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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, the £12 billion merger between Halifax Bank of Scotland and Lloyds TSB may not go ahead. We hear from the man who's putting together an alternative bid for the Scottish bank. House prices fall more in a year than most people earn, but when will first time buyers be able to afford that first home? As you heard in the news, a new Child Maintenance and Enforcement Commission replaces the Child Support Agency today. We talk to the new Child Maintenance Commissioner about how it will work. Bob Howard's been looking at with-profits policies.

HOWARD: As more firms impose penalties for coming out early, are they doing the right thing by their customers?

LINDLEY: This will just feed a suspicion amongst policyholders that when it comes to with-profits funds what they give with one hand, they take with the other. It's very difficult to know whether you're getting a good deal or not.

LEWIS: And should commission be driven out of financial sales?

But first, the £12 billion merger of Halifax Bank of Scotland and Lloyds TSB, finally approved by the Government just yesterday, has been called into doubt this morning. Jim Spowart, a Scottish financier and the man who founded Intelligent Finance, has been working on a counter bid. It's hoped that would save a lot of the tens of thousands of jobs that could go if the merger happens, and it would keep more competition in high street banking. Well live now to talk to Jim Spowart. Jim Spowart, how serious is this bid?

SPOWART: Well to give you the background, I was approached by a very high professional, well regarded merchant banker last weekend who said he'd been approached by a world renowned organisation who were interested in making an approach to HBOS. The issue was would the Government be prepared to open the door, and on Wednesday this week I made approaches to the Secretary of State for Scotland to inquire if that would be the case. I got a response back yesterday morning saying that they were prepared to consider any bid on a sort of equal footing basis and that information is now being conveyed back to the parties involved. I've got to emphasise at this stage, this is a possibility. I can't give a 100% guarantee of assurance that this will proceed because these are uncertain times and people have got to take a lot of points and a lot of facts into consideration, but the first port of call had to be the Government purely because we weren't sure whether they would allow this to proceed or not.

LEWIS: And what would the Government's attitude be to the £20 billion it was putting into Lloyds TSB and HBOS; most of that - I think 14 or 15 billion - into HBOS?

SPOWART: Well obviously that wouldn't be up for discussion at this stage, if you know what I mean. I think the party we were talking to might be prepared or be able to take over the bank without that help is my understanding. So …

LEWIS: So that would save taxpayers a lot of money.

SPOWART: It would save taxpayers … That's why I felt obliged at this stage that I should contact the Government as well.

LEWIS: And would this solution keep HBOS as a Scottish Edinburgh based bank and save many of those jobs that there are fears about?

SPOWART: Well it would save a lot of jobs I think not just in Scotland but probably through the UK if it proceeded. It would certainly give us you know our headquarters in Edinburgh, decision making left in Edinburgh, and obviously it would save many of the I think it's 40,000 jobs it's been talked about that could be affected as a result of the merger.

LEWIS: Now we've got a merchant banker in London; a world renowned organisation, as you call them. Can you tell us any more about who is involved in this?

SPOWART: Well I've been sworn to secrecy obviously. This is quite a renowned company, a renowned organisation. The merchant banker is obviously very highly regarded and well respected in London.

LEWIS: So we're talking a big international finance company or a European bank?

SPOWART: Well it's a big international company is the best I could put it at the moment, but one who I've absolutely no doubt has got the funding to do this.

LEWIS: And would you be running this bank?

SPOWART: No. We do have a management team that we could actually put in if it was necessary, but that's been sort of discussed at a very, very preliminary level at this stage. But the first thing to get, you know to play the game, we had to go to the Government to find if they would actually open the door for us.

LEWIS: Sure. And Jim Spowart, when might we hear more?

SPOWART: Well we've been in contact this morning again. What we've got to be careful of is we need time because you've got to understand that as well as talking to regulators here or the Government here, they've also got to talk to their counterparts where they are.

LEWIS: I know, but give me a time - a week, two weeks, a month?

SPOWART: I reckon within the next week to ten days, we should be more definite.

LEWIS: Jim Spowart, thank you very much for talking to us.

Interest rates are expected to fall next week when the Bank of England's Monetary Policy Committee meets. Many economists are predicting another half point cut, bringing rates down to 4%. Others though want something more radical - 1% or more. But will a cut, however big, be enough to boost the flagging housing market? On Thursday, Nationwide reported that house prices in October were nearly 15% lower than they were a year ago, and earlier in the week the Bank of England warned that more than a million homeowners could fall into negative equity - in other words, their mortgage would be bigger than the current value of their home. Well with me is housing expert Henry Pryor. Henry, how serious is this latest fall in prices and how far might it go?

PRYOR: Well, Paul, I think it's difficult to overstate quite how dramatic life is for most people involved in the property industry out there at the moment. We saw in addition to the Nationwide figures you mentioned a moment ago, the Land Registry figures which of course report on exactly what has happened and provide a kind of post-mortem on the market, albeit 4 to 5 months ago because of course they're talking about July's figures. We saw there from the Land Registry transaction volumes down by 57% across England and Wales in July this year, and in London a staggering 60% down, and that's making life extremely difficult not just for estate agents which are closing at the rate of 120 to 130 branches per week, but also of course all those connected with it - removal companies, builders, plumbers and everybody connected.

LEWIS: The negative equity risk that the Bank of England has warned 1.2 million could be at risk of in the next year, prices are now back where they were in February 2006 so it's only people who've bought since then who are in this difficulty.

PRYOR: Well I think that we have to remember that the sorts of barometers that we've been seeing of late, both from the Nationwide and the Land Registry amongst many, are all taking a snapshot, a view of the market, as I mentioned before, perhaps 4 or 5 months ago. The reality out there in the marketplace today, as witnessed by house price surveys of asking prices, is that actually in many parts of the country house prices are off 20%. And if you actually want to sell your property today, such is the difficulty out there that you may have to quote 25% less than at the peak of the market in August last year.

LEWIS: Yes, I saw a graph of asking prices and achieved prices and that gap is really getting large, isn't it? Stay with us, Henry, but listening to that in our Wrexham studio is economist Andrew Lilico who's Managing Director of the consultancy Europe Economics. Andrew Lilico, one thing that I suppose could boost the housing market is an interest rate cut. What do you predict for this on Thursday?

LILICO: I think at least a half point and it's quite plausible that they'll do more.

LEWIS: So it could be 1%, you think?

LILICO: It could be, yes.

LEWIS: But the last cut hasn't really been passed on by lenders, has it - not in full and not at all by some of them? What can the bank do to make sure future cuts *are* passed on?

LILICO: The bank can do relatively little and the reality is that the mortgage rates in the commercial sense at least will depend on interbank lending, and interbank rates have fallen very little. We haven't even had the full half point cut recently passed on in interbank rates yet and that's with the great expectation of further rate cuts.

LEWIS: So what's the purpose of rate cuts if they're not passed on into the economy to have the effects that are wanted?

LILICO: Well first of all they do increase the profitability of the banks slightly and that's helpful for shoring up the financial system at the moment. And also if the banking bailout schemes and other kinds of liquidity schemes were to restore the financial situation, then you'd see quite a snap back of interest rates and so I think that there is some effect down the line.

LEWIS: And where do you see house prices going?

LILICO: I would see house prices falling in aggregate between 35 and 40%, so that's probably another 25, 30% from here.

LEWIS: And that's going to put a lot more people in negative equity than the Bank of England is suggesting.

LILICO: Between 3 and 4 million probably.

LEWIS: And would that lead to more repossessions?

LILICO: Yes, I think that we can expect something of the order of half a million repossessions in total. There were about 330,000 in the early 1990s. This will be worse than that.

LEWIS: Worse than the 1990s and maybe half a million. And Henry Pryor, your view on house prices a year from now. Where do you think they'll go?

PRYOR: Well I suspect there's a good chance that for many people we'll be back down to 2002 levels, which for a large proportion of homeowners in this country will mean that prices have fallen by up to 50%. Now we have to remember, going back to Andrew's point, that actually if base rates *are* changed then of course people on tracker mortgages will benefit. What we're actually waiting to see, and the housing market is holding its breath for, is whether lending institutions get back out into the market and stop hoarding cash and start lending again.

LEWIS: And do you think that's going to happen because it's the mortgage market that's the problem, isn't it, at the moment?

PRYOR: I fear that until we start to see the banks honour the conditions that were made when they were given £37 billion by the Exchequer to get back up to 2007 levels of lending, that that will be some time away, but obviously we're all optimistic.

LEWIS: Henry Pryor and Andrew Lilico, thanks very much indeed.

Few government agencies have had as much bad press as the Child Support Agency, which was set up in 1993 to assess and collect maintenance from initially every absent parent. From today it's replaced by a new Child Maintenance and Enforcement Commission, which will operate a completely different scheme. First, mothers on state benefits will be able to choose whether to use the commission and claim maintenance or not; and if they do, they'll keep more of it and eventually all of the maintenance paid on top of any means tested benefit. The commission will also have tough new powers to recover money from fathers and other absent parents who won't support their children. I asked the man in charge, Child Maintenance Commissioner Stephen Geraghty, how the new system would work.

GERAGHTY: We have this extended remit to promote child maintenance as something which should be the norm in society and then to help people arrive at private arrangements, which is new. That then leaves us the statutory system, which will be simpler in terms of the formula we use. It'll be based on gross income taken from the Revenue records rather than the CSA trying to calculate separately a different definition of income, And the enforcement powers it has will be able to be used more administratively so without recourse to the court system, meaning there'll be less delays as there are people waiting for court dates and adjournments and so on.

LEWIS: But because it will be voluntary, the concerns that have been expressed to us by one parent families and by Child Poverty Action Group is that research shows one in four mothers may simply not bother to get maintenance at all and they are the poorest and often the very hard to reach parents. How will you help them?

GERAGHTY: As anybody makes a benefit claim, then they'll be asked by the people they talk to at the Job Centre whether they have an arrangement and, if not, they'll have the services we offer explained to them. Should they choose not to make an arrangement, then that is their right as an adult to do that.

LEWIS: Yes and of course it was greatly resented very often, wasn't it - enquiries about who's the father of the child and so on? A lot of people wanted to opt out but weren't allowed to. Now they will be allowed to. But there will still be this point that they will be living on what is defined as the poverty line, the income support income, and will not or may not get money from the father, and they can only keep £20 of it at the moment even if they *do* get money from him.

GERAGHTY: When you say "only £20", of course that's an increase from nothing and then to £10 and in 18 months time it will be keeping everything is the Government's intention, so it's a great step forward that we're making this week.

LEWIS: And what about fathers who *won't* pay because there are some who could afford to pay or could afford to pay something and simply say no? Will you have greater powers to make those recalcitrant fathers pay up?

GERAGHTY: Yes, we will. In future we'll be making a lot more of the enforcement administrative. We won't need to go to court for the liability order, which triggers the other sanctions and we'll be able to deduct directly from people's bank accounts if they aren't on wages; and we'll be then after that bringing in some further sanctions like, for instance, tagging and curfew orders rather than imprisonment. CSA enforcement powers will be getting both more stringent and also easier for us to deploy.

LEWIS: But if people aren't in employment, surely they won't *have* much money in a bank account for you to take or it's money they need just to live on?

GERAGHTY: Well their children need the money to live on too and so we take a percentage of what people earn. If they're not in employment they can be earning in other ways and we do have, most authorities, revenue authorities have problems with the self-employed and it's possible there to take money from a bank account without them having actually earnings, you know being on wages as it were. And we will be able to do that without recourse to court, although - and this is an important safeguard - they will have a right to appeal to the court between us giving them notice we're going to do it and the money actually going in and the interim money will be frozen.

LEWIS: So I mean, Stephen Geraghty, you're the man in charge of all this. It is immensely complex in all sorts of ways. What simple number will be a success for you? Where do you expect to get over the next few years?

GERAGHTY: The success for us will be judged by how many children are getting maintenance and whether they're getting what they should. And if we repeat the improvements we've had over the last 3 years and take the system forward again, that'll get us to over a million children. That'll be my measure of success.

LEWIS: Within 3 years?

GERAGHTY: Within 3 years.

LEWIS: Child Maintenance Commissioner Stephen Geraghty. And there's a longer version of that exclusive interview on our website, bbc.co.uk/moneybox. It may not be there just yet, but it will be there very soon.

Millions of investors who hold with-profits bonds, endowments or pension policies received more bad news this week. As stock markets fall, the bonuses or returns are being cut and now Standard Life has joined Legal & General and Norwich Union in imposing tough penalties for people who think of cashing in their policies before they fall further. Bob Howard's been investigating.

HOWARD: Paul, so-called with-profits policies were sold in huge numbers in the 1980s and 1990s and some are still being sold today. There are currently estimated to be around 31 million. Money Box is being contacted by many policyholders worried about falling payouts and unsure whether to cash these policies in and face possibly paying a penalty or stick with them. Marianne from Merseyside says her quote for a with-profits bond has changed dramatically in just a week and she would now lose 14% of what's left of her fund if she decided to come out early.

MARIANNE: When I first asked, they said about £67,000 and that the 14% would come off the balance. The following week when I rang, I was told then that it was worth about £62,000 and something. I thought it was awful.

HOWARD: Across the with-profits sector, many firms have announced reductions in final bonuses. The policies are supposed to operate using a process known as smoothing where some of the profits from the good years are held back to pay out in the bad ones. But Gareth Shaw from the industry publication Money Management says in practice that's often not happening.

SHAW: When a fund's performing well, it stores up the good returns and then when it has a bad year it can level out returns for policyholders so that they're always getting money. However, ever since the stock market crash in 2000, the policies or the funds just haven't recovered and that's why the value of these policies and the returns have been falling steadily over the last decade or so.

HOWARD: This fall in payouts is leading some investors, disappointed with their returns, to consider coming out of with-profits policies and investing elsewhere, but they could now be hit by firms reintroducing penalties for doing this. Known as market value reductions, they're specifically designed to discourage people from cashing in their investments. They only apply if you cash them in early. Still, Standard Life customers could lose up to 30% if they withdraw from some policies whilst Norwich Union customers could lose up to 22% and those of Friends Provident up to 14%. Dominic Lindley from the consumer organisation Which? says many customers will be frustrated.

LINDLEY: These market value reductions, which are essentially transfer penalties if you want to move out of the with-profits fund, will come as a bitter blow to many policyholders. Firms retain far too much discretion over what the bonuses are, what these transfer penalties are and where the fund is invested. So I think this will just feed a suspicion amongst policyholders that when it comes to with-profits funds what they give with one hand they take with the other. They're very opaque. It's very difficult to know whether you're getting a good deal or not.

HOWARD: The firms say they have to protect the interests of investors who want to stay in for the long-term. David Barral is Norwich Union's Marketing Director.

BARRAL: It's not possible to completely smooth out what are some of the very extreme market conditions that we've experienced over the last few months, hence the fact we need to bring in a market value reduction to protect you know those investors that want to stay in the fund compared to those that want to withdraw their money early.

HOWARD: So how do you decide whether to stay in or come out? Independent financial adviser Jonathan Fry says policyholders have many factors to consider before deciding. He believes some people may be better off staying in whilst others could gradually withdraw their investment without necessarily losing out.

FRY: For those policyholders who have got plans with companies that have got reasonably good bonus rates - perhaps 4, 5% per annum - then staying put may well be a reasonable option. Something that not too many investors may be aware of but it is worthwhile exploring, a number of with-profits bonds have the facility to withdraw up to 5% each year without any market value adjustment factor or penalty.

HOWARD: So, Paul, some hard choices for investors. In the meantime, the Financial Services Authority is to carry out a review to see whether providers have properly implemented the rules which govern the management of with-profits policies.

LEWIS: Thanks, Bob.

Well the way financial products, including with-profits policies, are sold could change radically in the next year or two. In just over three weeks, the Financial Services Authority is publishing a report setting out the changes it intends to make. At the heart of what it calls its retail distribution review is the question of whether financial advisers who make their money from commission can give genuinely unbiased advice to consumers, or if it must always be tainted by the commission they may earn. The industry is expecting radical proposals, perhaps ending commission altogether for independent financial advisers, but many are already moving towards that position. One is Towry Law and its Chief Executive Andrew Fisher is with me. Andrew Fisher, commission has always been at the heart of financial sales. How have you got rid of it?

FISHER: Well I think there's two aspects: firstly there's cultural and then there's financial. Culturally we essentially had to take all of our advisers and explain to them that if the client is paying for the service, then that is advice; and if the product provider is paying for the adviser to sell, then that's a commission. We had to take our advisers off the road to spend a lot of time training them. We then had to take a financial hit because obviously the impact on a business of moving from 8 or 9% commission to an annual fee is quite substantial - as much as 80% of the revenue. The interesting part was that the only people that found it very, very welcoming was the clients themselves where we had no difficulty in converting them all to fee based.

LEWIS: So they were happy to pay you a fee, which could be hundreds, maybe even £1,000 or more?

FISHER: Yeah. Again if we take the with-profits example, we tend to look at it holistically, but if someone was being put into a with-profits bond today then the commission rate is 8 or 9% on a £100,000 bond - £8,000 or £9,000 being paid to the adviser via the provider.

LEWIS: But they don't realise they're paying that.

FISHER: No, they have no idea. And from our point of view, an adviser may spend several days looking at a client and the fee might be as little as £1,000.

LEWIS: Yes, but you're finding your customers will pay those fees?

FISHER: Absolutely, with no hesitation.

LEWIS: Now at the moment all IFA's, even those who get commission, do have to offer the choice of fees. Why isn't that radical enough for you?

LEWIS: Well, again, if you offer someone the choice of fees but the way you position it is that the client is unaware that someone is getting paid £8,000 or £9,000 for essentially a very, very simple piece of advice, then the way it is positioned often is that actually there's no cost at all.

LEWIS: And there's a lot of controversy about this, I know, and people quote different kinds of research, but in your view does commission drive sales? Were with-profits sold more because they paid this rate of commission?

FISHER: Well there could be no other reason for the providers to pay commission than to get the advisers to sell them. That's the purpose of commission. Fundamentally if the adviser is being paid by the provider, it is a commission based sale and it is influencing that sale. It's the way that commission works.

LEWIS: Well listening to that in Cambridge is Chris Cummings. He's Director General of the Association of Independent Financial Advisers. Chris Cummings, the FSA's setting out its plans in three weeks. What do you expect it to say to your members?

CUMMINGS: Well I think the FSA has a golden opportunity actually to bring a new stability and a new clarity to financial services as part of its Retail Distribution Review. The review actually goes a lot further than just whether somebody is remunerated by fees or commission and actually it seeks to drive some clear blue water between those people who are financial advisers, those people who act on behalf of their client - indeed in law have to be recognised as the agent of the client - and those people who Andrew quite rightly says are salespeople, people who are paid commission to sell products.

LEWIS: But most of your members still rely on commission for their remuneration. Are you saying they should be called salespeople rather than advisers?

CUMMINGS: Well I think there has been a substantial and marked sea change in the profession over the last 3 to 4 years and we are heading into a new era where consumers understand that professional financial advice simply isn't free - rather like legal advice or accountancy services, it must be paid for. And actually there are three aspects to it: there is the cost of the advice; there's then the cost of any product that may or may not be recommended; and then there's the cost of ongoing advice. So actually what we want to see, and we've been working very closely with the FSA on this, is a new transparency so that the consumers understand that financial advice has got to be paid for. If they want to walk into a bank and have somebody sell them a product, then they need to be on their guard because that person will probably be paid by commission.

LEWIS: Yes, but I mean you're drawing a distinction there between people who work in banks who are tied agents, can only sell their products, and financial advisers such as your members. But are you saying that every independent financial adviser will *only*, only, only charge fees and *never* get commission?

CUMMINGS: We are moving into an entirely new landscape in financial services and this is something …

LEWIS: Yes, but that's not really the answer, is it? Will they only charge fees?

CUMMINGS: The new position - and I'm really, really pleased about this and I think consumers will benefit markedly from it - is that consumers will at last have total transparency. They will be able to choose to write out a cheque on that date to pay for advice if that's what they want, or they will be able to make a decision to have the cost of the advice spread through the product.

LEWIS: Yes, I mean as Andrew Fisher was just saying, they can do that now.

CUMMINGS: But the insurance company at the moment is the organisation that sets the playing field and of course that's where the implication of bias comes from. What we have been working with the FSA on is to eradicate that bias absolutely and completely.

LEWIS: Chris Cummings, I must stop you there. Thanks very much. And Andrew Fisher also. And you can have your say on commission and how financial products should be sold on our website. But that’s it for today. You can find out more from the Action Line - 0800 044 044. Our website is bbc.co.uk/moneybox - podcasts there and you can have your say on commission, as I said. Vincent Duggleby’s here on Monday to take your questions on wills and inheritance tax. I’m back next weekend. Today the reporter was Bob Howard, the producer Martin Bedford, and I’m Paul Lewis.