2, 3, 4, 5, 6, 8, 0, 0, 3.

RECORDED VOICE: That's great. Your voice print has been registered.

HOWARD: The process I've just undergone is going to try and establish whether a computer can match the sample voice I've just given to my voice when I next call. It's being developed by the company VeCommerce, which hopes to persuade UK banks and other firms to adopt it. Brett Feldon, General Manager of its European operation, explains how it works.

FELDON: You would be asked to provide some samples of the sound of your voice and then we would store that model for future use. All of that material is combined to form a model of what the voice of the current caller looks like and that's compared with the enrolled voice for that particular account. We assign a score to how well that matches that enrolled voice for that customer. If they match - then fine, you're granted access. If they don't match, you're declined access and routed for appropriate assistance.

HOWARD: So how clever is the system with identifying the right voices? Well when a customer calls, it doesn't compare their voice to every pattern on its database, only the voice identified with the particular policy number. When a colleague read the same number into the system, it clearly knew it wasn't me. Still, the makers admit that poor phone lines, loud background noises and customers suffering from some illnesses can cause it problems. But Brett Feldon claims it can normally tell the difference even between siblings.

FELDON: You will occasionally find people who have similar sounding voices. Now a good example of that might be identical twins, and in many of them the voice biometric system can tell the difference between the two people. In terms of the proportion of people who call and who get granted access to their account correctly, it's well up into the high 90s.

RECORDED VOICE: To register your voice, we ask you to say a few phrases. It will work best if you speak in your natural voice, not too fast … *(fades under)*

HOWARD: Down under, the insurer Australian Health Management is already using the same technology. So far, it says around 50,000 customers have had their voice patterns registered. It says it's only had a couple of complaints and has not come across any cases of attempted fraud. Rob Thomas, the company's Business Relations Manager, believes Australian banks are well on their way to adopting it too.

THOMAS: I've spoken to the major banks. They've all come to our offices and visited and seen it first hand. And whether they say it publicly or not, they are heavily invested in this and will be on the path to implementation.

HOWARD: But even if they start trials, not all banks are following them up. Closer to home, the Dutch bank ABN Amro told me this week it's abandoned its experiment; and some advisers to UK banks are not convinced that the technology on offer is yet robust enough. Bob McDowell is the Research Director for Tower Group, which advises British banks on technological issues.

McDOWELL: Your voice is personal to you, but there are mimics who can represent people quite well. There are some technical problems I think with long distance phoning - I mean first of all interference on the line, if people have you know sore throats, if there's tension in their voice, if they're too relaxed. I just wonder how specific this voice recognition technology can get.

HOWARD: Nevertheless, campaigners for greater measures against fraud hope trials will begin sooner rather than later. Lord Erroll sits on the All Party Communications Group.

LORD ERROLL: I think it's brilliant. Probably safer than PIN numbers, certainly much safer than dates of birth and stupid things like that which are quite publicly available. I wouldn't have thought it would cost a huge amount. Certainly doing a pilot shouldn't. Because this stuff's out there. People are using this right now.

HOWARD: And Paul, some UK banks are showing interest. Barclays this week told me that this is an area it's following "with interest", and HSBC also told me it was "keeping an eye on it".

LEWIS: Thanks Bob. Or was it?

Down, down, down - down, down. Interest rates have been cut again to a record low, again. They really can't go much lower since the Bank of England Monetary Policy Committee cut them this week by another half point to just 1%. Two more cuts like that, they'd disappear. Good news of course for many with tracker mortgages, not least 1500 customers of Cheltenham & Gloucester with a tracker mortgage taken out in 2007. That's 1.01% below bank rate - so from March 1st their interest will be 0%, free money. With me is Ray Boulger from mortgage brokers John Charcol. Ray, Cheltenham & Gloucester, a bit of an exception, but how many people are on trackers that follow the bank rate down?

BOULGER: Well out of 11.7 million mortgages, round about 4 million will be on trackers; and of those 4 million, I estimate about 300,000 are hit by collars, so about 3.7 million will benefit from the full rate cut.

LEWIS: Right, so they really are the winners of all these rate cuts. And where are they? They're not 1% below bank rate. Whereabouts are they? Are they above bank rate, just a bit below it?

BOULGER: Well the majority will be above bank rate, but when there was real competition in the mortgage market before the credit crunch - say up to about September 2007 - a lot of lenders were offering 2 year trackers below bank rate, so there will be quite a lot of people with trackers until the end of this year at least below bank rate.

LEWIS: Yeah, paying less than 1%. Now clearly people paying less than 1% or even 1 or 2%, there's no profit in that for the lender, is there? How are they managing?

BOULGER: There certainly won't be profit in it now, no. Even at the time these mortgages were offered, there would have been little profit - if any. Lenders were relying on cross-selling products or keeping people afterwards. Now, because the cost of funds in the money market has risen, they will be loss-making for lenders, yes.

LEWIS: And people who fixed their rates some time ago, the ones that often seem to contact me, they're looking on all this with some envy. Is it worth them now thinking of paying the penalty for breaking the fixed rate, which could well be several thousand pounds, and moving to a good tracker to take advantage of lower rates?

BOULGER: I think generally it's too late to do that now. Most new trackers are offered at rates of at least 2% above bank rate, and if you need to borrow more than 60% loan to value, in fact above 80% there's no trackers available at all. So my view now is too late to do that. Probably the best thing to do is wait until rates have fallen enough to switch into a cheaper fixed rate and then think about paying the penalty then.

LEWIS: Right, so fixing for how long?

BOULGER: Well bearing in mind that when rates do go up, there is a risk they could go up quite sharply and it's clearly going to take us more than 2 years to go through the next cycle, I think buying a 2 year fix is probably not going to be the right thing to do. I'd say people need to look at 5 years or possibly even 10 years.

LEWIS: And, Ray, just when mortgages are still hard to get, affordability's an issue, why has your company John Charcol introduced a £250 minimum charge for helping people?

BOULGER: Well we've always had a fee for customers we see on a face-to-face basis. We've now introduced a £250 charge for people who we deal with on a telephone based service. Most lenders pay us a commission on mortgages we arrange with them. Over the last year or so what's happened is the mix of business we do has changed radically. Buy-to-let mortgages, self cert mortgages and sub-prime mortgages pay a higher commission. There's much less of those now, so a higher proportion of our mortgages are in prime business, which means our average fee per mortgage has gone down. And also it does take longer to place cases because lenders are being very fussy. So we provide a professional service and £250 to get the right mortgage and the right advice, plus ongoing service afterwards, we think is good value.

LEWIS: Okay. Of course good news for borrowers is bad news for savers, and especially those mainly elderly people who rely on the interest, their life savings earned, to boost their often inadequate pensions. Thursday's cut could take the average interest paid to below 1%. Now this week the body that represents building societies asked the Bank of England not to cut rates, so savers could be protected. Adrian Coles is Director General of the Building Societies Association. Adrian, your wish didn't come true. Will your members be passing this cut onto savers?

COLES: It's very disappointing that wish didn't come true. Savers whose interest rates track base rate will have seen their income fall by 83% over the last 6 months. That's a very savage reduction for people who've got savings in building societies, and don't forget well over half of those savers are over the age of 55 and really dependent on that income. And we're also concerned that the disincentive to saving will interrupt the flow of … - well it's already very much interrupted because of the credit crunch - the flow of funds into the mortgage market. So we think this is bad news for savers and for the mortgage market. It's not welcome.

LEWIS: Because you have to have 50% of the funds you lend in savings. Is this going to mean your mortgages start drying up?

COLES: Well it's clearly a disincentive to saving. People save for various reasons. They save to get the income and that incentive is disappearing rapidly. People are saving for a rainy day and the economists are saying there's plenty of rainy days in the British economy over the next year or two. And some people are saving for a sunny day - they're saving for holidays, cars, weddings - and those motivations for savings will continue. But there is a risk of further disruption to the flow of funds into the mortgage market and we want to avoid that if we possibly can of course.

LEWIS: And the Bank of England's taken its own decision. Is there anything you'd like the Government to do to try and boost savings?

COLES: What we need to do is create an environment in which saving is good. We are an over-indebted, under-saved economy. Now would be an opportunity to reduce or eliminate taxation on the interest on savings. A lot of people will say well that's not going to do much good because interest rates are so low. What I'd like to see the Government do is say no tax on savings interest now and, as the interest rate cycle turns and interest rates rise again over the next couple of years, a commitment to maintain that policy as rates increase.

LEWIS: But of course with inflation low and falling, saving can be worthwhile, Ray Boulger, even with very little interest being paid.

BOULGER: I think that's absolutely right. Last year, we had inflation running at 5%. This year, it’s probably going to be zero. Probably it’s going to go below zero in the middle of the year. So in real terms people were losing 5% of their capital last year. This year, they’re going to lose nothing. So that’s one reason people need to actually look at things in a much more holistic way than they have done in the past.

LEWIS: And Adrian Coles, is it possible for building societies to sort of carve themselves away from the banks and say we’re going to have slightly more expensive mortgages and slightly better deals for savers?

COLES: Yes and I don’t accept Ray’s point. I mean income from savings has fallen by 83%. Prices are not going to fall by 83%. Pensioners are really suffering and building societies will do what they can to retain savings rates.

LEWIS: Adrian Coles of the Building Societies and Ray Boulger of John Charcol, thanks. And if you have questions about mortgages, that’s the topic for Money Box Live on Wednesday at 3 p.m.

And the news that interest rates on savings have plummeted seems to have escaped the notice of the Department for Work and Pensions. It still assumes that people with savings are earning anything up to 10% on them when it works out entitlement to pension credit. For example, someone with £20,000 in savings would have their pension credit cut by £28 a week, a rate of return of more than 7%, even though the average return would be as little as £5 a week at today’s low rates. Money Box listener Chris says he’s appalled.

CHRIS: It’s utterly beyond belief because the Government worked out this figure of approximately 10% several years ago. The savings return has constantly fallen and the return on most people’s savings is very roughly at the moment less than 1%, I believe. So it’s nowhere near the figure of 10% that the Government has come up with. This is just going to go on and on and on and on and I’m almost speechless.

LEWIS: Just one of several emails we’ve had on that subject. Well Sally West is Age Concern’s Policy Manager. I asked her how the system worked.

WEST: If people have savings or capital worth more than £6,000 - for every £500 they have over that £6,000 threshold, they're treated as having £1 a week income. So they're assumed to have £1 a week coming in for every £500 over the £6,000.

LEWIS: And the actual interest the money earns is ignored then, but they have a sort of notional amount of income the Government assumes it generates.

WEST: That's right. They won't assess anything that you actually receive from the capital or savings, but you're treated as having this sort of notional assumed income, which works out as just over 10% for capital that you have over that £6,000 limit.

LEWIS: But that is a ridiculous rate, isn't it, because the average now is not much more than 1% on an instant access savings account and even the best is only 3, 3.5%?

WEST: Yes, absolutely. The logic for it, to a certain extent, is that the Government have never said that the assumed income rate will actually represent what people can receive, so I think there is the assumption that people with certain levels of savings would have to be using some of those savings on those everyday expenses that they have.

LEWIS: So it's a way that the Government encourages people to spend their capital rather than live off the income?

WEST: I think that's the assumption. And of course for a lot of older people, that's very worrying because they may only have fairly modest amounts of capital, and that is really your life savings, it's there as your emergency fund, and it's there to make the lump sum payments when your cooker goes wrong or there's a problem with your roof. And I think it's very worrying for people to feel that they're going to have to use their life savings on everyday expenses, on food and fuel, because they're concerned what will happen if they need those emergency payments.

LEWIS: Yes. And of course if interest rates do pick up, they'll have that much less money to earn any decent rate on, won't they?

WEST: A lot of people, even if they've only got fairly modest amounts of savings, do rely on those savings and the income that they get, and I think as people see the interest rates plummet they feel that the system is more and more unfair because the assumed rate has stayed the same but the actual income has dropped in some cases to virtually nothing.

LEWIS: You can see the Government's point of view though, can't you? If somebody did have say £200,000 in the bank but it was only earning a negligible amount, it wouldn't seem right that they should be getting the same boost to their weekly income as somebody who only had say £500 in the bank.

WEST: Even if you looked at a more realistic rate of assumed income, it would still prevent people with very high levels of savings getting benefits such as pension credit. So I think it's having a balance between providing an income related benefit for people in need, but allowing older people to keep their modest levels of savings, which is really a great security as you're growing older.

LEWIS: So what would you like to see the Government do?

WEST: We certainly think it's time to review both the amount of capital that is ignored altogether and the assumed income rate. The £6,000 capital rate hasn't changed since 2001 and that level certainly needs to be increased. Now is also the time to review the assumed rate of income. It would be much fairer to count for example £1 a week for every £1,000 over the threshold. That would still be a rate that's far higher than most people are receiving, but I think people would feel it's a fairer system.

LEWIS: Sally West of Age Concern. A spokesman for the Department for Work and Pensions told Money Box, "This is not about interest rates. It's about asking people with savings of more than £6,000 to contribute a small amount to their weekly expenses. 80% of people on pension credit have savings below £6,000, so are not asked to make any contribution".

Well that's just about it for today. We do have a report on our website though about the company formerly known as Norwich Union, which is scrapping plans to make a £2 billion payout to more than a million customers. The revised scheme will be brought forward later this year. That story only on the website where you can also subscribe to my weekly newsletter and download a podcast of the programme, or you can call the BBC Action Line - 0800 044 044. You can email us with your ideas: moneybox@bbc.co.uk. Brian has done so to say don't forget to remind some people they don't have to pay tax on their savings if their income's low enough. Back on Wednesday with Money Box Live, questions on mortgages. A week on Wednesday, we're live from the Trafford Centre in Manchester as part of the BBC's Money Matters Roadshow. Come and get financial advice and watch Money Box Live being broadcast. Back next weekend with Money Box as usual. Today the reporter Bob Howard, the producer Martin Bedford, and I'm Paul Lewis.