THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX

Presenter: PAUL LEWIS

TRANSMISSION: 8th NOVEMBER 2008 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, 48 hours after the eighth biggest rate cut in 300 years, is the Prime Minister right to say that the banks are bringing down the cost of borrowing? And if they do, Bob Howard's been looking at how that could affect savers.

HOWARD: Many pensioners feel their finances are being ignored and they're deeply unhappy.

CORNWELL: I'm sick of hearing all this hype about lowering of the bank rate. It may be very good for people with mortgages. We older people are just going to be left with nothing.

LEWIS: The banks are told they will have to treat their customers fairly as the FSA moves in to regulate current and savings accounts. How do you work out inheritance tax while the price of houses and shares is plunging? And the glacier of refunds for Icesave customers at last begins to flow.

But first, and before all that, as you heard in the bulletins there's yet another potential offer for Halifax Bank of Scotland. Last week, we reported on one offer. Now there's another, this time from two former chief executives of Bank of Scotland and Royal Bank of Scotland. They say HBOS would be better off independent, run by them - better than with the Government's money and the Lloyds TSB takeover. Well with me is Ralph Silva, banking analyst with Tower Group. Ralph, briefly, is this a serious offer?

SILVA: If it were from anybody else, I would say no. But these two gentlemen have a tremendous amount of credibility, so I think we have to take it seriously and I think it's going to put a spanner in this.

LEWIS: It's not a good idea? You say "put a spanner in". You're not in favour?

SILVA: My first reaction was that of total anger. My mom always used to tell me to count to ten. I've only counted to eight, so keep that in mind when I go into this. But the reality is we need stability and HBOS would be better off independent, it absolutely would, but it would be better off alive than dead and I think that that's the real question.

LEWIS: So you think it's too late, in other words?

SILVA: I think it's too late and I don't think that we need this many banks in the UK. And the fact that we are actually trying to save and trying to put money into HBOS is just an issue to save the jobs of HBOS, which is important, because we don't need as many banks as we have.

LEWIS: Though of course the Office of Fair Trading is very worried that if the Lloyds TSB link up goes ahead, there'll be less competition and that'll be *bad* for customers.

SILVA: I think if we only had one or two banks, I would agree with that. But as long as we have a handful of banks and I just give you the Canadian banking system and the French banking system - fewer banks, very big banks, easier control and obviously have less problems.

LEWIS: Now we reported last Saturday another plan. Jim Spowart, we interviewed.

He issued a statement yesterday revealing that European American Capital is the investment bank working on his bid. Given those two bids that you say will … one of them at least will be taken seriously, do you expect the Lloyds TSB takeover of HBOS to go ahead?

SILVA: I do, for one very simple reason. Lloyds and HSBC together have synergies and can actually save a lot of money. HBOS by itself will still have the same cost base, therefore it's unsustainable.

LEWIS: Thanks for that, Ralph. Now well let's move on to that unexpectedly large cut in interest rates. Cuts of 1½% or more are very rare and my research found that the only other time rates have been cut from 4½% to 3% was in May 1695 when the Bank of England was less than a year old. It's more than half a century since rates were as low as 3%, though many economists are expecting further cuts - perhaps to 2, perhaps lower - over the next few months. So Ralph Silva, the lowest rate for more than 50 years. A big surprise I think to everyone. The political pressure was to cut the mortgage rate in full, but of course the banks then still have to bring money in from savers. How are they going to do that balance?

SILVA: That's … *that* is the trick, you know. I personally don't actually have a mortgage and I know a lot of people are complaining at the fact that our interest that we're making is lower, but the reality is that if banks do not have deposits then there's no way to recover from the problem that we had. Banks need deposits, so that they can lend out money, so they need to encourage more and more deposits. The lower the rate comes, the harder it is to encourage those deposits.

LEWIS: So a difficult balance. Well stay with us, Ralph, but also with us is Adrian Coles. He's the Director General of the Building Societies Association with I think still 59 members, Adrian. The big mortgage lenders - the main banks and indeed Nationwide, your biggest society - have already put that 1½% cut into play. Not many other building societies have. Are they going to have to follow suit?

COLES: I think it's likely that they will. I think they were surprised by the extent of the rate reduction, but they will be very keen to look after the interests of their savers. There's six or eight or ten savers for every mortgage holder in most building societies, depending on what building society you're with. This is a savage reduction in savers' income. 4½% down to 3% is a 33% reduction in income. Over half of all the money invested in building societies is invested by people over the age of 55, so there's a lot of pensioners out there who are going to see their income reduced very significantly indeed. And building societies have a great deal of sympathy for the person who phoned in just a few moments ago.

LEWIS: Sure. Well we'll hear more on that later, but isn't the problem that if they're going to compete on mortgages they've got to bring down mortgage rates to compete with the big boys and yet you say they still want to serve their customers by keeping rates reasonable on savings?

COLES: It is a balancing act. Bank base rate is one of the many issues that building societies have to take into account. Money market rates, the desire to look after savers' interest, the flow of funds through societies, even meeting the cost of the Bradford & Bingley and Icelandic bank bailout, which building societies suffered part of that cost - all of these go into the melting pot to determine what the overall interest rate decision is.

LEWIS: And, briefly, where do you see mortgage rates coming to with your members?

COLES: Well I think most societies probably, but not all, will reduce significantly. Perhaps not all the way with 1½%. Perhaps 1.25, perhaps 1.4 for some of them. But of course there's a very wide range of mortgage rates that will depend on 2 year swap rates, on the way that interbank rates go, so there's a whole wide range of issues that they will look at.

LEWIS: And they'll try and keep savings rates up despite that?

COLES: They want to keep savings in-flows coming in. Don't forget the saving ratio in the UK is only 2%. We need to increase our savings as a country, not just through banks and building societies.

LEWIS: Well stay with us, Adrian Coles, but also here is Ray Boulger, Technical Manager at mortgage brokers Charcol. Ray, banks have moved very quickly to reduce their headline rate, their standard variable rate, but very few people actually pay that. Do you think politicians have been fooled that they're bringing rates down?

BOULGER: I think politicians were after some good headline grabbing soundbites and the number of people on standard variable rate is going up. I mean until recently, say a year ago, the number on SVR was steadily falling because more and more people realised that once they came to the end of their deal, they had to get another deal. Because now an increasing number of people whose property prices are falling find that their loan to value is in excess of 75 or 85% - and frankly above 85% there are hardly any deals worth remortgaging onto - so more and more people by default are going onto the SVR. Others have to stay there because they can't remortgage for other personal reasons. So it's not a hugely important number, but it's actually a lot more important than it was a year ago.

LEWIS: And good news for people on fixed rates that we were all very worried about, who are coming off fixes onto a very high standard variable rate. They may now not notice much difference.

BOULGER: I think that's absolutely right. And also those people on a fixed rate who want a replacement fixed rate will find their rates are getting cheaper. Next Tuesday, for example, Cheltenham & Gloucester are bringing their cheapest 2 year fixed rate down to 4.89%. That does have a big fee of £2,094, but I think we'll see other lenders following suit. Two year swap rates are now down to 3.65%, likely to fall further as bank rate comes down, so I actually think it's still too early even at these rates to buy a fixed rate.

LEWIS: So you think fixed rates may come down further, so that would be good news. And just very briefly, are we going to see a simplification of mortgage products? There's still over 3,000 on the market. Are we going to see fewer choices?

BOULGER: I think we will certainly see less lenders, banks and building societies, offering a wider choice of tracker rates. That's where I think lenders are going to struggle. Fixed rates - because they can actually finance those more easily, they know exactly what it's going to cost them - is where I think most banks and building societies would prefer their borrowers to go.

LEWIS: Because they get that money in the market rather than relying on the savings we were talking about?

BOULGER: Well it's not only that. They don't have to worry about the spread between bank rate and Libor. That's the big unknown.

LEWIS: Libor - the rate banks lend to each other. Okay, Ray, well stay with us. A lot to pack in this morning. Cuts in mortgage rates are good news for borrowers of course when they happen, but a significant cut like this, as we've heard, could leave savers paying the price - particularly a problem, as Adrian Coles said, for many pensioners who depend on interest to boost their small pensions. This side of rate cuts is often ignored, but not by us and Bob Howard's been finding out more. Bob?

HOWARD: Paul, we've been contacted by many worried pensioners. Peter Woodward from Northamptonshire was one.

WOODWARD: I think it's almost a disaster for a lot of people. If you take somebody who's got £50,000, it sounds a lot of money but in terms of income, going back to say last week's rate, it's only about £2,500 a year. And I think for many people, that amount has enabled them to keep their heads above water - paying for their fuel, water, council tax. Take that away and suddenly they're going to be looking for money to pay for those things.

HOWARD: And Diana Cornwell from Kent told BBC Radio she was very worried at the prospect of losing out.

CORNWELL: We've been retired now for over 20 years and we have lived on a pension. We have small savings. You know I'm sick of hearing all this hype quite frankly about the lowering of the bank rate. And whilst I appreciate it may be very good for people with mortgages, we older people are just going to be left with nothing.

HOWARD: So do commentators agree things are this bleak? Martin Lewis, founder of Money Saving Expert, thinks they are.

M. LEWIS: This has been a devastating blow for savers across the country. We've seen a 2% cut in interest rates over the last month and it means whereas some of the top accounts now are still paying around 6½%, I think in six or seven weeks, once they've all settled down to the new levels, you'll be seeing top instant access rates at 5, maybe 5¼%, and for people who rely on their savings it is going to be a massive, difficult hit.

HOWARD: And already some firms have rushed to withdraw or re-price fixed rate savings deals. Rachel Thrussell from the financial information group Moneyfacts says the speed of the reaction has been extraordinary.

THRUSSELL: It's just gone absolutely manic. I've never seen anything like it, to be honest. We've seen a lot of the top rates go. Providers that want to offer fixed rate bonds but they don't want to be inundated will suddenly find themselves elevated up the ranking. Suddenly they're finding they're paying a top rate and we know providers have been inundated with phonecalls and their websites are going crazy. Even a couple of hours can be the difference between 7% and 6%.

HOWARD: So is there any comfort for savers? Well the banks do still urgently need our money to shore up their balance sheets. Mick McAteer, Director of the Financial Inclusion Centre, says this may stop some firms pushing through the full 1½% cut immediately but savers need to be vigilant.

McATEER: Because the banks still need to attract funds from savers, I don't think they will actually cut savings rates by a full 1½% just yet. But people need to be really careful. They need to monitor their savings very, very carefully because the eyes of the world are on the banks, so therefore the banks will feel under pressure to behave themselves. But as time passes and as the attention moves elsewhere, I think that's when the banks will start to really cut their savings rates over time.

HOWARD: And, Paul, if you have tried to lock into a fixed rate savings deal over the last couple of days, the advice is to check that the rate that's written on your form is the rate you originally saw advertised. Things are changing quickly.

LEWIS: Thanks, Bob. I haven't, I've been far too busy. Now Adrian Coles from the Building Societies Association, you said it would be devastating if rates went down from 4½% to 3, but we have seen rates of 7% on bonds, 6½% on instance access and 6 on ISA's. Realistically do you think it'll be a percentage point off, as Martin Lewis was saying?

COLES: It could well be a percentage point off. What is important here is what's called the yield curve: will all the rates of interest - 1 year, 2 year, 3 years - come down as much as the Bank of England's base rate? And I rather think it won't actually. I think the Bank of England base rate has come down by 1½%. We may see 2 and 3 and 5 year rates just come down by perhaps 1%, and that will be followed through by building societies in the pricing of their 3 and 5 year fixed rate mortgage deals and also their savings deals. So it might not be quite so bleak for savers.

LEWIS: And I suppose in a way it's up to us, isn't it, because the more we move our money around, the more we look for the best rate, the more competition will work and the more these rates will have to be kept up?

COLES: *(over)* Two things to do: look for the best rate now; but also look for institutions - and typically building societies head these tables - that pay a consistent best rate, so you don't have to keep swapping your money around month after month.

LEWIS: And Ralph Silva of Tower Group, there are now going to big state owned banks or partly owned banks, some independents - maybe HBOS, maybe not, we don't know. Are the state owned or partly owned banks going to behave differently from the shareholder owned banks?

SILVA: They absolutely have to. The shareholder owned banks - HSBC, Abbey and the likes - obviously have shareholders that want them to take a very secure perspective towards the future. They want to hold money, hoard it as much as they possibly can for the future. Whereas the state run banks - the ones that we own - certainly have a completely different perspective because they're social tools now to get money out into the marketplace.

LEWIS: They have to pay off debt of course, don't they, too?

SILVA: And in addition to that, they have to pay off debt. And of course the big challenge here is to make sure that our state owned banks don't penalise the ones that have been good citizens shall we call it.

LEWIS: Fair competition.

SILVA: Fair competition. So there has to be an even playing field. So this is going to get very, very complex.

LEWIS: And very interesting. And Ray Boulger, the banks in a sense have been forced into cutting their standard variable rate by the full 1½% by this meeting with the Chancellor and all the press coverage. Without that political pressure, where would it have gone because half of them didn't pass on the last half percent cut, did they?

BOULGER: No, that's right. And some of the banks - take Abbey, for example, who very quickly announced a full cut of 1.5% - only cut by .15% after the October half point cut, whereas some of the others cut by the full half point. So I think one needs to look at the picture for the two cuts. It's also I think fair to say that there is heavy competition in the savings market, but actually there's the exact opposite in the mortgage market. You know total mortgage lending this year is going to be down by about two thirds on last year and down even further next year. There is very little appetite out there for new mortgage business and, consequently, lenders are trying to avoid being too competitive. I think that without the government pressure, you'd have probably seen most lenders pass on in their standard variable rate a cut of between a half and three quarters percent.

LEWIS: Right, so the lenders have benefited from that point of view. And you mention the lack of competition and that of course tends to keep prices up because they really don't want the business, and the fact you need a big deposit or at least to borrow a small proportion of the value of the home. Are we going to see those best deals confined to the future as they are now to people who've got 40% of the value of their home already?

BOULGER: I think in the short-term that's increasingly going to be the case. Only last month Nationwide, for example, increased the spread between what they charge for a 75% mortgage and a 60% mortgage quite sharply. So there's now a very big spread between those who only need 60% and those who want 85 or 90%. And until such time as property prices stabilise and lenders have more confidence in the higher loan to values, that's going to be a problem. The good news is that I think this big rate cut may bring more stimulus to the housing market.

LEWIS: Ray Boulger, thanks very much. And also thanks to Adrian Coles from the Building Societies Association and Ralph Silva from Tower Group. And you can have your say on all those issues of rate cuts: bbc.co.uk/moneybox.

Well a bank account is the one financial product almost every adult has, but at the moment current and savings accounts are unregulated. The banks and indeed the building societies police themselves through the Banking Code. But not for much longer. This week, the city watchdog, the FSA, announced that it will regulate the way banks and building societies treat their retail customers. The change will happen next November and it's been welcomed by Lord Lipsey who chairs the Consumer Panel, which advises the FSA. He says a recent report by the Office of Fair Trading shows how far the banks have to go and he believes proper regulation is essential.

LORD LIPSEY: I'm absolutely certain it should be. The situation we've had, which is the situation where the banks get to dictate how they're going to treat their customers fairly rather than the regulator, is completely unsustainable.

LEWIS: But we have had this self-regulation for, what, 17 years. In what ways hasn't it worked?

LORD LIPSEY: To give a recent and current example, the OFT report on the practices of the banks is completely devastating. It shows, for example, that there have been completely unjustifiable charges on people who go into temporary overdraft and that can't be acceptable in any properly running and regulated system.

LEWIS: Yes. Though of course the banks would say to that, wouldn't they, that this is all a matter before the courts and whether they are or have to treat people fairly is going to be decided by judges, not by people like you and me?

LORD LIPSEY: The great thing is that the change to FSA regulation will mean that in future banks are debarred from treating their customers unfairly and, therefore, there could never be a recurrence of this sad situation.

LEWIS: The Banking Code though does set down detailed rules, which are quite useful, aren't they, about how we can move bank accounts from one bank to another, about when we're told about interest rate changes on savings accounts, and it did introduce those summary boxes of terms and conditions for credit cards and now for loans and savings accounts. That sort of detail isn't going to come from FSA regulation, is it?

LORD LIPSEY: I think there's a lot in the Banking Code that is good and I certainly don't want to knock its record. I think in a very difficult situation where it's been the creature of the banks, it's done a fair job, and I hope that the whole of the rules won't be rewritten and indeed the FSA has no intention of doing it. However, the overriding important thing is that the FSA's principle - namely customers must be treated fairly - is imported into banking as it applies to all other investment sectors.

LEWIS: Lord Lipsey of the Financial Services Consumer Panel. Now there's a longer version of that interview and a longer response by Robert Skinner, the Chief Executive of the Banking Code's Standards Board on our website, bbc.co.uk/moneybox.

Property prices have fallen by 14% over the last year - that's the latest figure from Halifax - and share prices are down even further, 30% lower than they were a year ago. That can cause particular problems for people in the middle of working out inheritance tax. One listener told us, "My mother died the week before the market started to collapse. 18 months down the line, we're just beginning to get the proceeds and they're worth 50% of the value at the time of her death" - the value of course that was used to assess the tax due. Live now to John Whiting of accountants PricewaterhouseCoopers. John, this must be quite a widespread problem?

WHITING: Well it is and it's something that's always been thought of with inheritance tax, so there are measures within the system to cater for this sort of situation where values really do drop.

LEWIS: What can people do about it though? Do they have to just grin and bear it?

WHITING: Well no. First stage is if you're still negotiating the value that applied at your relative's death, the probate value, then there's clearly scope for arguing with the Revenue and saying, "Well we should be realistic. I know it's open market value at the date of death, but let's get real. This is just not worth what it might have been 6 months, 12 months ago." They may be sympathetic. Of course if you are …

LEWIS: What, HMRC may be sympathetic?

WHTIING: Yes, they know the values are going down. But don't expect it to come down totally. Now that's where the second stage comes in, which is if for the sake of argument you do end up agreeing the value at date of death of the house is 100, let's be simple, and during the period that you're negotiating the executors sell it for much, much less - say 80 - then providing that's within 3 years, 4 years in most circumstances of the death, you can actually go back and substitute that 80 and recalculate the inheritance tax.

LEWIS: And get money back from HMRC?

WHITING: And get money back. Same sort of thing with quoted shares if you sell, but they're within 12 months of death.

LEWIS: Right, so you have to get your skates on to sell it. What if you don't want to sell it though, but you just feel you've inherited the family home, you've paid all this tax and it just isn't fair because now it's worth a lot less?

WHITING: Well it may just possibly be open to go back and negotiate. But, frankly, if you've done it and you've agreed the probate, you've paid the inheritance tax, you are to a degree stuck with it. The only saving grace, I suppose, is if you inherited it at that 100, then if you then sell it later of course a capital gain might kick in and, if nothing else, you're either at capital loss or at least no gain.

LEWIS: But at least capital gains tax is a lot less than inheritance tax now anyway.

WHITING: Indeed.

LEWIS: John Whiting from PricewaterhouseCoopers, thanks very much for that. And there's full details of that or links to full details of that on our website.

Now Bob Howard's still with us. And, Bob, the Icelandic bank saga goes on for savers caught up in the collapse of Landsbanki and Kaupthing and the three banks, the other banks that collapsed. Let’s talk first about Icesave customers. Now their full savings are going to be covered by the Financial Compensation Scheme. What’s the latest on that?

HOWARD: Well, Paul, the scheme says it’s sent out emails to 230,000 customers this week explaining the process of how to claim their money back, but the FSCS told us this morning there are several thousand who haven’t yet received it and we’ve received several emails this morning to that effect. If that’s the case, email the scheme via the FSCS website to let them know or there’s a number to call on the Money Box website. In the meantime, a second email will now be sent to batches of savers inviting them to log on and transfer their funds. That should have been received by 4th December. The cash should then be received five days after this transfer has been carried out.

LEWIS: And what about people with ISA’s and fixed rate bonds?

HOWARD: Well, Paul, ISA savers will be able to move their investments to a new ISA and it’ll keep its tax free status as long as the money is re-invested by 5th April 2009. If they have a fixed rate bond, there are two options: they can ask for the money plus interest paid up until 7th October to be transferred to a new account; or they can leave their money in their Icesave account and keep on getting interest up until the normal maturity date. And as some of these are paying up to 7%, that could be quite an attractive option.

LEWIS: Indeed it would, yes. And what about UK customers who were with Kaupthing Singer and Friedlander and Heritable? Now they were transferred over to the Dutch bank ING, weren’t they?

HOWARD: Well there were delays on thousands of transactions on these accounts, most of which were processed a couple of weeks ago but not all. Several deadlines for sorting everything out have already been and gone. ING told us on Friday there are still transactions on around 800 accounts which remain in limbo, but this would be sorted out by the end of this week. If your money has been held up, ING says it will pay interest over the delayed period at around 6½%. Finally, little new to report, I'm afraid, for savers with offshore accounts with Kaupthing Isle of Man or Landsbanki Guernsey, although campaign groups are desperately trying to make sure the plight of these customers isn't forgotten.

LEWIS: Thanks, Bob. And of course Money Box will be closely following the Icesave compensation problem. If you have problems with it, let us know. Many of you are talking to us this morning through the email. We've had one from Richard in Glasgow who says that he thinks that much more important than what we were saying about the Lloyds TSB/HBOS merger, which he sees as being foisted on them by Gordon Brown, is the question of jobs. Jobs for Scotland, never mind the shareholders, he thinks are much more important. Ralph Silva is nodding at that. Ralph?

SILVA: That is exactly the case, and I think this whole merger was to save jobs and I think it's exactly the right thing to do.

LEWIS: Right, okay. Ralph Silva, thanks very much for that. That's it from us today. You can find out more from the BBC Action Line - 0800 044 044. Our website is bbc.co.uk/moneybox and there you can do all sorts of things. You can find out more, you can listen to today's stories again, download or subscribe to a podcast, have your say on banks and the rate cut, as some of you are now. And on Wednesday you can watch our mid-week update of the money news and you can sign up for my weekly newsletter on the website. Vincent Duggleby's here on Monday with Money Box Live, this week taking your questions on fuel bills. I'm back next weekend. Today the reporter was Bob Howard, the producer Lesley McAlpine, and I'm Paul Lewis.