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MONEY BOX

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LEWIS: Hello. In today's programme, we look at that deal to take over toxic assets from Lloyds Banking Group and take a majority stake in the bank. What does it mean for taxpayers and borrowers? Another cut in interest rates, and up to £150 billion created out of nothing. Will this get the economy working again? And after interest rates fall to just half of 1%, what now for our savings? Bob Howard's here. He's been talking to customers of the failed travel company XL.

HOWARD: There's anger as the scheme that's supposed to refund their money says go to your bank instead.

MARK: I don't see how ATOL can sidestep it like this because that's the whole point of people booking ATOL protected holidays; that they believe they're going to get their money back.

LEWIS: And the cheapest way to spend money abroad gets more expensive.

But, first, it's not every day you wake up owning a high street bank, but well actually it almost is - it's getting much more common. This morning we've been told the Government will bail out Lloyds Banking Group - again. In return it will own two thirds nearly of the voting shares and up to three quarters of the whole bank. In return, taxpayers will underwrite the losses on £260 billion of loans that may or may not be repaid, the so-called toxic assets.

Lloyds will also commit itself to lending another £11 billion to companies and £3 billion into the mortgage market this year and next. It's similar to the deal announced last week to the RBS Group, so now we have majority stakes in half the big high street banks. Live now to talk to the Financial Secretary to the Treasury, Stephen Timms. Stephen Timms, yet more public money going into another bank. What do taxpayers get out of this?

TIMMS: Well the key thing about entering into the Asset Protection Scheme, as Lloyds has confirmed today it is going to, is that it ends the uncertainty about the ultimate valuation of those assets on their balance sheet and that uncertainty is the reason that they've been reluctant to lend up until now. So we've got a firm commitment they've announced today to lend an additional £14 billion this year. That's £3 billion in mortgage lending, plus £11 billion in business lending, and probably a similar sum next year as well.

LEWIS: But the 3 billion extra mortgage lending a year, that's barely 1% of total mortgage lending. It's not going to make much difference, is it?

TIMMS: Well I think the 14 billion will. Bear in mind the background to this is the withdrawal from the UK market of non-UK banks, which we reckon has left a gap of about 100 billion in lending.

LEWIS: So it's all those foreign banks that are to blame, is it?

TIMMS: Well that's where much of the shortfall has arisen from. Now we've had Northern Rock committing to an additional 14 billion a couple of weeks ago; RBS last week with 25 billion; now 14 from Lloyds. So step by step, we are getting back the capacity that we need into the economy.

LEWIS: And you think we'll see the effect of that when?

TIMMS: I think the effect will happen very soon. I mean the 14 billion that's been committed to by Lloyds today is in this current year and a similar sum again next year, so I think the impact will be quite a quick one.

LEWIS: We're also, as you said, taking over the risk. You say Lloyds has got rid of the risk. That means taxpayers are taking over the risk on £260 billion of commercial loans and mortgages. Now those are loans that may not be repaid, or most of them won't. Why do we take that risk? How much might we have to spend on them?

TIMMS: Well clearly there is some uncertainty about that at the moment. We don't know precisely what the ultimate cost will be. Lloyds are paying a commercial fee - about £16 billion - for participating in the scheme. Whether the ultimate cost will be more or less than that, we don't know. The evidence from these kind of arrangements in other countries in the past - and they're now fairly well established as a way of dealing with these problems - is that you know some fraction of the total amount insured ultimately has to be paid. But of course we don't know yet what that's going to be.

LEWIS: No. And of course Lloyds isn't paying you £15.6 billion, is it? It's giving you shares. I mean it's not actually paying any money at all.

TIMMS: That's right. The fee is in B shares, in non-voting ordinary shares. That's the cost of participating in the scheme.

LEWIS: And if you break even though, my figures on this deal is that to break even you'll have to get 86 pence in the pound on loans that we know are dodgy. They wouldn't be in that pool if they weren't. If you only get 50 pence in the pound, it'll cost more than we spend on education in a year. I mean this is a huge amount of money to risk, isn't it?

TIMMS: Well certainly the numbers involved are large. But of course if this wasn't done, if we didn't offer this scheme - and we announced it in January, Lloyds has confirmed its participation today - if we didn't do that, then we wouldn't get the extra lending capacity that we need in the economy and the downturn would be longer and deeper as a result. So there would be a big cost to the economy in not taking this action today.

LEWIS: Now you're taking control over another bank. Ministers have complained about the behaviour of the banks in the past. Now that you own half of them, are you going to be much more active in telling them what to do?

TIMMS: Well we would envisage Lloyds and RBS continuing to be run on an arm's length from government. We've sent up UK financial investments to manage the government's shareholding. Clearly there are conditions that we've imposed as part of this arrangement - conditions on lending, as I've said; also conditions for Lloyds to review its bonus and incentive arrangements - but it'll be the board of the bank that will continue to be responsible for its day-to-day management.

LEWIS: Indeed. But the Guardian's reporting today that Lloyds has put £4 billion in unusual transactions designed to avoid tax. I mean, for example, will you be stopping this now state owned bank avoiding paying the state the taxes it owes?

TIMMS: Well I haven't had the chance to see the Guardian report this morning, but the management of the bank will continue to be the responsibility of the board.

LEWIS: Let me ask you about the £75 billion of new money, quantitative easing. Just briefly, is there a danger that £75 billion will simply store up inflation for the future?

TIMMS: Well I think the key thing to remember is that this is the initiative of the Monetary Policy Committee of the Bank of England that's had the responsibility for monetary policy since 1997. Their brief is to deliver our inflation target. That's the whole purpose of the work that they're doing.

LEWIS: But if you create all that new money, inflation rises. It has to.

TIMMS: But the context within which they've asked for this facility is to secure the inflation target - 2% plus or minus 1 - so that's the basis on which they've taken this initiative.

LEWIS: So that's what we hope will happen. Stephen Timms, thanks very much for talking to us.

TIMMS: Thank you.

LEWIS: Well listening to that is Alistair Milne, a banking specialist from the Cass Business School. Alistair Milne, is it a good deal for taxpayers?

MILNE: I actually think this may not be such a bad deal as it perhaps seems on the surface. I mean you made a nice illustration. You said what happens if the returns on these dodgy assets really are quite poor? If it falls to 70 or 60 or even 50 pence in the pound, then there'll be quite a big out payment on these assets and it looks like the taxpayers are out of pocket. But I don't think that's the whole story because if that's going to happen in a situation of this recession deepening further and getting even worse, well I think as taxpayers we'd have to step in anyway to put in money to prop up Lloyds TSB. So I think if we've really got this on commercial terms - and you know I haven't had a chance, few of us have, to go through the details of these dodgy assets - but it seems to me this actually may not be a bad deal at all for the taxpayer.

LEWIS: No. Though, as I say, the break even point's about 86 pence a pound on the debts and we know that these are - the debts to Lloyds - and we know that these are dodgy assets and you may not get that, may you? I mean what's …

MILNE: You could get better. I mean it's …

LEWIS: *(over)* Well yes you could. It's a risk and we're taking that risk as taxpayers. What is the real risk though? Supposing things do go all horribly wrong, where would we be in a year, two years time?

MILNE: I'm not going to try and put numbers on that, but I think we have to accept that banks and banking - whether it's providing payments, whether it's providing loans to companies or into the store of money - they're an essential part of the economy, they're an essential service, so we have no choice but to make sure that the banking systems keep working. We may end up, if it is a very deep recession, taking more away from the shareholders and maybe some of the bond holders and the banks would lose money as well.

But I think we don't want to go down that route, so we want to try and establish confidence in the banks now so that we can actually avoid the deep recession.

LEWIS: Alistair Milne, thank you very much for talking to us. I mentioned the latest interest rate cut and the £75 billion which the Bank of England's creating, possibly 150 altogether. And listening to us also is Stephen Gifford who's Chief Economist at accountants Grant Thornton. Stephen Gifford - quantitative easing, which was the sort of big story of the week till Lloyds happened this morning, just explain to us what quantitative easing is.

GIFFORD: Yes, well basically the Bank of England is printing money electronically and it uses this new money created from effectively thin air to buy assets in the market - government gilts, for example, corporate bonds from banks and other financial institutions.

LEWIS: So when it buys back these gilts, those are things it's already sold to people; but instead of buying them back with the money it's had, it creates new money, as you say, and buys them back. So it's pumping 75 billion initially and possibly 150 billion into the economy. Do you think that's going to work?

GIFFORD: Yes, it's a radical policy, but I mean there are key outputs from that, which is about avoiding deflation and returning to normal levels of lending. There's two objectives from quantitative easing. The first one is to increase the availability of money; and also the second one is to reduce the cost of money, reduce medium and long-term interest rates.

LEWIS: Yes, but I mean inflation is the worry, isn't it? You say it's to avoid *de*flation, falling prices; but, as I asked Stephen Timms, the danger is that we're going to store up real *in*flation for the future and a couple of years from now it could be heading towards 10%.

GIFFORD: Well not quite that far, but there is a serious risk of inflation.

LEWIS: How far then, how far?

GIFFORD: Well there is a serious risk of inflation in the future - in 18 months, in 2 years time - from this policy, and so the Bank of England will have to watch very carefully what it's doing and how quickly there's a pickup in the economy. There's a risk, I suppose, of a double recession when if they put the brakes on too early in a few years time then we could slip back into a recession.

LEWIS: And we'd have to be putting up interest rates anyway to bring inflation down, so it would be stagflation, wouldn't it?

GIFFORD: Well, yes, in those circumstances. And there's a lot more factors as well to look into this, particularly around the global recession. This is a very coordinated, first coordinated global recession that we've had had.

LEWIS: Yes, we're subject to what happens in the rest of the world. And just briefly, when will we know if anything is working on this quantitative easing or not?

GIFFORD: Well experts like myself and economists, we'll be looking at the Credit Conditions Survey from the Bank of England, at the inter-bank lending rates; where I think consumers and businesses will be looking at falling rates on their fixed mortgages, lowering of arrangement fees and relaxation of loan to value for mortgages.

LEWIS: And is this the last throw of the dice? We keep putting more in. We're sort of doubling our bets every week or so. Is there a point now where we've run out of stuff, there's nothing else we can do; we've just got to sit back and hope it works?

GIFFORD: Well I think at the moment it will be a case of sitting back and wait. There's been a massive stimulus over the past few months - the cut in interest rates, falling exchange rates, the insurance around the toxic debt, the quantitative easing - so there's lots in the pipeline. And typically these macroeconomic policies take anything from 12 to 18 months to work through, so I think the bank will be sitting back for the next few months and seeing what will happen.

LEWIS: Fingers crossed! Stephen Gifford from Grant Thornton, thanks very much.

Well with interest rates now down at half of 1%, which was the other action the bank took on Thursday, is there anywhere we can get a decent return on savings - particularly important of course for many older people who rely on their savings to produce an income to boost an often inadequate pension? Well let’s talk first to Kevin Mountford of Moneysupermarket.com who tracks these things. Kevin, average rate on a savings account I think half a percent and another cut today. This week it will disappear. Has that happened?

MOUNTFORD: It hasn’t yet. We haven’t seen too much drastic action since Thursday’s decision. But, as you say, this latest cut is the latest in a series of bank base rate reductions. It’s really hurt savers.

LEWIS: Where are the best rates now? What can we get on our money?

MOUNTFORD: Well I think the saving grace of late has been in the fixed bond market, so if someone is able to lock some money away for 1 year, 2 year, we’re actually getting products at around 4%. ICICI, the Indian bank, has a 2 year product paying 4.1% and a 1 year product paying 3.9%. So if you compare that to the averages that you’ve just mentioned, that’s a huge gap relatively speaking.

LEWIS: Yes and you mentioned fixed rate bonds. They of course are cash things.

MOUNTFORD: They are cash bonds.

LEWIS: They’re not like other kinds of bonds, so it’s a cash fund and it’s protected by the £50,000.

MOUNTFORD: Correct.

LEWIS: With interest rates so low, of course, people are being tempted to move money out of savings, which are safe like that, into investments where their money’s at risk; and corporate bonds, which are very different - IOU’s to companies that give you a regular income - are getting more popular. Let’s talk now to Brian Dennehy from the IFA’s Dennehy

Weller and Company. Brian, what are the risks and potential rewards of corporate bonds because these are being sold to people now as relatively safe, aren't they?

DENNEHY: Yeah, they are being sold as relatively safe, but also there's huge unprompted demand, which is something very unusual for an asset class which actually has not done anything much in recent times. Just talking about the risks in terms of volatility - in 2007 across the whole year the difference between the best and the worst corporate bond funds, which is what most people buy, was about 5%, so not a huge amount of volatility there; in 2008, the difference between the best and the worst was 30 odd percent; and just in January, the difference between the best and the worst was over 10%. And people are still only buying potential here. Most corporate bond funds since 1st January this year have fallen in value. Only 2 out of 80 odd funds are up. But people are buying for what many fund managers are calling "historic value" and "stellar opportunities", but what concerns me a little is that retail investors, in particular, may not quite understand the risks.

LEWIS: No - the risk of course being that the company that's said it will pay you back in 5 years time or 2 years time won't be there anymore because we know companies are going bust all the time now.

DENNEHY: Absolutely. And for buying individual corporate bonds, the risks are actually very high. It's a one way bet: you win or you lose. They actually give you your money back in say 5 years time or they give you back nothing if they've gone bust, or next to nothing. The beauty of the funds is they spread that risk for you. But what's interesting there, the fund managers typically have about 150 odd different corporate bonds; whereas an equity manager, something which everyone regards as much more high risk, will typically have about half that money. So I think what it illustrates to you is that there's a small risk, small risk of companies going bust when you've got 150 in the pot, but if something does go wrong with that particular bond, you can lose everything. So there are very real risks there.

LEWIS: Yes. And also shares are being promoted now, aren't they? Some people are saying they're producing a good return of 6% or so. Now is the time to get into shares.

DENNEHY: It's a little bit different with the shares, particularly those with high yields. Obviously those are the ones which are attracting a lot of interest. I mean our approach, for example, is for people to buy funds that invest into high yielding shares but do it monthly. If you've got £10,000 to invest, put £1,000 in a month over the next 10 months or something similar. Don't put it all in at once. Whereas with corporate bonds, we feel comfortable with people putting in lump sums providing they understand the risks.

LEWIS: Brian Dennehy, thanks. And earlier we were talking to Kevin Mountford. And tax free savings are the topic for Money Box Live on Wednesday at 3 with Vincent Duggleby.

Thousands of people are still waiting for refunds almost 6 months after the collapse of the holiday firm XL last September. Most customers who booked through a travel agent signed up to the ATOL guarantee scheme believed getting their cash back would be straightforward, but for some it's proving a lengthy and frustrating process and raising questions about the whole system for protecting holidaymakers. Bob Howard reports.

NEWS HEADLINES: Britain's third largest tour operator group XL has gone into administration. Its planes have been grounded and tens of thousands of people have had their holidays cancelled.

HOWARD: When XL collapsed in September around 85,000 people were stranded abroad and almost a quarter of a million people expecting to go on holiday were forced to try and make other arrangements. The Civil Aviation Authority's David Clover, speaking on the Today programme on the day of the collapse, offered reassurance that ATOL and its refund scheme would pay out.

CLOVER: Everyone who has booked a holiday or a flight from a tour operator and are therefore covered by the ATOL system will be protected. That means if they're abroad, the CAA will arrange for repatriation of those people at the end of their holidays back to the United Kingdom; and if you haven't yet taken your holiday, then the ATOL system will provide a full refund of the cost of those arrangements.

HOWARD: On the day the news was announced, John from Edinburgh was expecting to travel to Greece for a wedding. He believed his £500 refund would be straightforward as his travel agent was ATOL protected. But despite submitting his documents twice, he still hasn't been paid and so he contacted Money Box this week. When we talked to ATOL, it said it had been its policy from the start not to pay out to anybody who'd paid the full cost of the holiday on a credit card, as John had done. It said customers like John were expected instead to have claimed the money back from the credit card company. But John thought the sole reason for ATOL's existence was to pay out in these sorts of cases.

JOHN: If you go onto the travel agent's site, they state quite clearly that any bookings made through them are guaranteed, and for charter flights that guarantee is provided by ATOL. And as the consumer no doubt were paying part of an ATOL insurance premium through the money that we're paying, so in a clear cut case like this where an airline has failed, then there should be no delay, they should have all the procedures in place where they can refund customers' money.

HOWARD: John's credit card company is obliged to refund him under something known as Section 75 of the Consumer Credit Act. That gives the bank a shared responsibility with the supplier for any breach of contract for goods or services paid for on a credit card. But as ATOL faced paying out tens of millions of pounds, it consulted its lawyers to see if credit card companies could be liable for the full cost of a holiday even if only the deposit had been paid on a credit card. They said yes, so these customers now also have to look to their bank. Mark from Bognor is one. He spent almost £2,500 to go on holiday to Florida in October.

MARK: I don't see how ATOL can sidestep it like this because that's the whole point of people booking ATOL protected holidays; that they believe they're going to get their money back. All they're doing is pushing it onto the credit card companies. I've learnt from this and any holidays I book in future I shall pay for in full by a credit card. If the credit card company have got to refund it, at least they've had the transaction in the first place.

HOWARD: Mark and John's concerns are shared by the consumer organisation Which? Monica Jaimini is a lawyer for Which?'s legal service.

JAIMINI: If somebody has ATOL protection, then they should be complying with their obligations under that and making payments accordingly. If they're not going to make those payments, the question has to be asked exactly what are they providing and why are people paying premiums?

HOWARD: No-one from the Civil Aviation Authority, which runs the ATOL scheme, was available to speak to Money Box. In a statement, it admitted that what it called "the unprecedented scale of XL's failure" had had an effect on its ability to deal with claims, but it had refunded £15 million. However many within the travel industry believe changes are now urgently needed. Frances Tuke is from the travel association ABTA.

TUKE: It should be made clear to people from the outset how they need to claim. We know that this is a very complicated system and it's not satisfactory the way it is. The whole system needs overhauling. We have been lobbying the government for many years about this.

LEWIS: Frances Tuke ending Bob Howard's report. And you can have your say on holiday refunds on our website. That address later.

Customers of Nationwide will soon be charged when they use their Visa, credit or debit cards outside Europe. Nationwide's credit card was one of the very few that could be used abroad or to buy things over the Internet without a foreign currency loading charge anywhere in the world. That will soon no longer be true. Martyn Hocking is the Editor of Money Which?

HOCKING: Well we're pretty disappointed, I mean Nationwide's abandoned a policy of not charging fees for using its credit card and debit card for purchases abroad. This fee will come in on 6th May for Nationwide Visa credit cards and 1st June for Visa debit cards. If you've got a Nationwide Flex Account with a Cirrus card (this is correct - editor), you currently won't be affected, although this may change in the future.

LEWIS: And how much is the fee?

HOCKING: Well it's going to start off at 0.84% and then rising later to 1%, and this is apparently passing on a fee that Visa charges Nationwide.

LEWIS: But this is still a lot less, isn't it, than other cards charge?

HOCKING: It is. I mean of all the cards that we track for Which? best buy tables, typically the foreign exchange loading fee ranges from 2.5 to 2.99%, so Nationwide is still well below that. But it's part of a disappointing trend that they and several other providers who were charging 0% are clearly now looking to introduce fees.

LEWIS: Are there any left that will charge you 0%?

HOCKING: The star that is left is the Post Office. Their Platinum Mastercard is charging zero foreign exchange loading fee both within the EU and worldwide. Until literally this week, we were still featuring the Abbey Zero Card in our best buy tables. That card is no longer being promoted, as far as I can see, on the Abbey website.

LEWIS: So it's only the Post Office. And that of course is a credit card, so if you take cash out you're still going to be charged something for that, aren't you?

HOCKING: Absolutely. It does depend where you're going in the world. If you're only staying within the EU, there's also a Saga Platinum Visa card that's charging zero exchange loading fee within the EU. That charges 1% worldwide.

LEWIS: And the new fees on the Nationwide card are only outside Europe, aren't they?

HOCKING: That's absolutely right, yes. So if you're going away this summer say to the South of France or to Italy and you had that Nationwide card, you wouldn't be paying a foreign exchange loading fee.

LEWIS: And of course this foreign currency loading fee is only the start, isn't it? There are other charges you face on some debit cards and some credit cards.

HOCKING: Absolutely, yeah. I mean there's another one that previously has been one of the good guys that's started to charge fees. That's the Thomas Cook credit card. That's also going to charge a foreign exchange fee on purchases from abroad from 18^{th} April, and you'll also pay with that one an additional cash handling fee of 2.99%.

LEWIS: Martyn Hocking. And there's more on Nationwide's changes on its website. You can find out more about that from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox. Lots of exciting things to do there, including signing up for my newsletter, downloading a podcast. I'm back next weekend with Money Box. Don't forget Money Box Live on Wednesday with Vincent Duggleby on tax free savings. Today the reporter was Bob Howard, the producer Martin Bedford, and I'm Paul Lewis.