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MONEY BOX

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LEWIS: Hello. In today's programme, American politicians are still arguing about whether to use $700 billion of taxpayer money to bail out the banks. Here Treasury officials are spending their weekend trying to hammer out a rescue plan for Bradford & Bingley. Bob Howard's been looking at paying for postgraduate studies.

HOWARD: Should those studying for MA's and PhD's be able to get student loans just like undergraduates?

ROSS: I was quite surprised that I couldn't get a normal student loan for an MA because so many people do MA's and it's so expensive.

LEWIS: We look at the website where you can find loans at up to 664% APR and campaigners say some equity release mortgage deals taken out in the 1990s could be challenged in the courts.

But we start with the weekend discussions in the USA about whether to spend $700 billion to buy up the toxic debts of the remaining American banks. The deal was supposed to be done on Thursday, but then descended into a political shouting match and collapsed - or at least it wasn't done. It wasn't done all day Friday either and it looks as if it won't be done today. While politicians were arguing, another American bank went bust: Washington Mutual, the biggest bank failure of all time - or so far anyway. Its remains have been bought for a knockdown price by JP Morgan Chase, which is emerging as a potential winner in the Wall Street game of last bank standing. Well live now to the States to talk to Peter Jankovskis, Co-Chief Investment Manager at Oakbrook Investments in Chicago. Peter, I know it's six in the morning there, but is there any latest news?

JANKOVSKIS: Well the latest that I've heard is that there has been some progress in moving some items off the table. There had been a plan pushed to allow judges to rewrite mortgage contracts and forestall foreclosures and my understanding from the news reports is that that has now been removed from the plan, which I think is something that will help it move toward passage and actually will make the plan more effective as well.

LEWIS: It won't help the 3 million or more who may face foreclosure this year though, will it, and there is a very strong feeling against this deal by American voters, isn't there?

JANKOVSKIS: Yes there is. I think there certainly is a ground flow of discontent given the record pay packages that many of the CEO's have received .I think the problem is that the people need to look at ultimately who's going to be harmed if this package doesn't go through, and in fact many of these CEO's have already lost their jobs through this as well, so …

LEWIS: Yeah, they've got plenty to live on though. At least that's what we all say.

JANKOVSKIS: *(over)* That's true, I would agree. They're not going to be standing in line for soup, if you will.

LEWIS: You say what will happen. Just how important is a deal?

JANKOVSKIS: Well if you take a look at what's happened to rates for short-term Treasury debt and the lack of credit in the marketplace, it's quite frightening. Basically as much as the Federal Reserve has moved to lower interest rates to make credit available to banks in the short-run, none of them are using it. They're all basically sitting on their hands, sitting on these bad loans. And the plan here would basically inject this cash directly into their hands, get the bad non-performing loans off their books and that would free things up.

LEWIS: Sure, that would get rid of the bad loans. But is it going to be enough? What has to happen afterwards? You've got to restore trust, haven't you, between bankers who have at best misled each other, at worst lied to each other about the debts they were passing round?

JANKOVSKIS: Well I don't know if there was so much misleading going on. I think many of these people knew …

LEWIS: Well they must have misunderstood them anyway?

JANKOVSKIS: … knew what they were buying is simply the way it's put and expected that either the economy would continue running and property values would continue rising at a steady rate, and that assumption broke down.

LEWIS: Pretty big mistakes. Peter Jankovskis in Chicago, thanks very much.

Well the global financial crisis may be about to claim another victim here in the UK. The BBC has learned that officials from the Treasury and the Financial Services Authority are meeting this weekend to hammer out a rescue plan for the bank Bradford & Bingley. On Friday its shares closed at just 20 pence. They were £4 each just over a year ago and that raised real fears among analysts about the bank's future. The BBC understands any deal will protect all cash savings in the bank, though of course shareholders may lose most if not everything. With me is Ray Boulger of mortgage brokers John Charcol, which was part of Bradford & Bingley for 4 years until 2004. Ray, officials meeting this weekend to find a rescue plan. It could be nationalisation or takeover. What do you think's going to happen?

BOULGER: I'm sure the government will be desperately keen to avoid nationalisation. A takeover would be far preferable. Though it's worth noting that over the last week Bradford & Bingley has written down all its mortgage backed securities to nil and clearly most of them will have some value, so they do seem to have been clearing out the balance sheet. Some people say in order to facilitate a takeover.

LEWIS: Yes. Who might take them over though because six high street banks already own big chunks of their shares. They clearly don't want them without possibly some sweetener from the taxpayer. We've heard previously Santander and ING were being asked to step in. No-one has come forward yet, have they?

BOULGER: No. And apart from the UK banks, other possibilities could be that Resolution, who put in an offer some months ago and were turned away (rather stupidly in my view) by the Bradford & Bingley board, might possibly come back and maybe a foreign bank. So in this market clearly most banks don't have the cash to make a paper takeover, but a takeover for shares would seem to me to be much more likely.

LEWIS: Yes. Resolution of course have already bought distressed assets of insurance companies and life funds. And what about nationalisations? If that happens, could it be merged with Northern Rock to form a huge nationalised bank that was then run down?

BOULGER: That's clearly possible. But bearing in mind that the government has stated that the long-term strategy is to return Northern Rock to the private sector, and if they did take over B&B I'm sure the same would apply, I think one of the key considerations would be whether it would be easier to return the combined operation to the private sector or whether it would be easier to do that independently. Now we know that Northern Rock has got huge borrowings - 27 billion initially from the government, which they are actually repaying ahead of schedule - and the plan is to shrink their balance sheet to about half by the end of next year. So the two banks will probably have a rather different strategy, so I'm not convinced that merging them would necessarily make a lot of sense.

LEWIS: No, but there would be then two nationalised banks competing with each other, partly for our money I suppose.

BOULGER: Yes, although they're competing in different areas because Bradford & Bingley fundamentally play in the buy-to-let market whereas Northern Rock are actually competing quite strongly now in the residential market.

LEWIS: Important to stress though Ray, isn't it, that the events of the last year have shown the Treasury is not going to let savers lose money even if they have more than the £35,000 limit? As with Northern Rock compensation, that scheme is irrelevant.

BOULGER: Yes it is and I think the public now recognise that because whereas when the government said at the time of the Northern Rock problems that their savings were going to be safe, people clearly didn't believe them. We haven't had those sorts of problems with B&B, so the public do now recognise that.

LEWIS: Sure, though of course shareholders may lose everything and many people see their shares as savings. And what about those who have mortgages briefly, Ray, with Bradford & Bingley?

BOULGER: Whatever happens to Bradford & Bingley, people with mortgages will not see any change in the terms of their mortgage. It would be impossible to change the terms of the contract, so they should keep paying their mortgage as it is; their interest rate won't change. The only difference might be that when their initial deal comes to an end, the options they've got may be different. But with most of Bradford & Bingley's mortgages, they revert to bank rate plus 1.75%, so if people do nothing that's what will happen.

LEWIS: Ray Boulger of John Charcol, thanks.

Well there's been a new development this week on levels of savings protection - that £35,000 limit. Not here, but in Ireland. Money Box's Chris A'Court has more. Chris?

A'COURT: Yes, the Irish government has raised the sum guaranteed to savers putting money into Irish banks, Paul, to 100,000 euro. Now that's around £79,000 at today's exchange rate. That means people living in the UK and putting money into certain Irish linked accounts like those run by Anglo Irish Bank and most of those by the Post Office savings, which are linked to Bank of Ireland, now have much more savings money protected.

LEWIS: Well this is more than twice the level here, Chris. That's going to put pressure on the government here for a change, isn't it?

A'COURT: Yes, it will. The level of savings protected in any one separately authorised UK savings institution remains at £35,000, as we've been saying Paul, so the Irish move puts further pressure for change on the UK government. Here the Chancellor's pledged to raise our savings protection limit to £50,000, but we still don't know when; and even if that happens, the level will still fall short of the new Irish protection limit. But not all Post Office accounts get the new Irish protection levels. For example, the Child Trust Fund and the Post Office stocks and shares ISA don't have it. Among the popular Post Office accounts that do are the Instant Saver and the recently launched cash ISA. And for people who are really concerned about this with large amounts in savings, don't forget you have 100% protection for all your money in Northern Rock and National Savings, though interest rates are generally lower. That's the price you pay for absolute safety.

LEWIS: Thanks, Chris. And links to find out more on our website: bbc.co.uk/moneybox.

Now, would you like to borrow money at 1069%? That's one offer on a new website that for the first time details for loans given by Doorstep and Short Term, credit providers who lend money to low income customers and those without a good credit record. The site has been set up following an investigation by the Competition

Commission, which found there was indeed limited competition between lenders who sell these loans door-to-door. I went through the website yesterday with debt specialist Damon Gibbons.

Well we're here in front of a Money Box computer in a quiet room in the office and we're going to put in an amount of money. With me is Damon Gibbons, Chair of Debt on our Doorstep. Damon, let's just think of a typical amount. What would be typical to put in here?

GIBBONS: Well on average I think somewhere between £300 and £500, so let's go for £400.

LEWIS: £400. And what sort of period shall we put in?

GIBBONS: Well most door-to-door loans are between 6 and 12 months, so maybe if we headed for sort of 23 to 40 weeks.

LEWIS: Give me a postcode where we're going to find a good variety.

GIBBONS: Well let's try mine - my local area in Leicester, so LE3.

LEWIS: LE3 - okay put that in. And let's see what we get. Okay, now we've got fourteen results. They range from 188% APR; 365.1 - that's with Provident Personal Credit, which is a well-known brand; 440% with Shopper Check. And if we go right to the end, we get … oh there's 664.9% APR. And the most expensive is actually a lower APR. This is Short Term Finance. 446.2. Total amount for credit is 673, so you're paying £273 on top of your £400. That really is quite extraordinary.

GIBBONS: Yes, absolutely so. I mean this is quite phenomenal really; that you know if there was genuine competition in the market, then you would expect that perhaps a) the price pressure would be downwards and also that there would be quite a considerable grouping of costs involved here. But you've got a wide spread between a door-to-door lender charging £120 total charge of credit and one, as you say, charging well in excess of £250.

LEWIS: You're saying there's a variety but no real competition. Might this site not introduce that competition?

GIBBONS: Well it depends obviously really how customers in the market behave and you know there's very few of them that we would suggest would use this sort of mechanism at the moment. Most people are introduced to door-to-door lenders because the agents are active in their area, they know their friends, the neighbours. Some of them are even related to them. And so it's that sort of personal association that actually gets people involved rather than a sort of rational search for the cheapest on an Internet site.

LEWIS: But even though these rates of interest seem fairly eye watering, they are better, aren't they, than going to loan sharks - illegal loan sharks who have very heavy handed ways of collecting money?

GIBBONS: Well nobody would encourage anybody to go to an illegal loan shark for obvious reasons, but I think it's coming to something when at the end of the day we have to compare these legal companies with illegal loan sharks to make these companies look good. It says something has gone really quite seriously wrong with the way that the market works.

LEWIS: Of course what the companies say to us is that although these APRs seem very high, it's not really a fair comparison; that the loans are over a short period of time, they're collected on the doorstep which is expensive, and if you look at any loan over 20 or 30 weeks the APR can seem very high. So they say this isn't a fair way of comparing them with the banks or credit cards.

GIBBONS: Well I think what's very good about this site actually is that it doesn't just show the APR but it actually quite prominently displays the total charge for credit. That's the total amount of money you're actually going to pay back in addition to the amount that you borrowed. And quite clearly on this site if you found a postcode with a credit union available, you'd find that on £100 you might pay back £106 to the credit union. Here in some instances we're finding you're paying back you know £160, so it's ten times as expensive as a credit union. And I think that that total charge for credit is the key figure. I don't think the industry can argue with that.

LEWIS: Damon Gibbons. And that website does include credit unions but only in areas where they exist and have signed up.

As university terms are about to start, many students who've already completed their first degree course are struggling to finance postgraduate studies. In England and Wales fees and living costs for this can top £10,000 a year. The Student Loans Company doesn't cover these courses, so some students turn to Career Development Loans, supported by the government but financed by the banks at what some feel is too high a level of interest. Bob Howard reports.

HOWARD: This is a university campus in Central London where hundreds of students will soon be starting their first term. Julia Ross from Wiltshire's about to begin a one year postgraduate MA in Broadcast Journalism. She paid for her 3 year undergraduate course with a student loan and she hoped she could do the same for this course.

ROSS: I was quite surprised that I couldn't get a normal student loan for an MA because it just didn't occur to me that it wouldn't be available. So many people do MA's and it's so expensive. So, yeah, I was pretty dismayed.

HOWARD: Many graduates don't realise student loans are only available for first degrees, so if they want to postgraduate studies they can't rely on the Student Loans Company for help. So instead Julia chose to borrow £8,000 through a Career Development Loan from the Co-op Bank, one of three banks which offers them. The bank checks the course is recognised by the Learning and Skills Council. The government then pays the interest on the loan whilst Julia is studying, but when she finishes the bank starts charging her interest at 12.9% and she has to start repaying almost immediately.

ROSS: When I applied for my loan, you have to set out how long it's going to take you to pay it back, so I opted for a year thinking the shorter the period the better.

HOWARD: Julia could have repaid the £8,000 over 5 years, but with interest charged at 12.9% paying back this way would have cost her £10,724. Paying back over just one year will dramatically reduce the cost of the loan, but it will mean monthly payments of £708. Very different from undergraduates with a loan from the government backed Student Loans Company. With this scheme, interest currently accrues at 3.8% and you pay nothing until your salary reaches £15,000 when you pay back 9% of anything earned above that.

ROSS: It's a pretty daunting prospect to think that really essentially what I am getting is a bank loan. It's just that I don't have to pay any interest for the first year. It's quite frightening really.

HOWARD: But Julia's fortunate because she doesn't have any outstanding debts from her first degree. Some of those who are accepted for Career Development Loans still do and this concerns parents like Sue from Yorkshire. Her daughter Rachel's finishing a Fine Arts MA and has a Career Development Loan for £8,000 from Barclays on top of the £12,000 student debt built up on her degree course.

SUE: You have students applying for them who may not have applied for a loan before, so they're not used to reading about APR's, etcetera. The student pays an interest rate of 12.9%, so I feel quite strongly that students are if you like already in debt with student loans and then they're taking on even more debt through a government backed scheme. I think it would be far better if the government extended the Student Loan Scheme.

HOWARD: The National Union of Students agrees. Aaron Porter, the NUS' Vice President for Higher Education, says there's an urgent need for a more comprehensive system.

PORTER: The government, if they claim that postgraduate study is important and they do, well they need to ensure that there's a fair funding system to support students through that process and I think that a student loan system would be a far better mechanism to ensure that happened.

HOWARD: So how likely is it? Well the government says it has no plans to fund postgraduate studies in this way. Bill Rammell, the Minister for Higher Education.

RAMMELL: The priority for government funding and the taxpayer is to get you your first degree. Beyond that, at the postgraduate level, whilst there are sources of funding - a small route through Career Development Loans, the bigger route through the Research Council stipend - nevertheless there's a greater onus on the individual to actually support what they are doing. But there's a balance to be struck and the government and the taxpayer can't do everything.

HOWARD: As the minister mentioned, there are seven government funded research councils which offer a variety of grants which can fund fees in full. The relevant body for Julia and Rachel is the Arts and Humanities Council. It selects students according to a number of criteria, including ability and the quality of the course and institution. It's funding a thousand students this year, but that's just 1 in 5 of people who applied to it. So, Paul, the majority of students like Julia and Rachel are going to have to continue to pay their own way.

LEWIS: Thanks, Bob. And you can have your say on funding postgraduate courses. Tell us your experiences and who should pay and how. And if you have questions on student finance, that's the subject of Money Box Live, Monday at 3 with Vincent Duggleby.

Thousands of people who took out an equity release plan in the 1990s, which has trapped them in their homes, are being asked to fund court action to challenge their original contract. These plans, called Shared Appreciation Mortgages, were sold by Barclays and Bank of Scotland to around 17,000 people between 1996 and 1998. Under the contract, the bank takes three quarters of any rise in the property's value when it's sold; and with house prices trebling over that period, many people cannot afford to move as half or more of the value of their home is owned by the bank. Well the legal action is being coordinated by the banking pressure group SAFE. It's sent letters to its 1500 members asking them for £5,000 each to fund it. But some have emailed Money Box concerned about the tone of the letter. I put those concerns to SAFE's Director Elaine Williams.

WILLIAMS: We had to be very honest and very upfront with these people. I can tell you all sorts of sad stories if you want me to. I've had people literally just phoning me and saying, "I've sold a ring and the cheque's in the post."

LEWIS: Do you think this is a sensible use of their diminishing money though because they're in your organisation because they're hard up, the value of their house they think is being taken by the bank, and now you're asking them for another £5,000?

WILLIAMS: Paul, these people have never ever been asked for money off us. As you know, I work and don't get any wage for this. We've always set out to help the SAM holder and now we have the best chance in history of doing this.

LEWIS: Elaine Williams. Hilary Messer is Director of solicitors Richard Wilson Pangbourne and is acting on behalf of SAFE. I asked her what had made court action possible now.

MESSER: That's because a change in the legislation brought in by the Consumer Credit Act 2006, which in fact came into force on 6th April this year, allows these contracts now to be revisited.

LEWIS: So what can the courts do?

MESSER: What the courts can do, if they take the view - and we believe they will - that the relationship between the debtor - that's the homeowner - and the creditor (in this case the banks) is unfair, that opens the door for the contracts to be revisited and for the courts to substitute what they believe is a fairer outcome.

LEWIS: And if you take this case, will it then apply to all the thousands of people involved?

MESSER: No. If anybody wishes to benefit from the determination of the court or any compromise that may be reached with the banks along the way, they have to be a claimant in the action.

LEWIS: And when do they have to do that by?

MESSER: We are urging everybody who wants to be party to the action to come forward as soon as possible because we wish to issue proceedings by the end of this year.

LEWIS: Because these contracts are very old, is there a danger that they'll be out of time?

MESSER: There is very much that danger. There is a 12 year limitation period and for some of these SAM holders, they're coming dangerously close to the end of the limitation period.

LEWIS: People are being asked to send £5,000 to pay for this action. Is that money at risk?

MESSER: This type of litigation is complex, it is necessarily expensive, and any litigation is risky. Of course there is a risk that they will lose it, but if they win they have an expectation that they will recover a goodly part, if not all of their costs.

LEWIS: The record of this kind of action isn't great though, is it? Can you put any figure on how likely it is people are going to win?

MESSER: All we can say at the moment is absolute certainty if you do nothing, you will pay the banks the full appreciation under the terms of your Shared Appreciation Mortgage. What we are offering you is an opportunity, a chance for the courts to look at these arrangements and come to a different figure for you. This is complex litigation. It's impossible to put a chance of success on it.

LEWIS: And why can't it be done under No Win No Fee provisions, which many similar cases are taken under?

MESSER: This kind of litigation is complex. It is going to take an awfully long time and nobody to my knowledge is going to be prepared to take it on that basis.

LEWIS: Hilary Messer. And there are more details of that campaign on our website and with the helpline.

And, Bob, a big fine this weekend for Barclaycard.

HOWARD: Yes, Paul. The firm's been punished for making an extremely high number of what are known as 'silent calls'. This happens when automatic call centre systems dial customers' numbers, but there's no call centre agent available to actually talk to the person being called, resulting in silence on the line. The calls regulator Ofcom found that Barclaycard had made more of these silent calls than is officially permitted and fined the firm £50,000, the maximum possible. Barclaycard says it accepts that its processes at the time of the Ofcom investigation in Autumn 2006 to May 2007 were inadequate.

LEWIS: Thanks, Bob. Well that's it for today. You can find out more from our website, bbc.co.uk/moneybox, where you can download a podcast, have your say on funding postgraduate study, and every Wednesday see an update of the week's financial headlines. There are personal finance stories on Working Lunch, BBC2 weekday lunchtimes. Vincent Duggleby's here on Monday with Money Box Live taking your questions on student finance. I'm back next weekend. Today the reporter was Bob Howard, the editor of Money Box is Stephen Chilcott, and I'm Paul Lewis.