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MONEY BOX

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LEWIS: Hello. In today's programme, interest rates could plummet as governments try more of the medicine that hasn't yet worked. And don't worry about this week's record inflation. One economist warns that could even turn negative. Ten days on from the first half point rate cut, returns on savings and mortgage rates haven't changed much at all. Bob Howard's been finding out why Icesave compensation is frozen.

HOWARD: Money should be repaid in weeks rather than months, but many could still struggle.

VANDA: I'm going to be relying entirely on an overdraft. It will leave me very vulnerable because I have nothing to fall back on.

LEWIS: The Office of Fair Trading says Sale and Rent Back needs regulation. And there are less than two weeks left to send in your paper tax return.

But, first, inflation hit a 16 year high this week as the Consumer Prices Index rose to 5.2%. The index has been above the Government's 2% target every month for the last year. But with fuel prices falling and food prices levelling off, economists are now predicting this is the peak. From now on inflation will fall and that's despite the expectation of rapid and large cuts in interest rates, which in normal circumstances might be expected to push *up* inflation. One of the economists predicting a rapid cut in rates is Roger Bootle, Economic Adviser to Deloitte.

BOOTLE: I think we are going to see some dramatic falls in interest rates. The low point in recent years is 3½% and that was when the housing market was zooming along and we weren't in anything like the pickle that we are now. So you know 3½ pretty low - but it's got to get an awful lot lower than that, I suspect. 2% is the all time low for bank rate and I suspect that we'll get to something like that, but if things are really bad why can't they get lower? Rates in America are already only 1½%, and of course in Japan they've been … well for years they were effectively 0%.

LEWIS: When do you expect interest rates to fall next and when do you think they might reach 2 or even 1%?

BOOTLE: Well of course no-one knows exactly the politics of the MPC, nor indeed the international dimension; and it's possible that the bank will want to wait till it can coordinate an interest rate move with other central banks, so that makes predictions especially difficult. But I would think that there probably will be a cut at the next meeting and maybe the meeting after that. Now I don't know how bold they want to be, but I would certainly see half a percent off by Christmas and maybe 1% off. And I suspect that if the news continues to be grim, we'll see further falls in the early months of next year, so it wouldn't surprise me if we got to 2½ or 2% by the spring.

LEWIS: But will that work? I mean when rates were cut half a point last week, the rate banks lend to each other didn't shift at all and many mortgage lenders didn't pass it on, so it's had no effect.

BOOTLE: The truth of the matter is that interest rates are never I think *that* effective and certainly not in today's conditions. But we haven't got an awful lot of levers to pull and this is one of the few. Now to mix my metaphors, if the medicine is not that effective, I'm afraid the consequence is you have to use a bigger dose. That's the position we're in. I think you know it's not ideal, it's certainly not going to wave a magic wand, but it'll do some good and we ought to use it.

LEWIS: Another effect though of cutting interest rates is rising inflation, isn't it, and we saw inflation reach a 16 year peak this week? Many people are concerned about how they're going to pay for their fuel bills, their food this winter. Isn't cutting interest rates to 2% or even lower just going to fuel inflation?

BOOTLE: There is always of course an inflationary danger and clearly inflation's been very, very high. But it is now set to plummet. Oil is now a half, less than a half of what it was at the peak; wheat prices are a third of what they were at the peak. This commodity price shock is going into reverse. And then over and above that, the weak economy, which we surely all now believe - recession hitting the UK - the weak economy will tend to reduce inflationary pressures. So those things together will bring inflation tumbling down.

LEWIS: You've also warned quite recently that the danger is actually *de*flation, falling prices. Do you think we might get to that stage?

BOOTLE: I think that's a risk. I wouldn't have it as my central view over the next couple of years, partly because I don't think that the real economy is going to be a total disaster and I'm still relying on the hope and belief that the policy authorities will take vigorous action; that we will get steep cuts in interest rates and that this government and others will continue bailing out the banking system and allowing the public deficit to rise. But it's perfectly possible the downturn will be a lot more serious than that and you know if a central view is that inflation is around about 1%, then it wouldn't take much to push it over the magic zero line.

LEWIS: Economist Roger Bootle once more predicting the end of inflation. Well if interest rates fall, as Roger Bootle says, it could affect savings and mortgages dramatically. But the half point cut in rates ten days ago has had little effect. Yesterday I spoke to Rachel Thrussell, Head of Savings at the comparison site Moneyfacts, about the interest paid on savings. After the cut, were rates drifting down?

THRUSSELL: We've not really seen that much activity in cuts in savings rates. The usual ones have gone that are linked directly to base rate, and will move up and down when base rate goes. But even some of those, they've got thirty days to change the rate, so they've delayed cutting them.

LEWIS: So what can people expect to get on the sort of typical savings - instant access, ISA's, that kind of thing?

THRUSSELL: You can still get round 6½% on a no notice account. I mean West Brom are paying 6.56 on their instant access. ISA's get 6.08 with Barclays on their instant access ISA, and most of the products in the best buy charts are well over 6% at the moment.

LEWIS: And what about the fixed rate bonds, the one year savings?

THRUSSELL: They're starting to creep down. I mean the highest one at the moment is ICICI at 7.2 and then you've got Anglo Irish at 7.05. But we've seen sort of a recent downward trend over the last couple of weeks and there's quite a few below 7% now.

LEWIS: And of course with inflation rising to a 16 year high this week, even with the rates you've mentioned it's hard to find one that will even preserve the value of your money after tax, isn't it?

THRUSSELL: Yeah, I mean if you're a basic rate taxpayer you need to be earning about 6½%, which you can just about do. Although if you're a higher rate taxpayer, you need to be earning 8.63, and at the moment we've got no products paying anywhere near that. The highest one we've got is Abbey's Super ISA at 7.75. But although that's an ISA, you've got to invest an equal amount in a guaranteed growth plan and obviously the returns on that are linked to the stock market. So it is difficult if you're a taxpayer to find a product where your money's not eroded by inflation.

LEWIS: Rachel Thrussell of Moneyfacts. And one listener's already pointed out that

National Savings has been busy cutting its rates. And do be aware if you are rate chasing of the compensation limit: £50,000 in the UK, different from some European countries; and if disaster does strike, there may be a delay before you get your money back.

Now mortgages. Are they reacting to the rate cut? With me is Melanie Bien, a Director of Savills Private Finance. Melanie, rates on the way down. Should buyers now be looking at tracker mortgages to follow them down?

BIEN: Well a tracker mortgage is the obvious way of benefiting from further rate reductions which, as Roger was suggesting earlier, most people think are going to come. And we saw people with tracker rate mortgages when the base rate came last week, they benefited straightaway. Those on discounted variable rates, which are linked to the lender's standard variable rate, it's obviously set at the lender's discretion and not all of them have passed on the half point cut.

LEWIS: No, some have passed some of it on and some none at all.

BIEN: Yes, exactly. Very few of them have actually moved and they seem to be waiting, and so if you're on a discounted variable rate you're in a bit of a limbo really - you know will it be passed on and by how much? It's very difficult for budgeting purposes.

LEWIS: And of course people who take out a new tracker rate should be aware that lenders are putting up the margin - the gap between the bank rate, and what they pay - aren't they?

BIEN: Yes, they all moved very quickly after the interest rate cut to basically increase their tracker rates by half a point, so exactly what we've seen you know come off base rate. And the reason for that really is that they don't price according to base rate. They price according to the money market rates, three month Libor, and that remains stubbornly high and there's been very little movement on that.

LEWIS: Yes, despite the rate cut and two trillion pounds spent around the world to bring it down, it's not really worked very well, has it? And of course if Roger Bootle is right and rates are going to come down to 2½, maybe 2, maybe he said even less than 2%, will trackers follow them right down so you could be paying nothing for your mortgage?

BIEN: Well a lot of people don't realise that practically every lender - and I think it's actually every lender - has some collar on their tracker rate below which the rate cannot go. So it doesn't matter you know what happens with base rate; they just won't go any lower. And some are as high as 3%. Others … I think Abbey is 0.0001%, you know. So they need to make some profit. They can't offer you a deal for nothing and that's why they have that in place. So I would just say to anyone taking out a new tracker deal to just read the small print and just check what that is.

LEWIS: Yes because they might be disappointed, mightn't they? Well in that case, I mean if you want certainty or you don't fancy being stuck on a collar on your tracker rate, you might think well let's go for a fix. If they come down, they might well go up again. How are fixed rates looking now?

BIEN: Well they really should be coming down a bit further because the funding for them - the sort of 2 year swap rates, 3 year swap rates etcetera - they've fallen quite dramatically, so we expect lenders to start reducing their fixed rates in the next couple of weeks. So if you're looking for that certainty, the security of knowing what you need to pay every month, then perhaps wait a little longer if you can afford to until they do come down a bit.

LEWIS: Any that you think would be good?

BIEN: Well again depending on your loan to value, what sort of size deposit you have - but First Direct have a deal at 5.39%, which is you know very competitively priced. The fee is just under £2,000, so that's a little bit higher and it's 80% loan to value. If you need to borrow 90%, you're looking at paying about a percentage point more - so the more you can put down, the better.

LEWIS: And what about first time buyers? Now they've effectively been shut out of the market, haven't they - not so much by rates but by the tough lending conditions: big deposits, tough credit checks? Is that getting any easier?

BIEN: Unfortunately not. While base rates are easing, criteria are not, so lenders are still looking very closely at credit histories, you know what sort of payments you've been … you know whether you've been good at paying bills etcetera in the past. They really want people with 25% deposits, if not more than that, and that doesn't seem likely to ease any time soon.

LEWIS: Okay, Melanie Bien of Savills, thanks very much. And you can put your questions direct to Melanie and others on Monday afternoon when mortgages are the topic for Money Box Live here at 3 o'clock.

After the collapse of the two Icelandic banks - Kaupthing and Landsbanki - there's still uncertainty for savers. The Chancellor promised ten days ago that all savers with the UK branch of Landsbanki called Icesave would get all their money back, but there's still no sign of any repayments and there's still great uncertainty about the people with offshore accounts in Guernsey and Isle of Man. Bob Howard's here with the latest. Bob, what's happening first with the savers in the UK Icesave?

HOWARD: Well, Paul, as you say still uncertainty about when the 230,000 people awaiting compensation will actually receive it. The Financial Services Compensation Scheme, which is responsible for sorting out the payments, says the Government has agreed in principle with the Icelandic authorities what it calls "an accelerated approach to paying compensation." The scheme's Director of Claims told me this morning that means he's hoping for a payout in weeks and not months and under EU law the scheme must pay out within 3 months unless there are wholly exceptional circumstances. When I spoke to the Treasury, a spokesman said the expectation certainly was that compensation would be paid within this 3 months time frame, but the big question we still don't know the answer to is how much, if anything, the Icelandic authorities will contribute. That's still the subject of protracted negotiations.

LEWIS: So delays expected, Bob. And what about the people who rely on this money?

HOWARD: Well, Paul, the good news for people with fixed term bonds is they will get the interest paid up until the date they mature, but the bad news is that as things stand people who rely on monthly interest payments as income won't get this interest now until the bond matures. So if you recently took out a 3 year bond that could be in 3 years time, and for people with ordinary savings accounts interest stopped being payable from 8th of this month when Icesave was declared in default. Vanda from Milton Keynes is a full-time student and she depends on this interest as income to support her husband and four children.

VANDA: I'm going to be relying entirely on an overdraft. Not only am I losing the interest that I would have gained from my money that was safely - I thought - stashed away, but you know I'm going to be paying fees on that overdraft and struggling. It will leave me very vulnerable because I have nothing to fall back on.

HOWARD: I should say, Paul, the scheme's Director of Claims told me he is looking at feedback from customers on the issue of interest, so there could yet be changes.

LEWIS: So an anxious wait for UK Icesave customers, but news of a faster partial payout for customers of Landsbanki in Guernsey.

HOWARD: That's right. It was announced on Thursday by the administrator that 2,000 depositors will initially get back 30p in the pound. Guernsey's Treasury Minister is Charles Parkinson.

PARKINSON: What he said is about a third of the assets of the bank were in cash and he's now paying out 30p in the pound as an immediate payment. The rest of the assets are left liquid.

HOWARD: Presumably people will never get all of their money back. Is that the bottom line?

PARKINSON: No, I don't think that can be concluded at all. There are assets which exceed the bank's liabilities. That's true even if you disregard the loan up to Landsbanki in Iceland and assume that that's completely irrecoverable. So the remaining assets of the bank more than cover all of the deposits. But obviously the crucial issue here is what recovery rate is achieved on those assets.

HOWARD: Do you not think you might be raising people's hopes unrealistically by saying that there's even a chance they could get all their money back?

PARKINSON: No, I wouldn't say that if I didn't think it was realistic. But I'm very far from saying it's a certainty.

HOWARD: And Landsbanki Guernsey customers should contact the administrator to claim this partial payout. Now savers with Kaupthing Isle of Man are still waiting to see if the bank will be declared in default at a court hearing next week. If it is, the Isle of Man's Financial Supervision Commission told me that would trigger compensation payments for sums up to £50,000. But we don't know when or how that money would be paid out or what assets a liquidator would have to distribute.

LEWIS: And finally, Bob, many Kaupthing Edge customers in the UK have also been waiting for news this week.

HOWARD: That's right. As we know, all the accounts of UK Kaupthing Edge Internet bank customers have been transferred across to the Dutch Bank ING, but many people who tried to transfer money out just before or after the change had yet to receive notification that their money had arrived in the other bank. On Tuesday they were told it should have all been ironed out by the end of this week. Martin Rutland from ING told me he believes more than 90% of transactions have now gone through.

RUTLAND: There were those that we could actually put through on a sort of automated basis. There were others where we needed to do a bit more investigation. Those have to be handled manually. We've got staff working overtime. They're getting through this as quickly as possible. The vast majority of these payments are through and that's good news and the reassurance people needed.

HOWARD: So, Paul, it sounds positive, although I have to say that of the four Kaupthing Edge customers I spoke to on Friday, they were all still waiting for their transactions to go through by the close of play.

LEWIS: Thanks very much, Bob. And you can have your say on compensation and the Icelandic banks that have collapsed through our website, bbc.co.uk/moneybox, where there are also lots of useful links and how to contact the Guernsey authorities if you have money there.

The Office of Fair Trading has criticised the practice known as Sale and Rent Back and it's calling on the Financial Services Authority to step in and regulate it. Under these schemes people struggling to pay their mortgage sell their home at a discount to a company that then lets them stay on as tenants. The properties are often bought at a fraction of the true market value and in many cases the new tenants are evicted in as little as 12 months after the purchase. Carol Riley from the National Association of Mortgage Victims, welcomed the OFT report.

RILEY: We have been very concerned, especially over the past 2 years, on this issue of Sale and Rent Back and have dealt with some of the most distressing cases, in my opinion, and many of us doing this work really feel it needs regulating and quickly.

LEWIS: Heather Clayton is a Senior Director at the OFT. I asked her what problems her study had found in Sale and Rent Back.

CLAYTON: The product is a very risky product. It can be good for some people and there's people out there that are very satisfied with the product. But even when people are satisfied with the Sale and Rent Back product, we're not convinced that they understand all of the risks they're taking and they would be prepared to accept the downsides if they materialised.

LEWIS: Isn't the essential problem though that people are living in their own home, which they have security in as long as they can meet the repayments, but that is being converted into a rented property where they have no security of tenure beyond 12 months?

CLAYTON: Absolutely and in fact that's something that consumers when they investigate these transactions or go through the transactions don't quite appreciate. So one of the common statements that you see being made is that consumers can stay in the home as long as they wish or the firm *intends* that the consumer can stay in the home as long as they like, and that just doesn't match the tenancy agreement. Even if the landlord is offering the product completely in good faith and *intends* to allow the tenant to remain, circumstances might change - the firm could get into financial difficulty and default on the mortgage. So making sure all of those risks are very clearly explained to the consumer.

LEWIS: When we've talked to the industry about this though, they've said that you can't give longer than a shorthold tenancy because if you do that you're not going to get the buy-to-let loan which many of these landlords rely on. So it seems impossible to insist that they give people security of tenure beyond 12 months.

CLAYTON: We understand that that's the case as well, but the point is that if it's not possible to give people security of tenure, there shouldn't be any suggestion that they have it.

LEWIS: With the growing mortgage arrears that we've seen and the growing number of repossessions, this kind of deal where you sell your home to a landlord who rents it back is going to get more popular, isn't it? Isn't the danger that by the time these new rules come into effect the peak will be past and a lot of people will have been sold products that they didn't understand and indeed may well have been evicted by their new landlord?

CLAYTON: The indications are at the moment that things look to be about steadying and it's not increasing dramatically. But you're quite right that it would be really important in the OFT's view to put regulation in place as soon as possible and in the meantime try and make as many consumers as we can aware of the risks they run when they buy these products.

LEWIS: Heather Clayton from the Office of Fair Trading.

Now if you're one of the four and a half million people who still have a paper tax return and it's just sitting there waiting to be dealt with, you've got less than two weeks to fill it in and post it back. Live now to Gloucester to talk to Mike Warburton of accountants Grant Thornton. Mike, less than two weeks to the end of the month. What should people be doing now?

WARBURTON: Well what they should be doing, I'm afraid, is putting some time aside. It'll be about 3.8 million people who are expected to file paper returns this year because the online filing is storming away - something like 30% up on last year - but if you are filing online put some time aside, collect the documents together that you need like your P60, your building society information and those supplementary pages you may need for the return. You can either order them or you can download them off the Internet site the Revenue provide, and basically get on with it and don't put it aside.

LEWIS: And what if you *don't* get on with it? What if you *can't* find that time and you don't make the 31st October?

WARBURTON: Well the change this year is that once you pass the 31st October deadline, you will have to file online. But please don't be put off by that. They have improved. HMRC have improved the website enormously. It is a simple process. You will need to register and when you register you'll need your unique tax return number, your national insurance number etcetera. And when you do so, they will give you a user ID but you'll also need an activation PIN. That can take seven days to arrive. So basically either get on and do your paper return now, but if you decide you are going to file online there's still no point in delaying it because you may as well get on. It's got to be done at some stage.

LEWIS: Yes, absolutely. And once you have filed online, as I understand it you'll never get a paper return again, will you?

WARBURTON: No. I mean once you enter the online filing process, pretty well everybody I've spoken to that's done it online is so pleased with it that they don't actually want to go back to paper filing.

LEWIS: And, Mike, what about people without computers or without a fast or modern computer to file online and *they* miss the deadline. What can they do?

WARBURTON: Well the point is there are some people who either because they haven't got a computer or a lot of self-employed people, it takes times to get their accounts together - they do need to file by paper; and if they can't file by paper this time, I'm afraid they are going to miss their deadline. They're going to have to do it online, so maybe it means visiting some friends or somewhere where you can get access to a computer to do online filing. If you're really in difficulties, I think you really need to contact HMRC and explain your circumstances and take some guidance from them.

LEWIS: Right. And what are the other key deadlines because the 31st January is still there for online filing, isn't it? You've got to do it by then.

WARBURTON: Yes, online filing - that's always … We've always had a 31st January deadline. The 30th September deadline we've all got used to in the past is simply the deadline by which you have to get your returns in to confirm for the Revenue to do the calculation for you. 31st January is the final deadline. There's then a dead… And that's a deadline by the way for paying your tax as well, so you can have a penalty if you don't get your return in, interest starts to run. 28th February, if you still haven't paid your tax, you can have a 5% surcharge. And people who are self-employed, for example, and pay tax in two instalments, 31st January is the date for the first instalment and 31st July is for the second instalment.

LEWIS: Right, so still a lot to think about it. And just briefly, Mike, not everyone gets a self-assessment form. Who *does* have to fill one in?

WARBURTON: Well it's basically if you've been sent a return, if you've got tax to pay because you've got income which isn't being taxed at source, if you're self-employed. But the onus is on you. If you've got tax to pay, you can't sit there and decide you don't need to put in a return simply because you've not been sent one. The onus is on you to inform HMRC if you've got a tax obligation and then they can put you onto the system.

LEWIS: Mike Warburton, thanks very much indeed. And, Bob, we talked about inflation earlier - the 5% rise in the Retail Prices Index - but that actually might be good news for those who get the state pension.

HOWARD: Yes, Paul. The September inflationary figures out this week are the ones used to put up pensions and most other benefits from April. Pensions will rise by 5% and that should put the basic pension up by £4.55 a week to £95.25. But the rise in pension credit is less certain. An announcement is expected in the next few weeks.

LEWIS: Thanks for that, Bob. Well that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can download a podcast of the programme and have your say on compensation for those Icelandic bank accounts. Some of you are already pointing out that if interest rates really do fall, that will penalise savers even more. Personal finance stories on Working Lunch, BBC2 weekday lunchtimes. Back on Monday with Money Box Live - this week, as I said earlier, taking your questions on mortgages. Back with Money Box next weekend. Today the reporter was Bob Howard, the Editor of Money Box Stephen Chilcott, and I'm Paul Lewis.