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MONEY BOX

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LEWIS: Hello. In today's programme repossessions rise 54% to 40,000 in a year. But are government initiatives to cut that number bound to fail? Bob Howard's here looking at one way that lenders make things worse for people in mortgage arrears.

HOWARD: They're the administration charges levied on those behind with their payments.

PEARSON: What we would like to see from lenders is a different sort of attitude: contact us because we can help you, not contact us because we're going to charge you and make your life more difficult.

LEWIS: When are your credit card purchases not protected by the card provider? And safety or risk: how to manage your money in a low return environment.

But we start with repossessions and mortgage arrears. Figures out yesterday showed that 40,000 people lost their home in 2008 because they couldn't meet their mortgage payments. That's a rise of 54% on the year before. Although that rise was slightly lower than predicted, the Council of Mortgage Lenders is standing by its forecast for this year of an even bigger increase. One reason that the 2008 figures were slightly better than expected could be that various initiatives by the courts and the Government are beginning to work. And there are more in view. Chancellor Alistair Darling outlined another this week, which should begin in April.

DARLING: We want to try and keep repossessions as low as possible. We've reached an agreement with lenders that they will not take action immediately. They will put it off as long as they can to try and sort things out. If people do lose their jobs, we've brought forward a scheme which helps people meet their interest payments and we're also putting in place a scheme that will allow people where they lose their jobs, where their incomes go down, they can roll up the mortgage payments to help them get through what is a difficult time. The detail's got to be sorted out, but it will come into place very soon.

LEWIS: But can the government initiatives really reduce house repossessions? With me is Natalie Elphicke of the Centre for Policy Studies and author of a recent report called *Save 100,000 Homes From Repossession*. Natalie Elphicke, a great title. How do you do it?

ELPHICKE: Well, Paul, we certainly want to try and help people stay in their homes. And at the Centre for Policy Studies we looked very hard at what worked and what didn't work in the last housing recession, and what we found to some extent surprised us. No end of government initiatives were announced then and they really didn't work. What *did* work was the court working with individuals and working out restructured profiles to help them stay in their home.

LEWIS: Well we'll come onto the courts in a minute. We couldn't get a minister on Money Box, but Margaret Beckett, the Secretary of State, told us a long list of things. She said, "Our mortgage rescue scheme is up and running; more free legal and debt support's available. We've increased financial assistance to help people pay their mortgage." We heard about the Chancellor's initiatives starting in April. There's a lot going on. Why don't they work?

ELPHICKE: Well, as I say, I mean we looked at what worked and didn't in the last housing recession, and what we've seen this time round is the Government very much rolling out the same textbook that we saw in the 1990s. The one exception is the new scheme for the homeowner, Mortgage Support Scheme, announced in a great fanfare back in November and still not operational.

LEWIS: That's the one Darling was talking about that'll start in April, we think. Details are

still a bit unclear. So you say the courts are the place to sort this out. What do they have to do?

ELPHICKE: Well the courts can look at individual circumstances and they can see why people are in debt and they can look at what really can be done not just over a short period of time that might apply, maybe 2 or 4 years, but actually the full term of the remaining mortgage. And that could change the perspective of a borrower's ability to repay very differently.

LEWIS: But of course judges tell us that they already do that. They know what to do, thank you very much, and that's exactly how they run their courts.

ELPHICKE: And I think that's the reason there needs to be clearer court guidance because there's a lot of evidence of inconsistency in the application between the courts and the judges at the moment not applying perhaps in all cases where they could the full-term repayment analysis.

LEWIS: Also with us is Sue Anderson from the Council of Mortgage Lenders. Sue, does your industry support this kind of plan - let the court sort it out? And in a way helping customers is being tougher on your members, isn't it - making things last ... take a much longer time to get your money back?

ANDERSON: I think what we want to see is *fair* treatment of customers. I mean there are some customers who aren't going to get back on their feet, and I think we have quite strong views that where loss of income is the problem you're not going to solve that problem unless and until the income does come back. So there is an underlying issue that even the courts can't solve. I think what we do very much support is fair treatment for customers within the courts. It's an important check and balance. We'd very much like to see customers turning up to court to make sure they do have the best chance for their side to be heard.

LEWIS: Yes of course many of them don't, do they? I mean that is a problem, Natalie Elphicke, isn't it? People just don't turn up to court.

ELPHICKE: And I think a lot of people don't turn up to court because they really think that the courts can't do very much to help them. And that's why we need clearer court guidance, that's why we need to get this information to the public - so they know there are ways that the courts can intervene even where their lenders haven't agreed to a repayment structure themselves.

LEWIS: Sue Anderson, by the time a case has got to court, it's too late really, isn't it? Why do your members let it get that far? I mean we all know they made unrealistic offers - lending five times earnings, 100% of the property value, lending to people with poor credit records in the first place - but it's always the customer that suffers and has to pay up. Your members take none of the pain.

ANDERSON: Well there are lots of questions in there and I think the first one is why do people get into trouble? And actually people broadly get into trouble because they lose their income. It's not usually down to the initial lending having been wrong or unsustainable. They could afford it when they took it out. Things change, things happen to people. They lose their jobs, they lose their partners, they go on short-time working. These are the things that push people over.

LEWIS: So all that lending that we heard about, there's nothing wrong with that? Lending people five times their income, 100% of the property value, people with poor credit records, self-certification - none of that caused any of these problems?

ANDERSON: Clearly the more you borrow relative to your income, the more difficult it's going to be for you to get through a period of trouble, but it isn't necessarily the thing that tips you into trouble in the first place. I think that's the point. I mean what matters is making sure that all lenders are in a position where they try to work with their customers irrespective of how sustainable their original borrowing looked when they took it out.

LEWIS: And, Natalie Elphicke, it's right, isn't it, that however much you restructure the repayments, if somebody has lost their main source of income and the payments are just too big in the first place, restructuring it over many years isn't going to solve the problem? Some

people will still have to be evicted.

ELPHICKE: Very often when people lose their job, there is a very fast build up of arrears and indeed there is if they lose their jobs through divorce or illness or other main causes. What's important about the restructure is it allows a longer period of time than perhaps the lender might feel comfortable with to actually help that person who can meet those arrears. The courts won't allow orders to be suspended, they won't help these restructure plans unless the courts are you know very comfortable that there is a realistic prospect of paying that debt back over a longer period.

LEWIS: Natalie Elphicke from the Centre for Policy Studies, thanks. Sue Anderson, stay with us because I'd like your reaction to our next story. 40,000 repossessions, as we heard last year, and perhaps 75,000 next. Every one a potential human tragedy. Campaigners are now claiming that lenders sometimes make things worse by charging customers who are in arrears a monthly fee to cover what they call their administration costs. Bob Howard went to meet one Money Box listener who almost found that the last straw.

MAHAR: (*knock on door*) Hello, good morning. I'm Maxy Mahar. Did you have a good trip up here?

HOWARD: I've come to meet Maxy Mahar. She lives in Sussex and, as we've heard, like more and more people she's had trouble paying her mortgage.

MAHAR: The repayments were £796 per month. And I fell behind by 3 months and I managed to catch up one on my own, but in the meantime I needed to catch up the other 2 months and they wanted a minimum of £500 per month additional, which I was unable to afford at that time.

HOWARD: Maxy not only had to find money for the next repayment and the arrears. Her lender levied a monthly administration charge as well. She says that combination made her goal of getting back on track unachievable.

MAHAR: For every month that the payment remained in arrears, they would charge me an additional £30. The arrears wouldn't have come to an end because it would have continued to snowball. With every £30 which gets added on, the cost becomes greater and it becomes more difficult to catch it up.

HOWARD: Maxy's experience isn't unusual - most lenders include a right to levy administration charges in their terms and conditions, and generally do. Nationwide charges £20 a month; Halifax and Abbey charge £35; and GMAC charges £50 a month. Nick Pearson works for the debt advice firm Paymex, which has been advising Maxy. He believes some charges are unreasonable.

PEARSON: I think it goes back to the point about whether these charges actually reflect the real cost of administering accounts in arrears. I'm not convinced that that's actually the case, particularly at the higher end of the market of £50 per month, and I think that there's probably a lot of interest in this issue at the moment, bearing in mind the situation banks have found themselves in with regard to bank charges.

HOWARD: The lenders insist the charges do reflect their costs, but Nick Pearson feels whether they do or don't, by levying them lenders are simply pushing more homeowners towards repossession.

PEARSON: If you take a situation where somebody's got say two thousand pounds worth of mortgage arrears and they agree to pay those arrears off at £100 per month - well if they're hit with a charge of say £50 per month, that's down to £50 a month going towards the arrears, there'll be interest accruing on those arrears as well, so we do think there's a real policy issue here.

HOWARD: Most lenders say if customers contact them, a repayment schedule can be arranged and the charges are stopped. But Citizens Advice's Peter Tutton says he's heard of cases where the charges continue whether agreement has been reached or not.

TUTTON: We think it's very unfair that people in financial difficulties are being charged

just for being in arrears - particularly unfair where people have made an agreement with their lender and they're sticking to that agreement. We would wonder what extra work the lender's doing to justify those fees.

HOWARD: The lenders insist they are trying to help people who are struggling to pay. The Halifax, the UK's biggest mortgage lender, says if people are in arrears it can offer a temporary suspension of mortgage payments or transfer over to interest only. Nevertheless, it's not just debt advisers who are concerned. A senior county court judge who regularly hears repossession cases told me this week his colleagues were well aware of this issue and he'd raised it with lenders' representatives, but to little avail. And another senior district judge told me he had no objection to borrowers in arrears being charged a reasonable sum to cover administration, but he would expect it to be added to the debt rather than to any immediate monthly payments. The CAB's Peter Tutton says if deals can't be worked out, it could deter people from seeking help.

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HOWARD: Paul, there are changes afoot. Halifax has told me it's making changes to the charges it makes for people in arrears from Monday and the Financial Services Authority's reviewing all lenders arrears charges and it told me this week it's expecting to publish its findings in May.

LEWIS: Thanks, Bob. Well Sue Anderson from the Council of Mortgage Lenders is still here. Sue, why do your members impose fees just when someone's already in financial difficulties? It seems daft.

ANDERSON: I know. It sounds counterintuitive, doesn't it, but actually of course you've got to remember that lenders are incurring some quite big costs themselves to manage through this arrears problem. So you have to decide what's fairer. You've either got to spread that

across the business as a whole, so all your customers pay, or apply it to those customers for whom those costs are actually being used.

LEWIS: So you say that ... I mean one lender charges £50 a month. That is the actual genuine extra cost of having somebody in arrears?

ANDERSON: Well lenders have to charge fees and charges that do reasonably reflect the cost of the activity, otherwise you know the FSA will not be happy. And you know a borrower can always of course go to the Financial Ombudsman Service to check the fairness of any particular fee. So generally speaking lenders apply that internal discipline, but there really needs to be a recognition that there is a cost involved and there is management and doing the right things and helping borrowers. That's not a cost free exercise for a lender.

LEWIS: Sue Anderson from the Council of Mortgage Lenders, thanks.

Well this week the BBC's Money Matters Roadshow was in Manchester giving financial help and advice to hundreds of people who called in to see us, but the main question our experts were asked was what to do with savings to make sure that they're safe and get a reasonable return. I put this question to Peter Hargreaves, Chief Executive of independent financial advisers Hargreaves Lansdown.

HARGREAVES: People see very little return from their cash and they think it's not a bad idea to seek investments that perhaps offer 5% interest, such as equity income funds and also corporate bonds, and they perceive that that's not much more risk than having no return at all from their cash.

LEWIS: You say "not much more risk", but it is risky, isn't it, and those returns are not guaranteed as they are with cash?

HARGREAVES: Absolutely right. But I think people feel that whilst the stock market could go lower, it's extremely good compensation while they wait till the stock market recovers again.

LEWIS: Well listening to that is John Goodfellow, former Chief Executive of Skipton Building Society and now Chairman of the trade body that represents all building societies. John Goodfellow, are people taking money out of cash savings and in building societies perhaps to invest it in the hope of a better return?

HARGREAVES: I'm sure some are, but generally we're seeing an inflow.

LEWIS: But looking at what your members are offering, the very top is round about 3%, isn't it, and some of them, a great many of them are paying less than 1%? You can certainly understand why people don't think their money is working hard enough for them.

GOODFELLOW: Oh I can totally understand why people are looking, but you know I would merely emphasise the fact that you know they should be aware of risk at this point in time. It's no good saying I'm getting 5% if you're losing 15% of your capital value per annum.

LEWIS: Do you think, Peter Hargreaves, that with people chasing better returns because their money is earning practically nothing at the moment that people will be encouraged into risky investments who really don't understand the risk and shouldn't be there?

HARGREAVES: I'm absolutely sure that's the case. I mean ...

LEWIS: You're not encouraging that?

HARGREAVES: No. A good, sensible income unit trust or a good corporate bond fund, we believe that that is an acceptable risk for a part of people's capital.

LEWIS: John Goodfellow, do you think your members perhaps should be selling their services in a slightly different way - not as a way to earn money but at least to protect your capital and a safer place than under the bed?

GOODFELLOW: Well I do think that is one of the attractions. A building society is a safer

place than under the bed and it is a way where you will get a fair return, albeit interest rates at the moment are low. I think, just to go back to one of the comments that Peter made, I can accept that equities go up, but corporate bonds I think are a much more risky scenario. As always, the message is I don't think either Peter or I would want everybody to take all of their wealth out of cash and put it into an investment like that.

LEWIS: No ...

GOODFELLOW: It's all about spread.

LEWIS: And just to be clear, corporate bonds in essence are IOU's with companies who then promise to give you the money back at some point and give you a return. I mean, Peter, we do hear about companies going bust practically every day - well-known companies, never mind the less well-known ones, that people might be invested in. This isn't a safe investment by any means, is it?

HARGREAVES: If you have a portfolio of corporate bonds, it's highly likely that one or two of those companies within that portfolio could default. That's why we're suggesting corporate bond funds. But the price that you're buying them at today actually compensates for several of those companies that you hold going bust and that's why the yield is very, very good on them. And of course there are corporate bond funds that invest in triple-A rated or not triple-A but very highly rated ...

LEWIS: We all know about triple-A rated securities, don't we ...

HARGREAVES: Yes, we do. *(laughs)*

LEWIS: ... that do go bust?

HARGREAVES: The rating agencies are not, as we found, infallible, haven't we?

LEWIS: No. But that's the problem, isn't it, because you are selling on that basis? You're

saying ooh it's triple-A, it's got three A's attached, it looks very good, and then that turns out to be fairly meaningless.

HARGREAVES: Yeah, but we don't think Tesco's going bust, do we?

GOODFELLOW: No, you know there are certain companies that you cannot imagine they would disappear or go bust like Royal Bank of Scotland and Halifax.

HARGREAVES: *(laughs)* Yes. I think in all investment scenarios, as John mentioned earlier, if somebody had £100,000, just as we wouldn't suggest they kept the £100,000 in a single building society - and John would agree with me there - neither would you put the £100,000 in equity income and neither would you put it in corporate bonds. But if you put a third, a third, a third, you would have a type of portfolio that would give you a better rate of return as far as income concerned in the short-term and it would give you some security that you haven't put all your eggs in one basket.

LEWIS: And, John Goodfellow, do you think there is a danger people are taking money out of accounts with your members and putting it at risk because your members are paying them these very low rates?

HARGREAVES: I think there is a great danger that people, especially pensioners who are on fixed incomes and have seen that income reduced significantly, there is a significant danger that they will look at investments that they believe will give them a better return and return their income to some level of what they would call normality. And it really is a concern to all of us.

LEWIS: John Goodfellow of the Building Societies Association; and, earlier, Peter Hargreaves of Hargreaves Lansdown.

Now Money Box has been looking into a major loophole in the law that normally protects you if you buy things with a credit card online. Normally if you buy something that costs between £100 and £30,000 on a credit card and something goes wrong with it, you can claim

compensation from the card provider and that's often easier than pursuing the retailer. But there's one big exemption to this, as Money Box listener Bill Gilmour discovered.

GILMOUR: My old watch broke down and I decided to buy a new watch, so I went onto Amazon, which I use a lot because I read a lot of books, and I saw a watch there which was advertised by a third party supplier, as many things on Amazon are. So I ordered the watch. The watch came in and there were two problems with the watch. So I rang and left messages on the supplier's answering machine. I think I left about five messages there. No replies came back. So I thought ah, the credit card people are here to help me. And so I wrote to them and after some time I got a letter back saying that they were very sorry but they couldn't help me because their relationship was with Amazon and was not with the supplier.

LEWIS: Well that's one listener's experience. With me is Ingrid Gubbay, a solicitor with Housefelt and Co. Ingrid Gubbay, just explain first how these rules are *supposed* to work.

GUBBAY: Well generally, Paul, Section 75 of the Consumer Credit Act makes credit card providers jointly liable with suppliers; and this is to get round the issue that customers are generally dealing with one trader, and that's the supplier, and that's always been the spirit of the Act.

LEWIS: Right, so if something does go wrong both the credit card provider and the supplier are both liable, so it doesn't matter which you go to really?

GUBBAY: Generally that's true.

LEWIS: So why couldn't Bill get his money back from the credit card provider?

GUBBAY: Well I can't comment specifically on Bill's case, but ...

LEWIS: Sure, but that kind of case.

GUBBAY: Yes, in that case. Often ... First I should just say that anything bought over the

Internet is covered by Distance Selling Regulations and the Sale of Goods Act - so if it's faulty, those Acts do apply. Now depending on whether the seller is an individual or a trader, different rules will apply again. But if in this case the watch was bought through PayPal or another method, then the seller is liable under Section 75 as if he was in a high street shop and Section 75 would apply. So you know I can't see why that would be a problem in this case except that credit card providers are increasingly getting narky about paying out because there's been so much promotion and awareness of Section 75 in the last few months.

LEWIS: But they seem to be saying that it's because Bill was paying Amazon, the intermediary, but the goods were coming from a third party and so that broke the chain between the purchase and the sale.

GUBBAY: The general rule is - and I mean the point was made by Lord Scarman in 1985 in a case on this point - that where a customer is contracting with a supplier, it makes one contract with one legal entity and that's to save the customer all the problems that lie behind it and therefore the credit card provider should be jointly liable with the supplier.

LEWIS: So you're saying in these cases, and we've had an awful lot of emails about this, I must say - people who've emailed about concert tickets, about flights, about computer parts and always bought not direct from the website but from someone pushing things *through* the website - we've had a lot of people saying that the credit card company is just not paying up. You're saying that generally they should.

GUBBAY: Generally they should. And of course this is an area which I think requires some clarification in the courts. There are a couple of consumer blind spots on Section 75 and this is one of them.

LEWIS: So what should people do? I mean if they're not going to pay up, obviously you're up against a bank. You're not going to go to court against the bank, are you?

GUBBAY: My advice would be that the simplest thing would be to go to Citizens Advice and Consumer Direct, which will give free legal advice on these issues.

LEWIS: Ingrid Gubbay, thanks. And you can have your say and join in the people who are on Section 75 or other problems with credit cards on our website: bbc.co.uk/moneybox.

And, Bob, still no resolution for thousands of savers who lost money in the Iceland banking collapse who had their money in Guernsey and the Isle of Man.

HOWARD: That's right, Paul. 1600 savers with Landsbanki Guernsey petitioned the Queen this week to try to recover more of their money. They were given 30% in October, but they've been told it may take 4 years before more is recovered. And 10,000 people who put their savings with the Isle of Man branch of the Icelandic bank Kaupthing had their hopes of compensation deferred again on Thursday. The Manx Court decided to allow the Government more time to develop a scheme that would spread compensation over 2 years and leave nearly a third of savers with less than all their money back. Campaigns have criticised the court decision and say the Manx government is trying to avoid triggering the statutory compensation scheme.

LEWIS: Thanks, Bob. And there's an interview with John Spellman of the Isle of Man Treasury about that on our website. But 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 watch videos, catch up with Wednesday's Money Matters Roadshow, listen again, download a podcast, sign up to my newsletter and also have your say on credit card refunds, as many of you are. Some are also commenting on mortgage arrears. Personal finance stories - Working Lunch BBC2, lunchtimes weekdays. I'm back on Wednesday with Money Box Live, taking your questions this week on getting capital from the value of your home: equity release. I'm back next weekend with Money Box. Today the reporter was Bob Howard, the producer Martin Bedford, and I'm Paul Lewis.