**MONEY BOX SPECIAL**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello, the credit crunch. It's a year since the start of what's been called the biggest financial crisis since the Wall Street crash of 1929 and today this special Money Box looks at the credit crunch one year on. How has it affected our personal finances and will things ever be the same again? Well as Money Box listeners know, the credit crunch had its roots in the USA when tens of thousands of people were lent money they couldn't pay back to buy homes they couldn't afford. These dodgy loans were then packaged up, sold around the world under the false label "safe debt". When the banks realized what they'd been sold, they just stopped lending to each other, afraid that the money might never be repaid and that froze the funds available for mortgages and business loans almost overnight. That of course has affected the UK economy. On Friday the Office of National Statistics said that sixteen years of uninterrupted growth had come to an end. Growth in the economy was zero in the second quarter of 2008.

Well with me is Sir George Cox, he's a former director-general of the Institute of Directors and until last year a director of Bradford & Bingley. Sir George Cox, with hindsight this all seems to be a terrible mistake. How did the clever people who run our banks let it happen?

**COX:** Well I think in terms of the banks investing in these great packages of mixed assets with these American mortgages in it is appalling. I mean that's horrendous. You'd think banks would know who to lend to and this is just outrageous. In terms of the drying-up of funds for the UK mortgage market, that's something where I'm more sympathetic to all the UK mortgage lenders. The fact that this could happen virtually overnight and is a result not of anything that's happened here, not of poor lending here but of problems in the United States was something no one had considered.

**LEWIS:** No but the problem was though wasn't it that the banks lied to each other. They sold rubbish debt and labelled it safe debt?

**COX:** Absolutely, yes I think…

**LEWIS:** The banks were to blame then in that sense weren't they?

**COX:** But if you talk about the lending here, the UK mortgage market relies on those wholesale funds. The retail market you know, you and I going and putting our savings in, they lend on houses, that won't support half the market so if we want the kind of mortgage market that the UK has and relies on with home ownership so broadly, you have to raise money that way.

**LEWIS:** OK well listening to that is Vincent Cable MP, the Liberal Democrat treasury spokesman, himself a former chief economist at Shell. Vince Cable, you've been very critical of the banks. Do you think they should have done things differently?

**CABLE:** Yes I do, I don't – not all of the banks, I think some of them were pretty prudent but I think what we saw happening over the last decade, particularly the last few years is sort of an orgy of lending, much of it very irresponsible, led I think primarily by the de-neutralized banks. Northern Rock was the worst case. Now these were banks that were very often lending at 125% loan to value ratios, they were lending at five, six times people's income. Now you require an extraordinary belief in the eternal increases in the property market to believe that this kind of lending is sustainable and of course in the collapsing market that we now have it simply isn't so there was a lot of irresponsible lending and I think the wider point about securitization and the international markets and the pass on of this problem from the United States, is of course an awful lot of people in the City made fortunes in bonuses, packaging and repackaging these securities. They weren't of course in the high street banks but nonetheless part of our financial services community.

**LEWIS:** Yeah this was the complex way they sold the debt on, by packaging it up and splitting it up and giving it names like collateralised debt obligations and things like that, but is there a danger, Vince Cable, that the problem looks worse because it's so close to us? In 10 years time we might see it as George Cox says, you know something that no one could have predicted and anyway it's over now?

**CABLE:** Well that will be true if the lessons have been learnt. I mean there is going to have to be and we're already seeing it, a very painful correction in the property market. I don't know how far it will go down but certainly we have got to a state in this country where prices in relation to people's earnings were way out of line with trend, with historical precedent or indeed what was happening elsewhere even in the United States. So that is going to have to happen. Providing the correction happens and providing banks are then much more cautious and lend to people who are only secure borrowers, then this problem shouldn't recur.

**LEWIS:** OK, well stick with us, Vince Cable and George Cox. We're going to come onto mortgages later but first we're going to go to New York to hear from the International Monetary Fund. I mean I think it's hard to grasp the scale of this crisis. The IMF now says that the total losses by the world's banks will be a trillion dollars. That's more than £500bn, not much less than the UK government spends in a year. It's also I have to say double the amount the banks have currently admitted to. Jan Brockmeijer is deputy director of the Monetary and Capital Markets department at the IMF and wrote its recent report on global financial stability. I asked him how bad the credit crunch had been for the world's finances.

**BROCKMEIJER:** The main message is that we're undergoing a protracted process of adjustment in the financial sector, involving, to a large extent, bank balance sheets that have been very much under pressure, on the one hand because of large losses that have been suffered, the write-downs, and at the same time they have managed to raise capital but to a lesser extent. They are going through a difficult process of getting the balance in order again on their balance sheets.

**LEWIS:** So in essence the credit crunch is far from over, is that a fair summary of it?

**BROCKMEIJER:** Yes, it's a process that will have to run its course and we're certainly not at the end of it yet.

**LEWIS:** Where do you think it's going to go?

**BROCKMEIJER:** To the extent that banks will be successful in raising new capital and if they can do so swiftly, then the process will be less protracted and less painful. If they are not successful in doing so, then it's more a matter of reducing the size of their balance sheets on the asset side and that of course can be more unpleasant.

**LEWIS:** So that implies that they're going to continue to, to reduce the amount they lend to people who want to buy houses?

**BROCKMEIJER:** Well depending on whether or not they can raise the capital, but there is certainly a constraint on the amount of assets that they can take on their balance sheet, especially also keep in mind that since the start of the crisis, it's no longer so easy to transfer assets, mortgages for instance, from the balance sheet through securitization transactions.

**LEWIS:** But looking at the banks in the UK, I mean they have admitted their losses, they've raised capital by various means with various degrees of success. Do you think in the UK they have yet done enough to shore up their capital position?

**BROCKMEIJER:** I think the UK is not different from the overall picture that you see in the international banking industry and that is that they have indeed been successful in raising substantial amounts of capital but that on the other hand the size of the write-downs has been greater than the capital raised so there's more to be done. There's no question. That applies to the United Kingdom as well as to most other countries.

**LEWIS:** Well listening to that rather gloomy view of the future from Jan Brockmeijer at the International Monetary Fund is George Magnus. He's a senior economic advisor at the Swiss investment bank, UBS. George Magnus, UBS itself is one of the biggest victims of the credit crunch isn't it? It's written off more than £20bn. How was a bank like UBS fooled by all this?

**MAGNUS:** Fooled is an interesting choice of words.

**LEWIS:** But it wouldn't choose to lose £20bn would it?

**MAGNUS:** No of course not and I think that to be honest with you, leaving aside the precise you know scale of the loss, we know that many banks have incurred inordinately large losses. In fact it's estimated that for banks and brokers that are listed on global stock exchanges, that the losses on securitized assets alone may be you know around $600bn or £300bn, not all of which obviously have come out into the open but you know how did it happen, why did it happen? I mean there's a long history here which I think you know helps us to understand that over periods where you have good economic times and what Gordon Brown often, too often referred to as you know protracted periods of economic and financial stability, nobody's saying that's a bad thing. It's just that the longer you have this kind of stability, the more it encourages people to take more and more risk and you get these kind of credit booms, the most virulent of which we've just obviously seen go bust.

**LEWIS:** So it was a mis-management of risk?

**MAGNUS:** It was certainly a mis-management of risk but I think the culpability lies in a number of different places. Clearly you know the banks that clearly took excessive risks or risks that they didn't really understand, obviously they fall into that category but there are others.

**LEWIS:** And do you agree with Jan Brockmeijer that this has got a long way to go? There's an awful long way for the banks to move before they've reached another point of stability?

**MAGNUS:** Yes. I think this type of downturn, it's rare but it happens and usually we measure them in years not in months and quarters.

**LEWIS:** So a long way to go, and George Cox, do you think that's right? Do you think there's an uncertain future, a long way to go?

**COX:** Yes I think there is. I think we're in for a period now of at least another couple of years of pretty tough times because confidence is shattered, people are wary of lending, people are wary of borrowing.

**LEWIS:** You mean confidence in the banking community?

**COX:** Yes but confidence in the consumer, confidence in all of us. I think that takes some time to wear out the system.

**LEWIS:** Yes because there was a long time when we all thought we could borrow whatever we needed to spend and there was a great consumer boom. That's gone now. George Magnus?

**MAGNUS:** Yes I think that's exactly the point. I mean in the trade we call it de-leveraging which basically means paying off debt and/or increasing savings. Now the two big players here are banks and consumers so when banks de-leverage they have to raise capital as the IMF gentleman said, and if they find it difficult to raise capital then they have to shrink their assets. Households de-leverage when they raise their savings rate and we will see a lot of that, I think.

**LEWIS:** And pay off their credit cards. Let's go on now to see what the UK banks have to say. Most were reluctant to talk to Money Box but Lloyds TSB – the bank that used to say it liked to say "yes" – indeed said "yes". Over the last year it's increased its share of the mortgage market as others have dropped out. Stephen Noakes is director of marketing for the Lloyds TSB mortgage subsidiary, Cheltenham & Gloucester. But before I asked him about mortgages, I wanted to know why on earth the banks had used what turned out to be dodgy loans to pay for UK mortgage lending.

**NOAKES:** Well I think it's really about an assessment of risk and…

**LEWIS:** Well they got that wrong didn't they?

**NOAKES:** And on hindsight you could say that they did but I mean given that the way that the market had grown, and grown not just in the UK but internationally, it was difficult to see that there would be such a level of confidence crisis that would lead to that market diminishing.

**LEWIS:** But one of the effects of that way of doing business was offering people better and better deals, I mean C&G itself offered 100% mortgages. Do you think in a way you offered people fantasy money? It was money that was too cheap, too easy?

**NOAKES:** No I think there are two factors which have led to the, the disappearance of lending to those high levels. One firstly just in terms of house price, the house price situation at the moment, in a market place where house prices are declining, it's really irresponsible to be lending at that level. The second thing which has happened broadly at the same time is there has been quite an important change in the rules where banks not only just have to kind of lend obviously the money to customers for the mortgage but potentially on lending to customers who are looking for a higher level of lending, have got smaller levels of deposits, they need to put money aside as well so the cost of raising those mortgages and financing those mortgages has become more expensive.

**LEWIS:** But do you think with hindsight that you were wrong to offer 100% mortgages, even in the market conditions and the capital rules that you had then?

**NOAKES:** No I don't, I mean I think clearly we and indeed the other banks make an assessment of risk at the time that the money was lent. 100% lending has been a very small part of our own business. It's less than 2% of our customer base but those loans were made with very prudent guidelines.

**LEWIS:** Do you think they'll ever come back?

**NOAKES:** I doubt that 100% lending will come back over the next few years and it's really for the two factors. I mean certainly in the short term because of house prices and the outlook on house prices but secondly I think the costs of lending to that level will always now be prohibitive.

**LEWIS:** Now your parent bank, Lloyds, has just announced its half year results and it's written off I think £585m from these, well let's call them slightly dodgy loans that have been hanging around in the market. That's a lot of money to write off isn't it? Are you recouping that by raising charges for your retail customers?

**NOAKES:** As the interest rates have changed, then the costs of doing a number of these activities have changed and the pricing has in the main actually kind of moved in line with that. In fact if anything margins have actually suppressed through this period of time.

**LEWIS:** So you're saying customers are actually getting a better deal now despite the prices they seem to be paying?

**NOAKES:** Customers won't feel they'll be getting a better deal and it would be wrong for me to imply that because you know clearly there are a number of customers who are actually going to be feeling the hardship, not just in terms of the way the economy's moving generally but just in inflation more broadly but you know I think the key thing is that it's not really down to the, the practices of the banks which are kind of driving that.

**LEWIS:** Vince Cable, Stephen Noakes, Lloyds TSB there says 100% mortgages were perfectly reasonable. Do you agree with that?

**CABLE:** If you looked at the housing market and you saw the extent to which it was overvalued, I mean it wasn't just me, the governor of the Bank of England was warning of this I think in 2004, I think anybody could see that there was going to have to be a correction and the banks really just got this wrong but I think the wider lesson here, not just recriminating about the past, is that it's very clear that banks have systematically underestimated risks in boom periods and they overestimate them in slumps, and this is partly down not just to the judgment of the bankers themselves but to the way they are regulated and I think in future we have to get to a system whereby in a real boom period where banks are desperate to push out loans to borrowers often at ridiculous terms, that their capital adequacy requirements have to be really tightened up to make sure these booms don't get out of control and similarly to be able to relax them in a slump period as we have at the moment. That's one way we can move forward from all this.

**LEWIS:** But they have been tightened up haven't they, as Stephen Noakes said?

**CABLE:** Well no, the rules that the banks follow for capital adequacy are set by an international agreement, are actually flat and they're what economists call pro-cyclical in that they reinforce the cycle. They don't offset it and I think the system is going to have to be adjusted to try to get this boom/bust cycle brought under better control.

**LEWIS:** George Magnus?

**MAGNUS:** I just wanted to quickly endorse that comment actually from Vincent Cable because I think the issue of regulation or the lesson about deregulation I think is absolutely key. Everybody thought that the next financial bust was all going to be about hedge funds blowing us all up. They didn't. The actual – the institutions that actually blew up actually were the banks that were supposed to be regulated.

**LEWIS:** So were they looking at the wrong people, George Cox?

**COX:** I think you can draw the right lessons here. You know Vince talks about mortgage lenders very often lending 130%. Believe me, there are very few people listening to this programme who have got 130% mortgage and if you take the example of Northern Rock, Northern Rock didn't collapse because people weren't paying their mortgages. They collapsed because the funding was shut off overnight. Got to draw the right lessons here.

**LEWIS:** But the point Vince Cable was making as I understand it is that they misunderstood the housing market. They were lending money on the basis of valuations that were simply too high.

**COX:** That is not the issue, that is not the issue.

**CABLE:** Well I'm afraid it is the issue. I mean that's now where we've got serious problems of arrears while large numbers of people are facing repossession. It wasn't the trigger of the crisis, you're quite right, but it is the problem we now face.

**COX:** Vincent, you always get arrears when interest rates are going up or staying up and when unemployment is growing. That's what causes arrears but if you look at the arrears at present, arrears are about 1.3% so nearly 99% of all mortgage holders are fully up to date. This is not the issue.

**LEWIS:** Let me ask you briefly, George Cox, why should the banks need tougher regulation? It's not like a police force and criminals, is it? These are respectable institutions. Why should they have to be prevented from taking foolish risks as we've heard they did?

**COX:** Well I think there's a place for proper regulation and indeed if they'd had the kind of regulation in the United States we've got here, you couldn't mis-sell mortgages like that.

**LEWIS:** OK well, the main effect of the credit crunch of course on people in the UK has been the drying-up of the mortgage market, and some extraordinary figures again. The number of mortgage products has fallen from more than 11,000 to less than 4,000, and the number of loans made to first-time buyers and people who want to re-mortgage has plunged both by around 50% on a year ago. Many people can't get the loan they need. Those that do find the cost of buying their home has soared. Jay Pandya told Money Box his credit crunch experience.

**PANDYA:** I was initially with Halifax on a two year fixed rate mortgage deal paying about £480 a month so basically borrowed £100,000, finally when it came to February I made the decision to stay with the Halifax but again have gone with a three year fixed rate mortgage deal which off the top of my head is about 6.82% so I'm paying about £680 a month now so it's gone up by £200 and a bit a month. It's quite scary really for about a month to six weeks just sort of looking at how it would go up and obviously you're used to such a decent sized disposable income and for it to be taken down by a quarter, you know almost up to a third of what I'm used to, yeah it was definitely a shock to the system.

**LEWIS:** Well listening patiently to all this has been Melanie Bien, a director of mortgage brokers Savills Private Finance. Melanie Bien, have many people had this shock to the system that Jay has had?

**BIEN:** Unfortunately yes, we’ve had a lot of people coming off particularly cheap two year fixes this year and that will continue into next year and it is quite a payment shock, it’s you know a lot of them are paying at least 1% more if not higher and people who perhaps overstretched themselves in the first instance are now finding that they, they just don’t have the spare money available.

**LEWIS:** So whatever happens to the credit crunch and we’ve heard that’s going to go on, there’s more pain coming next year and the year after as people come off these deals that they took out in the last year or so?

**BIEN:** Yes because they were exceptionally cheap then and you know people benefited from that and were able to perhaps borrow more money than you know maybe in prudence they should have done.

**LEWIS:** Yes now of course Jay did get his mortgage, a lot of people have re-mortgaged. The definition of the credit crunch though, and I love this phrase, is non-price rationing of credit, in other words non-price rationing means there’s just not as much of it about. For some people they can’t get it at any price. Are we seeing a lot of people simply out of the market, they can’t re-mortgage so they have to either rent or go and live with mum, sell their house?

**BIEN:** Well lenders are being a lot fussier about who they lend to and they’re very concerned about risk, and they prefer people who are lower risk so they’re looking at people who have you know at least a 25% deposit or that level of equity in their home. They’re going to get the best rates. You can still borrow up to 90% loan to value but there is a premium to pay for that and that will price out a lot of first time buyers.

**LEWIS:** Yes I think Britannia’s latest best deals are only available to people with 50% deposit so that’s either a very well-off first time buyer or somebody who’s remortgaging after they’ve been in their house a long time?

**BIEN:** That’s exactly right. Those loan to values have been coming down all the time. A lot of lenders now will do 60% loan to value and do the best rates on that level. You know a majority of first time buyers aren’t going to be anywhere near that.

**LEWIS:** And we don’t often feel sorry for estate agents or perhaps even mortgage brokers but of course they’re feeling the pinch too aren’t they as the volume of sales declines dramatically, less turnover and Halifax has announced this week that it’s closing fifty-three of its, of its estate agents?

**BIEN:** Yes the number of transactions has fallen off a cliff. People are concerned they can’t get hold of mortgage finance but also they’re worried about where house prices are going and if prices continue falling into next year, as practically every commentator is predicting, you wouldn’t want to pay more for something than, than you need to so I think people are holding off.

**LEWIS:** And I think Savills has got a pretty dramatic estimate for where house prices are going and how long they’re going to fall for.

**BIEN:** Well this is it, over this year and next year we predict a 25% fall. The recovery though is you know predicted again to be fairly rapid and the reason for that being you know that a lot of house builders have just mothballed you know developments for the moment so supply will be even more of an issue once people come back into the market.

**LEWIS:** And Vince Cable, mortgages are the key aren't they to people feeling wealthy in the UK. Do you think the government should be taking some action to assist the mortgage market?

**CABLE:** Well I think we have to be very careful about going down that road. I think it would be absolutely disastrous if the government were to embark on the course of guaranteeing mortgages either directly or indirectly. They would then be taking all the risk onto the taxpayer which would not be right. Equally this idea of providing some form of holiday on stamp duty which is effectively a kind of subsidy to house purchase equally seems to be fundamentally wrong to use taxpayers' money in that kind of way and is a way of enticing first-time buyers into the market which is falling so I think these interventions, if there are going to be any, have to be very, very carefully targeted and the idea of throwing government money at it or government guarantees is profoundly wrong.

**COX:** Can we just come back on something that Vince said? The government is helping already. There's a special liquidity scheme where the government is providing bonds as collateral in terms for blocks of mortgages.

**LEWIS:** This is providing money really for them to lend out again by way of mortgages…

**COX:** That is what it is.

**LEWIS:** It hasn't really brought prices down though has it? Mortgages are the same as they were a year ago when the bank rate was high.

**CABLE:** And absolutely crucially of course the banks take what's called a haircut.

**COX:** They do indeed.

**CABLE:** They absorb the risk and I, if that were to happen for new lending I would be sympathetic but I don't think that's what's being proposed.

**LEWIS:** Yes a haircut's a euphemism for a big profit?

**COX:** For taking a slice, yes. The government's taking a slice. Taxpayers – but I think that is helping and I think you could, they could go further. At present the government will only accept, the Bank of England will only accept assets which were on the book at the end of 2007. If they took that to assets as of the end of 2008 that would be a help to the market.

**CABLE:** Yes I'm sure that's helpful, I agree with that.

**LEWIS:** Now while people with mortgages of course have been suffering, those with savings have been doing very well as we've heard on Money Box. Banks can't borrow from each other as easily so as we've heard they want to borrow from us and that means there's a big demand for our savings. That puts up rates. You can get 7% or more on your savings. With us is James Brooke, an award-winning financial planner with independent financial advisers, Anand Associates. James Brooke, have savers been the big winners of the credit crunch?

**BROOKE:** I think they have to an extent. The sting in the tail if you like is the inflation rate, either the real quoted inflation rates or the inflation rates that people are experiencing in terms of petrol prices up by 25% in a year, food prices up by over 10%.

**LEWIS:** So it's hard for your money to keep up with that if it's turning even 7%?

**BROOKE:** Exactly yes.

**LEWIS:** On which you are taxed. So what should people do? I mean there are inflation-protected savings aren't there with National Savings and with some of the building societies?

**BROOKE:** There are. However although they are protected against inflation in the future, the rates that are quoted aren't actually that attractive and also I have some concerns about the statements made about National Savings being absolutely safe because whilst –

**LEWIS:** You're raising a real hair there aren't you? You're not telling us the government's going to go bust are you?

**BROOKE:** No but what I'm saying is that rates can be moved over time. Once you've locked into a rate, that's OK. My concern is saying that this week that National Savings are a good thing. That doesn't necessarily mean that that will follow next week or the week after.

**LEWIS:** No I mean they did offer 1.35% above the RPI rate of inflation, now it's 1% above isn't it but at least it's 1% above over three or five years. George Cox, is this a sign the banks are changing their habits? Instead of doing all these complicated money market things to get money, they're actually coming back to us and raising our savings. You said earlier there wasn't enough. Is that really true? They couldn't just do this.

**COX:** I think that you are seeing a change in behaviour here. What I'm hoping is that they'll recognise that certainly lending in the UK mortgage market is about as sound a lending as you can have so I think we're going to see a change. These lessons will be learnt, people are pretty badly singed over this.

**LEWIS:** George Magnus, do you think there's been a collapse of trust in banks over all this? I mean I know customers are leaving a lot of the major banks aren't they and doing other things with their money?

**MAGNUS:** Yes I think it's, I mean self-evident. The lack of trust actually starts really within the financial services industry. People are not, you know, banks are not sure what their counterparts may have, may not have.

**LEWIS:** They don't trust each other so why should we trust them.

**MAGNUS:** They don't trust each other, and so of course you and particularly in this country but also I mean obviously the Northern Rock in the UK but you know there's some banks in the United States have gone the same way and two enormous government-sponsored agencies which support the American housing market are now being sort of scrutinized very closely as well. But I think this idea that banks are going to go back to their knitting for a considerable period of time I think is a very realistic prospect.

**LEWIS:** Do you think consumers now though are going to be tempted to put money back into more traditional stock market investments because they're taking money out of those at the moment and putting them into cash, aren't they? James Brooke?

**BROOKE:** Or paying off credit cards, or paying off mortgages or…

**LEWIS:** That's always a good idea if they've got debt.

**BROOKE:** Absolutely.

**LEWIS:** So but do you think the answer is to go more for traditional investments, stock markets? I mean that hasn't done brilliantly over the last 10 years, has it?

**BROOKE:** No in fact you'd almost have been better off in cash over the last 10 years.

**LEWIS:** Melanie Bien, let's look ahead for a moment now, lots of change in the mortgage market. Do you think there's more ahead or do you think, do you think we are reaching some sort of stability? Rates have begun to come down a little bit haven't they in the fixes?

**BIEN:** Yes that has been encouraging and it's taken a while to get to this point but it's not all lenders who are doing it. It's the bigger lenders who, who have the power to do it and an appetite for lending so it's still going to be a struggle going forward.

**LEWIS:** Vince Cable, are you confident that when we get the next banking crisis, and we will, that the regulators and the banks will deal with it better?

**CABLE:** Well not yet, I mean I, we discussed earlier on some of the regulatory changes that I think have to happen to offset cycles but those haven't yet been put in place. I also think we need to be anticipating how for example the Bank of England is going to look at inflation and looking at house prices which we now know from experience are very volatile and a large part of the inflationary problem that simply weren't being taken into account so there are lessons to be learnt. I think there's a deeper lesson in fact which relate back to your discussion on investment, that politicians of all parties and I'm not exempted from that I think are guilty for having promoted property ownership, owner occupation as something inherently good and this has encouraged the idea that we all pile into property, get second homes, buy houses often at unsustainable mortgage levels and I think there will have to be a lot of re-thinking about that in the view of the fact, the discovery that house prices just don't go up and up for ever.

**LEWIS:** George Cox, do you think banks have learned lessons from the problems that they largely created themselves?

**COX:** Oh for sure, individuals have. One hopes those lessons won't be lost over time. I think there are also lessons here for the regulatory bodies. If you do talk of our own body, the FSA, the impression is given that they were just sitting back doing nothing. Believe me, they crawl all over financial institutions all the time. The trouble is they were obsessed with credit risk and didn't look at liquidity risk. In other words it's no good looking at yesterday's risk. I'd like to see the regulatory bodies in future being a bit more proactive.

**LEWIS:** If they know what tomorrow's risk is of course when they're doing it.

**COX:** Yes. That's the challenge.

**LEWIS:** George Magnus, do you think lessons have been learned? Will the pursuit of profit always take over ultimately?

**MAGNUS:** I think unquestionably lessons are being learned. I'm not sure that all of them are the right lessons so the famous economist Galbraith spoke about financial crises in the historical context. He said the first thing we always do is blame somebody or incarcerate them. That's easy. The second thing we do is always a headlong rush to regulate. That's clearly taking place and it's a harder phase and it may not always have the right outcomes but it will happen. And the third is that we never talk about what caused the speculation in the first place and here I'm afraid the lesson probably won't be learned which is that you know you do have to have a properly defined regulatory and central bank you know supervision and oversight in order to ensure that speculation is contained. Nobody ever wants to do this.

**LEWIS:** Looking for problems before they happen, well thank you all very much. That is all we have time for on this Money Box credit crunch special. You can find out more from our action line 0800 044 044 and of course our website bbc.co.uk/moneybox, where you can download the podcast and in a few days read a transcript. Thanks to all my guests, George Magnus of UBS, former banker Sir George Cox, Liberal Democrat Vince Cable, James Brook of Anand Associates and Melanie Bien of Savills. The producer today was Martin Bedford, Money Box is back with a new series with me, Paul Lewis, next weekend.