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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, the Government announces plans to reform the way banks and others lend us money. House prices rise for 3 months out of 4, but will they soon start falling again? The Pensions Minister tells us what she hopes to do in the short time she'll have in the job. The police move in as more than £100 million disappears from the funds run by the failed company Keydata Investment Services. And is this really the way to cut the insurance on your teenager's car?

TOP GEAR PRESENTER: No, no, we're only going to let him drive to the shops. Very, very, very rarely.

LEWIS: *(laughs)* More on that later.

But we start with the government promises of "Real Help Now" for people struggling to manage their debts as the recession deepens. A white paper with that in its title, published this week, sets out the changes the Government would like to make in the way banks, credit card companies and other lenders let us borrow money. Unsolicited credit card cheques will be banned - though not just yet - and the Government promises a crackdown on loan sharks and a review into lenders who charge high rates of interest, which they define as 50% a year or more. Well live now to Cardiff to talk to the Minister for Consumer Affairs, Kevin Brennan. Kevin Brennan, the white paper's called Delivering Real Help Now. What real help will it give now to people in debt?

BRENNAN: Well we are already doing a lot to help people with their mortgages and so on, but in the white paper itself - for example the debtors guide that's being published almost immediately and also the self-help tool kit, which we've been developing in line with the Money Advice Trust is something that's going to come out immediately. Then we're taking steps as quickly as possible to legislate about credit card cheques, as you said. We would have liked to have done it earlier. We tried to back a private members' bill actually a few months ago, but unfortunately the Tory backbenchers blocked that, so we couldn't get it through then but we're going to get it through as quickly as we can. And we're also going out and raising a number of issues related to credit cards, which we'd like to see the industry move on as quickly as possible, but if they don't obviously we'll legislate.

LEWIS: Yeah, there's no sign of them doing that, is there? I mean just let's go back to that credit card cheque …

BRENNAN: *(over)* Well they've done some things actually in relation to this sort of pressure in the past. For example the 30 day breathing space people now have to sort out their finances …

LEWIS: Yes.

BRENNAN: … and also the fact that you know in terms of putting up their interest rate without consulting, now people do have a bit more of a breathing space around that to pay it down because of the pressure we've put on the industry.

LEWIS: Now one of the promises in the paper - the only one really - that you mentioned is to ban unsolicited credit card cheques. When will that actually happen?

BRENNAN: Well we're going to legislate as quickly as possible - that means the autumn - and so it'll be next year before that comes into law.

LEWIS: Yes, but there has to be a General Election …

BRENNAN: We'd like to have done it quicker, as I said …

LEWIS: I know.

BRENNAN: … but we were blocked in Parliament and that's not something I can entirely control.

LEWIS: Well I thought the Government could. But anyway, there has to be a General Election …

BRENNAN: Not on a Friday.

LEWIS: … by the 3rd *(laughs)* Why didn't you do it on a Thursday people are asking?

BRENNAN: Well that's what we're going to put into our programme.

LEWIS: Right. But just to be clear on the timetable. There has to be a General Election by 3rd June. Parliament stops working some weeks before that. Will they be banned before the next election?

BRENNAN: Well, yes, because our intention is, subject to support from Parliament obviously, that the bill should become law before the election.

LEWIS: Sure. So it will become law and it will be enforced before the election?

BRENNAN: Well that depends on royal assent - but that is the plan, yes.

LEWIS: So the plan is before the next election?

BRENNAN: Yes.

LEWIS: Okay. Well listening to that is Kevin … sorry is Damon Gibbons from the organisation which looks at financial inclusion. Sorry, I've lost the title. Head of Policy at the Centre of Economic and Social Inclusion. I do apologise, Damon.

GIBBONS: That's okay, Paul.

LEWIS: Damon, it's a good thing, surely, that the Government even fairly late in its term is looking at debt and the things it can do about it?

GIBBONS: Yes, there's no doubt about that. I think we you know very much welcome the fact that this white paper is being published. It's right that we learn the lessons from the current crisis and also that we look at how we can really help people deal with their financial difficulties, particularly because of the increase in unemployment. But I mean what I would say is that we're not entirely convinced that the proposals that are in the white paper really do deliver the assistance that's required at the moment, and I think we do need a constructive discussion with government moving forward on that.

LEWIS: But it seems you're going to be getting that over the next few months. What are you particularly going to be asking for as part of these consultations that will be going ahead?

GIBBONS: Sure, well I think there are three groups of people that we're very concerned about. The first is the newly unemployed, and so we would really like to see some form of moratorium on debt recovery given to people who are signing on as unemployed for the first time, so that they can continue to focus on getting back into work rather than getting bogged down with dealing with creditor demand and so forth. So I think that that's an area that we would want to push. The second area, still a big problem in the mortgage market for people who have very high loan to values. They're not benefiting from the reduced Bank of England base rates and so we'd like to see much more being done to channel the taxpayer investment through banks to help restructure those mortgages. And the third. You know this recession is going to cause people to get into default. The growing number of people who'll be removed from mainstream credit markets will need help to get a fair price and we don't see at the moment any proposals that will bring the prices down in that very expensive market.

LEWIS: Well thanks for that. And, Kevin Brennan, I think you're still there. Let me ask you one more point about high interest rates. In the white paper, you say you're going to have a study of interest rates above 50%, and I went on the web last night and was offered a £750 loan at an interest rate of 1727%. Why don't you just ban high interest rates like that?

BRENNAN: Well the reason they've not been banned in the past is because the evidence shows that where that's done, it can lead to a big increase in illegal loan shark lending. So you do …

LEWIS: *(over)* But they do it in parts of Europe, don't they?

BRENNAN: They do and then they have much higher rates actually of illegal lending. But I have included that, looking at interest rate caps and the evidence for it in what the Office of Fair Trading are doing. I mean sometimes obviously figures can look very high indeed. You know if I asked you to lend me 25 quid till pay day next week and I'll buy you a pint next week, well the APR would be 16000%.

LEWIS: Sure, indeed. But it still is a high rate, isn't it?

BRENNAN: But it's still very, very high some of these rates and we do have to look at it and that's what the Office of Fair Trading are doing. What I don't want to do is to cut off lending to people who need it and force them into the arms of illegal loan sharks, so we've got to look at it properly and review the evidence properly before taking any steps.

LEWIS: Kevin Brennan, Minister of Consumer Affairs, thanks; and earlier Damon Gibbons from the Centre for Economic and Social Inclusion.

And now, just what does it cost to insure a car for a teenager to drive?

CLIP FROM TOP GEAR PROGRAMME

MAY: Look at this. I found a Zuzuki Liana at 1300 quid

CLARKSON: Yeah.

MAY: … gives me 1200 quid …

CLARKSON: What, for insurance? That won't be enough.

MAY: And he was right.

CLARKSON: £3,377. Asda will do it for £3,400. One quote - Direct, okay - £8,007. *(laughter)*

HAMMOND: I don't think they want the business.

MAY: It soon dawned on us that the only realistic way of getting covered when you're 17 is by going on your parents' insurance. So we got back on the phone pretending to be Dad.

CLARKSON: No, no, we're only going to let him drive to the shops very, very, very rarely.

LEWIS: Presenters on the BBC's Top Gear programme on Sunday trying to cut the cost of insuring a teenager's car in their own inimitable fashion. Not the way everyone would choose to do it, and if the young person makes a claim and the insurer finds out about the fib, then any damage to their own vehicle won't be covered and the insurer could well try to get the full premium out of their parent. So how can you cut the cost without taking the moral low ground? Graeme Trudgill is from the British Insurance Brokers' Association. I asked him first if insurers were right to charge so much to insure young people?

TRUDGILL: A typical 18 year old male, an average claim would be £4,400; whereas a 30 year old, the average claim would be £1,400. They're also far more likely to have a claim - three times more likely if you're an 18 year old compared to a 50 year old.

LEWIS: So that's why the premiums are high?

TRUDGILL: Yeah.

LEWIS: Does it make any difference if they're a boy or a girl?

TRUDGILL: Yes, it does. The average claim for a male is £4,400 for an 18 year old. For a female of the same age, it's only £2,700. So the claims are fewer and they're less severe, so it is therefore cheaper to insure if you're a lady.

LEWIS: What can parents do then to bring them down legitimately?

TRUDGILL: Well there are many discounts that you can get from your insurance provider, your broker. They would include, for example, the Pass Plus test. This includes some practical modules - things like learning to drive at night, learning to drive on the motorway. It's aimed at new drivers and you can get probably about 15% discount from your insurance if you take that test.

LEWIS: Though of course you're going to have spend money on Pass Plus, presumably? They don't do it free.

TRUDGILL: Yes, they will have to spend upwards of £100. But the savings can be over £400 for young drivers, so it is really worth having a look at that.

LEWIS: Okay, so that's Pass Plus. And assuming that your offspring is capable of getting through that and getting the reduction, what else can you get?

TRUDGILL: Well particularly look at the type of vehicle that you're getting. The biggest savings can be made on having a lower group insurance and a lower value vehicle. So, in other words, if you're thinking of getting a vehicle, go for sort of a small car, a sort of Fiat, less than one litre engine, and you can actually save 40% on something like a larger Renault.

LEWIS: Well I can imagine some of them saying, "Oh Dad, I didn't want to drive that old banger around".

TRUDGILL: Yes, it might be an old banger, but it's cheap insurance. And that's what you need to get motoring. You want to get that first year's no claims bonus under your belt and that'll be 30% off at next year's renewal.

LEWIS: Right, so the key thing is don't have any claims in year one and then the premium will come down rapidly in year two?

TRUDGILL: That's right. In year two, you're up to 40%; year three 50%; year four 60% and maybe even more than that. So it's worth getting the older car. And then if you just give it a nudge or a scratch on the gatepost at home, you won't need to claim and you won't affect your no claims bonus.

LEWIS: And what about the kind of insurance because you can insure a car comprehensively, which means it will always be repaired as well as obviously any damage due from other people. Can you save a lot of money nowadays by just having third party?

TRUDGILL: Yes, it’s certainly worth looking at the options. Now insurance providers do vary greatly with this. Some actually have very similar premiums and some give a 40% discount for third party, fire and theft. So speak to your insurance broker and they will look at the cheapest option for you. If you’ve got a car worth a few hundred pounds, don’t necessarily have comprehensive. But one final tip: £500 excess on comprehensive might bring it lower than third party, fire and theft, and the benefit being you get windscreen cover with that.

LEWIS: Right. And the £500 excess means you pay the first £500 if you do have an accident and that brings the premium right down?

TRUDGILL: That’s right.

LEWIS: And if you add all these together, all the things you’ve talked about - we were looking at initially a premium of £2,000 or £3,000 - how can you bring that down?

TRUDGILL: I think it’s an accumulation of the things at the lower group - the vehicle, the lower value, reduction in cover. You can limit your mileage. Don’t modify the car - that can cause a great problem in the premium. So if you can do all of these things, you can almost halve your premium, especially with the Pass Plus test as well.

LEWIS: Graeme Trudgill. And some local councils will subsidise that Pass Plus test, which you must take within a year of passing your driving test.***** And you can let us know your experiences of insuring a car for a young driver on our website: bbc.co.uk/moneybox.

*** Pass Plus is a training course designed for new drivers. It can be taken any time, however in order to be considered for an insurance reduction or local council subsidy the Pass Plus usually has to be completed within a year of passing a driving test.**

House prices are creeping up. Figures out this week from Nationwide show a rise of just under 1% in June. Of course they're still well below their peak - 17% in fact below the high they reached in October 2007. But the 16 consecutive months of falls have at last now ended with Nationwide figures showing a rise in 3 out of the last 4 months. On Thursday, the new member of the Bank of England panel which sets interest rates, Professor David Miles, told a committee of MPs that he believed falling house prices were nearly at an end. Good news for people with a house, but not for the legions of young people hoping for further price falls so they can afford to buy a home at all. With me is Ray Boulger, Senior Technical Manager of mortgage brokers John Charcol. Ray, we've seen a few months of house price rises, though the odd fall as well. Do you think this is it? Are we finished with the falls?

BOULGER: I do think we've bottomed out, yes. If you look at the Nationwide index, which we had out this week, the real price increase in June was actually 1.6%. The more widely reported seasonally adjusted rise was .9. And over the first 6 months of this year, the real price increase is 2.2%. Prices bottomed out in February. So there certainly has been a steady increase over the last few months and I do think we'll look back and say, yes, February was the nadir of the market.

LEWIS: But they're still way down on a year ago, and it's still difficult to get a mortgage. Lower house prices aren't necessarily freeing up the market, are they?

BOULGER: No, that's right, and I don't think we're going to see prices rise very rapidly. The big issues are the lack of mortgage availability and the cost is creeping up, in fact going up quite rapidly if you want a fixed rate mortgage. First time buyers, in particular, have a problem because they will normally be looking to borrow relatively high loan to value. But it goes well beyond that because anybody who bought a property in the last few years with a high loan to value mortgage is probably now either in a negative equity situation or have not much equity, so they also will struggle to move.

LEWIS: Yes. And first time buyers of course have to pass those strict credit tests, which not all of them find that easy. Also with us is Andrew Oxlade. He's Editor of the website Thisismoney.co.uk. Andrew, you've been pretty gloomy about the housing market, at least for those of us who might want them to rise. You don't think that we have seen the bottom yet, do you?

OXLADE: No, I mean we've certainly seen an improvement in the last few months, but I mean I guess my argument is that this thing is very much long-term. It's a slow burning process that will last for years.

LEWIS: So they've been falling for, what, not even 2 years yet, so a long way to go?

OXLADE: Yeah. I mean I think you'll see that we'll get spells where prices rise, but longer term it will come through that they're still way overvalued.

LEWIS: And overvalued in what sense? What do you compare them to?

OXLADE: Well I think we kind of lost our way in the boom years because house prices were always valued against earnings. And that's after all what drives them - how much people earn and how much they can afford to pay.

LEWIS: How much they can afford to *borrow* normally.

OXLADE: Exactly. And in the boom years we found that we were looking more towards affordability, which is based on interest rates as well, so this kind of justified the increase in prices. If you look at this measure against wages, they're actually still way overvalued - possibly up to kind of 30%, 40%.

LEWIS: Right, so you're looking at the price of an average home and average wages and dividing one by the other and getting a much higher ratio than you have in the past?

OXLADE: Absolutely. I mean they peaked …

LEWIS: Where might they fall to?

OXLADE: Well they peaked at about six times wages. That's when they were at £200,000 on say the Nationwide measure. If they were to fall to the long-term average of around three and a half, four, then we'd be looking at somewhere between £120,000 and £140,000.

LEWIS: Right, so you think there's further to go. Ray, what's your view on that?

BOULGER: Well I think you can't ignore interest rates. Back in the 70s and 80s, we had very high interest rates and when you were looking at how big a mortgage you could afford, you had to budget for interest rates going to 15%. Now whilst clearly one should budget for interest rates going well up from this level, I don't think anybody's suggesting they're likely to go back into double figures short-term.

LEWIS: No, but no-one was suggesting that before they did in the 70s.

BOULGER: Well that's fair comment, but you know one's got to take a rational view of this and I think that you can't ignore interest rates. And consequently whatever was a reasonable salary to house price multiple 20 years ago, actually a higher multiple is relevant today.

LEWIS: And can people on average pay afford the average home? Are there mortgages there for them?

BOULGER: Well I think it's very difficult for anybody who is relying on a single salary. I mean average income's around about £25,000 and you can borrow four times income if your credit status is okay - sometimes even more than - so if you've got a dual income and both parties are working, then it's not a major problem, but it is a big problem for people with only one income.

LEWIS: And Andrew Oxlade, does it really matter? If we have a home, as 70% of the population does - you've got a home, you want another, you sell it, you buy one - it doesn't matter whether it's worth a £1 or a million pounds in a way. There's a relatively small group of people, including of course people trying to buy a home, for whom house prices matter at all.

OXLADE: Well absolutely. I mean there's no destruction of wealth in falling house prices. It affects confidence, which is a massive issue for the economy, but certainly for some people it's a great benefit.

LEWIS: Ray, are we over obsessed with house prices?

BOULGER: Well good question. I think that because 70% of the population do own their own property and some of those will also have second properties and buy to let properties, we're not going to get away from a situation where people are obsessed with house prices.

LEWIS: Ray Boulger of John Charcol and Andrew Oxlade of Thisismoney, thanks. And mortgages are the topic for our phone-in Money Box Live on Wednesday afternoon here on Radio 4. Those questions already coming in.

Angela Eagle is the Government's new Pensions Minister. She's the 11th in that job since Labour came to power 12 years ago. But as ministers come and go, the number of people in good company pension schemes only seems to go down. What could she do to stop the loss of salary related pensions, the so-called defined benefit schemes.

EAGLE: I get slightly fed up of seeing the Government always blamed for the difficulties that there are with defined benefit schemes. I think that if we look at what happened with actuarial decisions in the 80s and 90s, they completely missed the increases in longevity. They also were overly optimistic, if I could put it that way, about the returns from equity investments. Where can the Government actually try to help? In the regulation and in the way that we require the schemes to be run.

LEWIS: Of course one thing you could do is give them back the tax relief which Gordon Brown took right at the start, didn't he, which some estimates put at £5 billion a year.

EAGLE: *(over)* I think this is another myth. I have to say I think …

LEWIS: It's not a myth.

EAGLE: If you actually look at the changes that were made on tax relief, what happened was that for the 3 years after that, the value of the pension funds actually soared. But what we …

LEWIS: But that was because of the stock market. You can't take tax relief away and have the pension funds as strong as they were because …

EAGLE: *(over)* No, but there was a …

LEWIS: … you're taking government subsidy away from them.

EAGLE: No, but there was a switch away from giving tax relief to dividend payments in order to focus investment decisions on actual companies. And what is never said about this so-called 'raid' that many people repeat is that corporation tax was reduced to recycle some of the money. So I don't accept for one minute that this has had a material effect. It's these other issues about longevity, about over optimistic returns on equities that are the problem.

LEWIS: Personal Accounts, a new workplace pension scheme that starts in 2012, is Labour's big idea or its latest big idea on pensions. Can you say to everybody who isn't in a pension but who will be affected by that in 3 years time, you will be better off if you stay opted in to Personal Accounts?

EAGLE: Well we can certainly say that the vast majority of people will be better off.

LEWIS: It’s not the same thing though, is it?

EAGLE: No. 95% of the figures that we’ve come up with, 95% of people will be better off. 70% of people will get out of this system twice what they put into it after inflation. That’s because the Government will put in 1%. But for the first time, whatever the size of your employer, there’ll be a 3% employer contribution as well and that’s what makes the difference. Now at the margins there are some interrelations with means-tested benefits. That’s why I said 95% and not 100.

LEWIS: That’s tough for those 5%, isn’t it?

EAGLE: Well the difficulty is we don’t know who they are because life events happen.

LEWIS: Isn’t it just too little though? I mean you talk about 3% from the employer, 5% from the employee, but that’s only on a band of earnings. For people on average earnings, it’s less than that. Altogether it’s about 6% or 6.5%. That’s not very much and far less than people are putting in in other company schemes that already exist.

EAGLE: If everybody could afford to be in schemes like that and if every employer wished to offer them, then that would be great, but we have to deal with the circumstances before us and that is that moderate to low earners haven’t been able to benefit from defined benefit schemes. Employers aren’t willing to offer them.

LEWIS: Ministers achieve one or two things normally. What would you like to have achieved a year from now?

EAGLE: Well I’d like to have achieved the beginnings at least of a cultural change towards older people and the reengineering of our social systems to deal with that. And I’d like us to be much further along in the implementation of personal accounts and make pension saving available for the first time to 8 million people that can’t save now.

LEWIS: Pensions Minister Angela Eagle.

The Serious Fraud Office is investigating the disappearance of more than £100 million belonging to 5,500 UK investors. The problems were revealed this week by PricewaterhouseCoopers, called in as administrators after the collapse of Keydata Investment Services over an unpaid tax bill. Three weeks ago, the administrator told Money Box that, as far as he could see, the nearly £3 billion which Keydata looked after was safe. Customers could redeem their investment; and for those who didn't, he'd soon restore their monthly payments. But now Dan Schwarzmann says the money invested in one of the funds has disappeared.

SCHWARZMANN: SLS Capital basically bought life assurance policies and then sold bonds to parties like Keydata, and what we have found is that those life assurance policies behind those bonds were liquidated in late 2008. So those assets no longer exist and so the bonds really have no value.

LEWIS: So they may find their income and their capital has disappeared?

SCHWARZMANN: Indeed.

LEWIS: There are also other people where you're still not redeeming the capital. Is their capital at risk?

SCHWARZMANN: There is another fund also situated in Luxembourg. It's called the Lifemark Fund. Now in respect of that fund, we're absolutely clear that there is no issue regarding the underlying assets. For the time being, redemptions aren't being made. We have found some irregularities regarding the redemptions, but that is a time lag between Keydata receiving the redemption capital and passing it through to the investors.

LEWIS: And there are also concerns now about the amount of income because at the start of this process the indications were that although these products may not be strictly speaking valid for ISA tax free purposes, people would still not end up paying the tax. But you're now withholding the tax from the income stream.

SCHWARZMANN: We were appointed because the company was insolvent and there were irregularities about the ISA wrapper, but we have discovered more information as we've gone along and that's just made us more cautious. So we're now liaising very closely with HMRC on all income that we're receiving and how we can pass that on - can we pass that on net or gross of tax - and we should have answers very quickly. So hopefully we can resume paying income at gross levels. I would say that there are some products which are purely cash products, and for those products payments are being made gross.

LEWIS: But for many people, they are going to find that even when their income is resumed it will be reduced by 20%.

SCHWARZMANN: That may well be the case.

LEWIS: And just going back to the people who have money with SLS Capital where that money seems to have disappeared, are they going to get anything from the Financial Services Compensation Scheme?

SCHWARZMANN: At this stage they haven't declared Keydata in default and they are looking at the position.

LEWIS: But given that these funds were held abroad, is it still covered? Is it actually seen as a Keydata failure or as a failure of SLS Capital?

SCHWARZMANN: I think if Keydata has caused retail customers to suffer a financial loss and Keydata can't meet its liabilities, the FSCS may be able to help. I can't confirm any more than that at this stage. We've obviously found quite a lot in a very short period of time. This is quite a complex situation now.

LEWIS: Administrator Dan Schwarzmann. And just to clarify. The money which has gone was invested with SLS Capital in secure income bonds, issues 1, 2 and 3. Other money, Dan Schwarzmann says, is safe. Full information on all Keydata funds on Dan Schwarzmann's website. The link is on our website.

That's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and our website, which is bbc.co.uk/moneybox. Now this week we'd like to hear your recession tales. How's it affected you? What are you doing to protect yourself against the recession? And we'll be looking at coping with the recession over the summer. Let us know, bbc.co.uk/moneybox, where you can do all the usual exciting things, including have your say on the cost of insuring a car for a teenager, as lots of you are. I'm back Wednesday afternoon with Money Box Live with your questions on mortgages. Back next weekend with Money Box. Today the producer Charmaine Cozier, and I'm Paul Lewis.