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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, another week of economic gloom as the UK heads for recession - and that's official; the pound slumps; and shares fall sharply again. Bob Howard's been looking at reposessions.

**HOWARD:** New rules to make sure lenders properly negotiate with customers in arrears, but are they enough to keep people in their homes?

**MARTIN:** If we're pumping lots and lots of money into the banks and the banks are then going to bankrupt people like me, it feels like it's going in one end and coming out of the other.

**LEWIS:** A concession by the government will let some people - mainly married women - buy extra contributions to get a bigger state pension, but many are left out. And 230,000 customers of Icesave are told they should get their money in November.

But first, the economic storms that are still sweeping the world and blowing very hard in Britain. This week, we moved one step closer to being in a recession. Figures out yesterday showed the value of what we make and do shrank by half of 1% in the third quarter of the year. That's the first quarterly fall for 16 years. After that, the pound hit a five year low against the dollar and stayed weak against the euro. That'll put up the price of travelling abroad and importing goods. Finally share prices ended the day 5% down and 9% lower than they closed on Monday, meaning more pain for pensions

and investments. Well live now to talk to Gerard Lyons, chief economist at Standard Chartered Bank. Gerard Lyons, the prime minister, the chancellor, the governor of the Bank of England all saying a recession's inevitable. How deep will it be and how long will it last?

**LYONS:** Well I think the economy is already falling into a severe recession. I certainly think we'll see at least four consecutive quarters of negative growth. I think the economy will contract probably close to 2% next year, making it a very hard recession, and then we'll probably see a period of stagnation in 2010 before we start to see a solid recovery. So a long, drawn-out problem for the economy.

**LEWIS:** Yes and for all those people who might lose their jobs during it. Does that mean interest rates will be cut though to try and stave it off pretty soon and pretty sharply?

**LYONS:** Certainly I think the Bank of England should have been cutting rates aggressively some months ago, but that deed is now done. The reality is that with the economy now going into a downturn, the Bank of England needs to act very aggressively and soon. I would personally be cutting interest rates down to 1%. I think the bank might be more cautious, but certainly whatever way one sees it, I think by next summer UK interest rates could be done to as low as 2% and that will be justified given the economic environment.

**LEWIS:** Now we've got the pre-Budget report coming up some time in November. Do you think there'll be more than just the usual medicine? Will we be seeing tax cuts, other stimulations to the economy?

**LYONS:** Yes, I think the chancellor's played it quite well in recent weeks and I think that we're likely to see another huge fiscal stimulus. Indeed I would expect the pre-Budget report to effectively see the chancellor throwing what I would say the kitchen sink at the economy. There's a need to actually see the government step in and spend, given that confidence amongst people and amongst companies is now low. So I think the clear thing we need now is not only aggressive rate cuts, but a very big fiscal

stimulus from the government.

**LEWIS:** And a fiscal stimulus is public spending to give people jobs and tax cuts to make all of us go out and spend more?

**LYONS:** Well, yes. I think there's lots of things that can be done. I think the two key problem areas in the economy will be small, medium sized firms and also consumers because in recent years consumers have had a strong housing market, a healthy jobs market and ample credit. Against the background of all of those changing, people, even those with money to spend, will now be thinking twice. So the chancellor has to actually not only try and restore confidence, but also actually inject some money into the economy.

**LEWIS:** Now in normal times you'd say that would be a recipe for inflation, wouldn't you, and last week we heard that OPEC, the oil producers' cartel, cut production to keep prices up; the falling pound will push up the price of imports. Are we in danger of pushing up inflation as the price of what we're doing?

**LYONS:** I don't think inflation is the problem now. It might well be in two or three years time, but the reality is the authorities have to face the problem we're now seeing in front of us. In terms of higher costs, what I think will happen, with people not really spending companies and retailers will have to take higher costs from their margins and that will add to near term problems. Certainly I think the government might want to think about cutting utility prices and things like that that feed directly into people's spending packets.

**LEWIS:** Yes because falling inflation isn't going to feel very helpful this winter when the fuel bills come through, is it?

**LYONS:** Absolutely.

**LEWIS:** So you're saying that the conditions are so special now that we won't see

inflation rise despite all these measures, but once the problem is coming to be over in two or three years time we must watch out then for inflation. We're printing money and money supply grows, and we used to think that was what caused inflation.

**LYONS:** Well certainly if you have a booming economy and you start to print money, that's inflationary. When you have an economy where people and companies are depressed and not spending, then printing money and the government stepping in is the best policy. It might lead to inflation in a few years, but for the moment I think the risks are on the downside.

**LEWIS:** Gerard Lyons of Standard Chartered Bank, thanks very much.

Well one effect of course of the economic downturn is a rise in repossessions as more homebuyers can't afford their mortgages. This week, the government offered some relief in England and Wales at least. Bob Howard's here. Bob, you've been looking at those plans and how they might work.

**HOWARD:** Paul, the Council of Mortgage Lenders predicts 45,000 people will lose their homes this year. Almost 19,000 people already had in half yearly figures which cover up until June. And politicians are getting more and more worried there may be even steeper rises in repossessions in future. It was the very first question Gordon Brown responded to during this week's prime minister's questions. His answer announced changes to the way judges will deal with lenders who take homeowners to court.

**BROWN:** Mr Speaker, I can announce today new guidance, new guidance for the judiciary to halt or adjourn court action on repossessions unless alternative options that help the homeowner - including extending the terms of the mortgage, changing the mortgage type and deferring payment - have been fully examined first of all. We are determined to do everything we can to help homeowners avoid repossessions.

**HOWARD:** So the prime minister's certainly clear about how he intends these new guidelines to work when they come into effect on November 19<sup>th</sup>. So what do judges

think about making sure lenders have taken reasonable steps to negotiate with borrowers in arrears? Stephen Gerlis is the chairman of the London Association of District Judges. He believes the guidelines, known as a protocol, are a significant step forward.

**GERLIS:** It will be the judges' duty to ensure that the protocol has been complied with, and if they are not satisfied, the immediate option would be to adjourn the case to ensure that the lender fulfils his obligations properly.

**HOWARD:** But is that simply putting off the inevitable?

**GERLIS:** I don't necessarily think so. This really encourages the lender to use every effort to try and sort something out with the borrower rather than take possession proceedings in the first place. Prior to the introduction of the protocol, there isn't such an incentive.

**HOWARD:** But Stephen Gerlis says the judges' powers are still limited and a borrower has to be able to prove they can pay their arrears at least over the remaining lifetime of the mortgage to avoid being repossessed.

**GERLIS:** Remember the law hasn't changed, so the basis on which the court will look at it, which is that we're looking for an offer that ensures that arrears are paid off within a reasonable period, will still govern the approach. Of course if the borrower has failed to respond or not been reasonable in response, then the lender may have no alternative but to take possession proceedings.

**HOWARD:** So have these changes reassured people who fear they too will soon be struggling to pay their mortgages? Martin from Kent is about to see his mortgage repayments jump next month by £300. Because of problems with his credit history, he can't switch bank when his fixed rate of 6.4% ends, so he has to go to his lender's variable rate of 8.27%. He was glad when he was contacted by the firm to see how he was coping, but that quickly turned to disappointment with his lender and the government.

**MARTIN:** The lender actually wrote to me and asked me if there was a possibility that I might struggle in the future, so I took up the offer and telephoned them to be told that in the current credit crisis they were unable to help me. So at what stage am I going to be told that there *is* some help out there or that lenders can't do this kind of thing? If we're pumping lots and lots of money into the banks because they were bankrupt and the banks are then going to bankrupt people like me, it feels like it's going in one end and coming out of the other.

**HOWARD:** Martin works in retail and is worried about his job as well as the size of his mortgage. With unemployment rising, this week the government's planned change for those who need help with mortgage interest payments after becoming unemployed was brought forward to January. So in just over two months time, some homeowners who lose their jobs will only have to wait 13 weeks instead of the current 39 before this help kicks in. Peter Tutton from Citizens Advice welcomes this along with the new guidance to judges, but believes as the economic situation worsens much more help will be needed.

**TUTTON:** Previously there was this 39 week wait. It was a very long period before anyone could get help. That will be shortened to 13 weeks. However, there will be people that these things won't help. If someone is waiting to get help from income support, will lenders wait and help them support them through that period? Do the courts have enough power and enough flexibility to help people who maybe can meet most of their mortgage but not all their mortgage? So these are some of the kind of longer term questions.

**LEWIS:** Peter Tutton ending Bob Howard's report. Well yesterday I asked Justice Minister Bridget Prentice how many reposessions the new protocol might prevent.

**PRENTICE:** This protocol comes into effect from 19<sup>th</sup> November. I wouldn't want to sort of second guess the actual numbers, but I think what will be important is that both the lender and the person with the mortgage will now have the opportunity and there will be the time to look at alternatives - for example having a mortgage holiday or reduced payments or other means by which the borrower will be able to continue to

pay but that they'll be able to do it during this particular period with some support from the courts in saying that there are ways of giving them that kind of support while they've got financial difficulties.

**LEWIS:** Now the government owns two major lenders - Northern Rock and Bradford & Bingley. Northern Rock, for example, that was accused last week of being fairly heavy handed in repossession, has a real conflict of interest, doesn't it? Its instructions are to repay Treasury debt by 2011 and to do that it feels it has to repossess properties. How are you going to resolve that conflict?

**PRENTICE:** If Northern Rock is intending to take a case to court, they will be subject to the protocol that the judiciary will have as from 19<sup>th</sup> November. So they will have to show that they have tried to discuss and agree alternatives with the borrower, that they've given them sources of free independent advice that might help them with their particular problem, and that they make sure that they can justify to the court that they have gone through every other alternative before they seek a repossession order.

**LEWIS:** And what about the borrowers themselves? There are many people who think, well they got themselves into this mess; why should we bail them out?

**PRENTICE:** Obviously the rights of those who lend and those who borrow have not been changed by the protocol. We're certainly not encouraging people to over extend themselves in any way. But what I would say to those who are struggling, there are organisations like Money Advice that's run by the Citizens Advice and we're very much encouraging people to take that advice and to get the advice as early as possible.

**LEWIS:** Justice Minister Bridget Prentice. The Council of Mortgage Lenders represents all the major providers of home loans. I asked its director general Michael Coogan if the new protocol would mean fewer possessions.

**COOGAN:** I don't think it would necessarily make it harder to get possession. What I think that this protocol, together with the industry guidance we've published this

week does, is to provide a series of checks and balances. We have regulatory rules with the Financial Services Authority, principles of treating customers fairly, we have industry guidance on what the processes are as well as the protocol before court actions start, with a backstop of course of the judge saying, “well has it all worked in practice?”

**LEWIS:** Yes, but isn’t there the danger that your members will just get very good at having a list of things they’ve done they can show to the judge, boxes ticked, and the judge will then allow the possession? Does it really mean negotiating with people, trying to understand their personal circumstances?

**COOGAN:** I think it does, and that’s very important and it’s been reinforced both by the regulators and by the industry themselves. It is a negotiation with a customer. But what that importantly needs to underpin is the customer needs to engage early.

**LEWIS:** But isn’t the obligation also on the lenders to make sure that as soon as a payment is missed that you don’t just send a formal letter but you actually start dealing with that case personally and trying to find out what’s gone wrong because usually it is a life event, isn’t it? It’s unemployment or maybe a new baby in the family or something like that, a relationship breakdown. That’s what causes it.

**COOGAN:** One of the things we learnt through the recession of the early 90s is if you send a series of letters with increasing intensity and noise in terms of concern that there’s no dialogue, all that happens is that there is an arrears case that’s got worse by the time you’ve really engaged. Now we’re texting on phones with phone calls to the home, with the ability to follow up quickly because of direct debits. Lenders are able to contact you.

**LEWIS:** Your prediction of 45,000 repossession this year, that’s way above last year. Aren’t we heading for a repossession crisis?

**COOGAN:** The 45,000 figure was a forecast we put out last October 12 months ago. We haven’t increased it and we’re not going to increase it.

**LEWIS:** And what about next year? What will the figure be then?

**COOGAN:** We'll come out later in the year with our views on 2009.

**LEWIS:** So despite this protocol and despite your new guidance and despite all the efforts you say your members are making, next year we could see more repossession than we did this year?

**COOGAN:** We're not ruling it in, we're not ruling it out. We'll have a forecast by the end of the year.

**LEWIS:** Michael Coogan from the Council of Mortgage Lenders. And you can have your say on repossession and the new rules on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox).

More than half a million people, mainly married women, could get a bigger state pension after a change announced by the government on Friday. At the moment nearly all men, but barely a third of married women, qualify for the full state pension. That's because many women give up work to care for children or others and don't pay sufficient national insurance contributions. They can already buy back up to six recent years they've missed, but the change will let them buy six more years as far back as 1975. The concession won't apply though to anyone who reached pension age before April this year and buying the extra contributions will cost thousands of pounds. Dot Gibson is from the National Pensioners Convention.

**GIBSON:** 500,000 is not many people when you consider that 2.5 million pensioners are living below the breadline. And you've got a situation where people who are on that level of money coming in - either low income or on the pension already - cannot afford to save that money in order to buy back those years, and when they *do* buy them back £90.70 is peanuts.

**LEWIS:** Well Rosie Winterton is Minister for Pensions. I asked her how many people she thought would take up the offer of buying the extra contributions.

**WINTERTON:** We think there'll be about half a million people will be eligible to apply - most of them women who have faced considerable problems in the past because they could only buy back the last six years. On past experience maybe about 110,000 will actually take it up through the application process.

**LEWIS:** But, as I understand it, it's only extending to women who reach 60 from April *this* year, not back further than that, so there's a great many women, aren't there, who reached 60 before April this year who are excluded and they're the ones who've got in many cases very small pensions?

**WINTERTON:** We do have to look at the balance between the number of people that we can help. We have to draw the line somewhere. It's balancing that need for individuals with the need not to draw enormously on the public purse.

**LEWIS:** As you say the cost is a consideration and indeed your press release says that it will be what you call "cost neutral"; it will actually cost nothing.

**WINTERTON:** Over the longer period, that is the case.

**LEWIS:** Minister for Pensions, Rosie Winterton. Well live now to talk to Baroness Patricia Hollis who's been campaigning on this issue in the House of Lords. Patricia Hollis, just who will this change benefit?

**HOLLIS:** It will certainly benefit those women coming up to retirement who in thoroughly decent ways have taken time out of the labour market either because they had children before 1978 or because, more often, they've been carers for older people. They may have been service wives going with their husbands abroad, they may have dropped out of the labour market while the husband shifted jobs. They may have had several part-time jobs, none of which gives them an NI stamp. So you can actually get a woman who's doing some child care for a grown up daughter, who's holding down a part-time job, who's looking after a frail mum, who's running a home, and none of it gives them a stamp at the moment. Now what this change does is give them the right to buy back those missing years - six of them - and it represents a very good buy

indeed.

**LEWIS:** Yes, for some women I'm sure it does. But there are some who won't benefit, aren't there, if they've got low incomes and get means tested pension credit, as Dot Gibson was saying?

**HOLLIS:** Yes. Well that's because the Labour government I think has been so successful in actually addressing the poverty of existing pensioners. When the Labour government came into office in 1997, the average pension was £67. It's doubled.

**LEWIS:** Sure. But the point I'm making is the rules are very complicated and it will be hard for women to know if it's worth spending the money. And it is going to be a lot of money to buy these six years.

**HOLLIS:** No. Well you say that, but actually what happens is if you took out a loan at the point of retirement for those missing six years and you paid it back... Taking out a loan at 7%, you paid it back over five years - even while you were paying it back you would make a modest profit on it, so to speak, of £2 or £4 a week; and after five years you'd be absolutely in hand. I mean essentially at the moment a year if you buy it costs you £420 and that will give you £160 extra on your pension for life. So it's a huge bargain for women and they can do it at no cost to themselves at the point of retirement.

**LEWIS:** The rule change though, as I said, does exclude people reaching pension age before April this year. Now that will exclude hundreds of thousands of women at one time I think you wanted to include - particularly people who have very low pensions. They'd like to buy a bigger one. Why are they left out?

**HOLLIS:** I think basically we're dealing with a situation of women coming up to retirement this year and right through to 2010 and beyond. And why the problem has got some added urgency is the government, led by James Purnell, have done a very good thing indeed, which is to reduce the number of years you need for a pension from April 2010 instead of being 44 for a man, 39 for a woman, down to 30. But it

means if you come up to retirement a month before, you still need 39. It's a cliff edge and what this does is allow women coming up to retirement to smooth that cliff edge. It also means that we recognise their contribution in caring for members of their family and it does take many women out of the need to apply for means tested benefit and therefore it encourages them to save. So on all of those counts, I think it's a very, very wise and good move.

**LEWIS:** Baroness Hollis, thanks very much. And there's more information about that on the website, and state pensions and benefits are the topic for our phone-in - Money Box Live on Monday afternoon if you want to find out more.

Some good news at last for 230,000 customers of Icesave who are still waiting for details of how they'll be compensated after the collapse of the Icelandic bank Landsbanki. The chancellor promised they would get all their money back, but until late on Friday nobody knew exactly when or how. Now a timetable and process have been agreed. Jonathan Clark is head of claims at the Financial Services Compensation Scheme.

**CLARK:** In 10 days time, which is when we expect to launch the process, the savers will receive an e-mail inviting them to an online session which will take place during November, and during that online session they'll be guided through a process, which is an FSCS claims process, so that they can access their savings, view the balances and then transfer their monies to their linked accounts. The monies will then be paid by BACS into their linked accounts within two to three days after that is completed. They'll receive an e-mail to confirm the transaction as a matter of course. We anticipate that we'll be completing the whole process, such that the vast majority of retail depositors will receive their monies during November.

**LEWIS:** We heard yesterday that the negotiations between the Treasury and the Icelandic government had broken down. This process of yours is going ahead now regardless of the outcome of those negotiations.

**CLARK:** Well I think it's fair to say that we already have put in place arrangements

under the chancellor's auspices to ensure that all retail depositors in the Icelandic banks will receive their money in full and we're operating that process.

**LEWIS:** And what about people with ISAs? How will they protect the tax free status of those?

**CLARK:** Well the government has not only guaranteed 100% of all the deposits, but working with the authorities we've also been able to confirm that people will not lose their tax status for their ISAs.

**LEWIS:** But how will that mechanism work?

**CLARK:** Well we're putting the final details to that, but I can assure you that ISA status will not be lost.

**LEWIS:** When is the very last date somebody might get their money back?

**CLARK:** Well I think what we anticipate is that the vast majority of savers will be able to access their savings during November and will receive their payments by BACS within two or three days after they've operated their online session.

**LEWIS:** So will everyone have their cash by Christmas?

**CLARK:** That's our current plan.

**LEWIS:** That's obviously good news for them. What about the Heritable people and the Kaupthing people who weren't transferred to ING, of which I think there are a few hundred, weren't there?

**CLARK:** There were indeed and in relation to those, Paul, we've issued application forms to all of the retail depositors there and indeed have already processed several claims for Heritable account holders and payments were issued yesterday to them. In

relation to Kaupthing, we're processing claims at the moment.

**CLARK:** Jonathan Clark from the Financial Services Compensation Scheme. But, Bob, there is still some uncertainty regarding Icesave customers with fixed rate bonds?

**HOWARD:** Yes, Paul. The FSCS says lots of customers are saying that they want to cash these in and it says it's working out a way for this to happen. For those who want to keep their bonds as they are, we understand they will get interest up to the date they mature but we don't know yet what happens to the interest for anybody who decides to cash their bond in early.

**LEWIS:** And customers of Kaupthing Singer and Friedlander in the Isle of Man are still facing great uncertainty.

**HOWARD:** Well that's right. A court hearing on Friday, which could have decided to wind the company up, has been adjourned, so any compensation scheme hasn't yet been triggered. In the meantime discussions between the Isle of Man authorities and the UK Treasury are continuing about assets of the Icelandic Bank which have been frozen in London since October 8<sup>th</sup>.

**LEWIS:** Thanks 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](http://bbc.co.uk/moneybox) where you can have your say on reposessions - some of you already are - and of course download a podcast of the programme. There are personal finance stories on Working Lunch, BBC2 weekday lunchtimes. I'm back here on Monday with Money Box Live, as I said this week taking your questions on state pensions and benefits. Back next weekend with Money Box. Today the reporter was Bob Howard, the producer Lesley McAlpine and I'm Paul Lewis.