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MONEY BOX

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LEWIS: Hello. In today's programme, we're spending less, earning less, and the Government's borrowing more and more. How deep will the recession be and could there be another one close behind? The genuine Bob Howard has been on the trail of some counterfeit cash.

HOWARD: What can you do if you find fakes amongst your foreign currency?

CHANDLER: They said, "Well stand up, please. Put your hands behind your back. They are counterfeit notes" and they marched me off.

LEWIS: Are banks profiteering from customers as mortgage rates stay high? Would it pay to switch your pension? And Lloyds Bank makes small shareholders an offer they can't well understand.

But, first, how deep and how long will the UK's recession be? Data out yesterday showed that household spending had fallen at its fastest rate for 30 years. That was after wages showed their biggest fall for half a century. The Financial Times reports this weekend there's a row brewing between the Bank of England and the Prime Minister. Gordon Brown thinks the Bank Governor is being too gloomy. And all this in a week when one of the agencies that assesses credit rating has warned that the credit worthiness of the UK itself, although top grade at the moment, might get worse due to our enormous and growing public debt. Well with me is Chief Strategist at BCG Partners, Howard Wheeldon. Howard, it does sound pretty terrible. Is it that bad?

WHEELDON: Yes, it is bad. We moved into - if we take borrowings first - we moved into 2009 with just short of £700 billion borrowings. The Government is raising £175 million this year and indeed next year. And one concern is the payments on that debt, which I estimate would account to, equate to around about the fourth largest government spending department over the next few years. So it's a protracted problem and I think that's really what the rating agencies are looking at and that's where the warning was shot across the Government's bows.

LEWIS: And of course that warning itself will put up the rate that we have to pay people to borrow money from them, so that's going to mean the bill goes up. We're going to be spending more to borrow it.

WHEELDON: Yes. Well to be fair to S&P, they didn't actually downgrade. The triple A rating remains.

LEWIS: ***(over)*** No, no, but they said the outlook was negative rather than stable.

WHEELDON: The outlook was negative. And the risk from that is that the amounts of money that the Government will have to borrow will cost them more. The yield, the coupon that the Government pays - that will go up.

LEWIS: Yes and of course that's going to be borrowed money we pay that back with, presumably?

WHEELDON: That's absolutely right and it's going to take many, many years. And that again is the big concern we have in terms of we move onto the recession - the recession and the fears of how long that recession or whether it's going to be a double dip or whatever other term you wish to use.

LEWIS: Yes, I mean that was a suggestion in The Times this morning by Professor Robert Shiller, the American economist; that even if this one does sort of come to an end, there could be another one right on its tail.

WHEELDON: I think that fear is very justified. It's certainly one that I would follow along with, particularly in the UK here. I wouldn't necessarily follow with that argument if I was looking at the US or anywhere else. So the UK is very, very different, and I think our problems here are manifest and very serious indeed and it's something that we should not ignore. This isn't a short-term recession. Words to suggest that the recession will end by the end of this year, I think are very premature.

LEWIS: Which the Chancellor said, of course.

WHEELDON: Yes.

LEWIS: Also with us is Gavin Oldham who's Chief Executive of the Share Centre. Gavin, how do you see the prospects? Share prices at least have risen over the last couple of months, though still just below where they were in January, I think.

OLDHAM: Well they have seen a good rise just recently. I have to say that I feel it will stabilise and we'll continue to see some volatility, although the market may well you know respond later on in the year. But I do think this thing from S&P about the rating is a very serious issue. It's about public finances, which it's very difficult to see how they can be fixed until after the next General Election. And that means …

LEWIS: That's because politicians aren't going to make difficult choices a year at most before they go to the voters; it doesn't matter who wins so much as having an election, getting it out the way and then making difficult choices?

OLDHAM: Absolutely. And so if we see 6 months of borrowing - about £100 billion, round about a quarter of a percent on the interest cost - that could well cost the taxpayers an extra £6 billion over the next 25 years to redemption as a result of actually waiting for a General Election to sort that out.

LEWIS: And Howard Wheeldon - sorting it out, it sounds easy. How on earth do you do it? Does it mean spending cuts and tax rises?

WHEELDON: It certainly does. The biggest part of that has to be the Government has to slash its spending. There's no doubt about it. It will have to do it year after year after year.

LEWIS: That's a tough thing for any political party.

WHEELDON: Very, very tough indeed. It doesn't make it an attractive option for whoever wins the next election, whenever that is. But it has to be done. Tax rises and a complete change in the way we live and act is going to be part and parcel of the process. This is long protracted. We may see better years through the next 8, but quite frankly this is going to take at least 8 years to get us through.

LEWIS: Howard Wheeldon, thanks. And Gavin Oldham, stay with us. There's more for you to do later, as you know.

Now ordering currency online and collecting it or having it delivered is a popular way to get your foreign cash, but how many of us bother to check the notes when we get them? We tend to trust that the currency provided by major suppliers has already been checked to make sure it's all genuine. But what happens if some of your notes turn out to be fake? Here's Bob Howard's report.

HOWARD: Don Macdonald from London was looking forward to going on holiday to South America when last month he popped into this local Post Office to pick up his UK dollars. He'd already ordered the notes from the Post Office's online currency service. It claims to be the UK's largest foreign currency provider, so he wasn't expecting any problems.

MACDONALD: We ordered 1100 dollars in cash, some of it in small bills and most of it in $20 bills. It came in a sealed envelope and I took it home without more ado. Being the Post Office, I didn't check anything. I didn't check numbers or anything like that. I assumed it was all kosher.

HOWARD: But several days into his trip, Don had a nasty surprise.

MACDONALD: We got to a shop in Bolivia. They checked a note and refused it. We thought this was just an aberration. However, then in Argentina it turned out that the hotel said, "All your dollars are now fake. They're photocopies. They're so smooth" and it turned out that most of them had the same or similar numbers, which was a little bit of a giveaway really.

HOWARD: In all, 32 of the $20 bills were forged, amounting to 640 US dollars. When he returned home, he sent the counterfeit US dollars to the Post Office. It confirmed the notes were forged but refused to refund him. In a letter, it offered this explanation:

'The Post Office only supplies mint condition notes for these orders, supplied directly from the US Federal Reserve Bank through our currency partner First Rate, and we do not supply dollar notes that have been previously used in any way. We are very confident that the currency we issued was genuine'.

But Don is adamant that his only source of US dollars was the Post Office and there had been no opportunity for anybody to switch genuine notes for forged ones whilst in his possession. He's determined to pursue his case.

HOWARD: They've got all the dollars, they accept they're counterfeit, and that suggests to me there are a lot of security flaws in their systems. They haven't suggested any way that this could have occurred.

HOWARD: And Don's not the only holidaymaker to have fallen foul of counterfeit dollars. Gail Chandler from Kent had a traumatic experience in a Las Vegas casino last summer.

CHANDLER: The security guys came up, mob-handed, about five of them, and asked me if I'd just changed up $100. And I said, "Yes". And they said, "Was you here changing money yesterday?", and I said, "Yes". And they said, "Well stand up, please. Put your hands behind your back. They are counterfeit notes", and they marched me off.

HOWARD: Gail discovered that at least eight of the new $100 bills she'd changed were counterfeit. She was strip searched and interrogated by the US Secret Service and only released when she was able to prove she was a regular visitor to Las Vegas and that she had a receipt from her foreign exchange provider, Thomson. Gail had no doubt Thomson provided her with the new $100 bills in question, so as soon as she got home she complained. It's denied liability because it insisted all the dollars it had given Gail were used notes, so if the fake dollars were new - as Gail says they were - its bureau couldn't have been the source. And Thomson says all its foreign currency undergoes rigorous checks for forgery before being sold onto customers. Some firms, including Thomas Cook and Barclays, have paid out on claims like Don and Gail's, although they're clear they don't accept liability. But if a company doesn't offer compensation, consumer law expert Ingrid Gubbay says people's legal options are very limited.

GUBBAY: Counterfeit goods are covered normally by the Sales of Goods Act.

Currency, however, falls outside of that. It sort of falls into a criminal basket and not so much the civil side, so it’s seen to be a police matter. This really highlights the need, particularly now where people are ordering money online, picking money up from travel shops, etcetera, for some level of consumer protection.

HOWARD: Neither Thomson, the Post Office or its currency supplier First Rate would be interviewed about this issue. Since we contacted the Post Office, it has offered to pay Don Macdonald £100 as a goodwill gesture, but, as he says, he wants a just result. That could mean asking the Financial Ombudsman Service to adjudicate.

LEWIS: And, Bob, are there any precautions holidaymakers can take to stop this happening?

HOWARD: Well it’s very tricky, Paul. Ingrid Gubbay suggests writing down the serial numbers of higher denomination notes, and if they are genuinely new notes somewhere in the supply chain there will be a copy of those serial numbers.

HOWARD: Well thanks, Bob. And we’re already getting a big response to that story on our website. You can join in, have your say on our website, bbc.co.uk/moneybox, with your experiences of fake bank notes.

People coming off fixed rate or discounted mortgages might find their mortgage payments don’t fall as much as they hoped. The Standard Variable Rate, or SVR which they move onto, is now more than 4 percentage points above the bank rate fixed by the Bank of England. Just a year ago, the SVR was only 2% above bank rate, so why is the average mortgage 4.69% when the bank rate itself is just half of 1%? The website Moneyextra.com, which did this research, says customers have become ‘profit fodder’ for the banks. I asked its Managing Director Richard Mason whether that accusation was really fair?

MASON: Well I believe they are. We know that the banks have had a hard time over the last year or so and it looks like they’re shoring up the balance sheets by making sure that their borrowers are not having these savings passed onto them.

LEWIS: But if you look at the detailed figures, it’s not quite as bad as you say, is it? I mean if you look at some of the big lenders - Halifax, their SVR is 3.5%, Nationwide is 2.5%. The average is actually boosted by some of the very small lenders like the Tipton & Coseley Building Society, isn't it, and specialist lenders like ITL Mortgages? They're the ones that are pushing it up. The big lenders, the ones we all know about, are much lower than that average.

MASON: The Halifax with a base rate of .5% but with a mortgage rate of 3.5% has a margin of 3%. Now the average only a year ago was 1.9, so even there there's a substantial increase in the margin that they're making from their mortgage borrowers. Whilst there are many of the smaller building societies charging a return now of around 5% above base, there are some big lenders in there as well - for example, Bank of Scotland, the Woolwich, Alliance & Leicester - all charging around 5% Standard Variable Rate.

LEWIS: Listening to that is Bernard Clarke who speaks for the Council of Mortgage Lenders. Bernard Clarke, on the face of it, this does seem a bit like profiteering. You're charging way, way over bank rate.

CLARKE: Well levels of profitability in the lending sector are not going to be high at the moment, particularly because of the low turnover in the sector. What this comparison between savings rates and the bank rate ignores is the real cost of funds to lenders. We have wholesale markets not functioning at all, they've completely dried up, so the real costs to lenders are what they have to pay for savers. And just picking up on some of the rates that were mentioned there, the marginal rates being paid by some of these lenders is very much higher than base rate. Halifax are listed here as having a SVR of 3.5%, but their best ISA's paying 3% - in other words 2.5% more than bank rate. Then Woolwich on 4.99%, their parent company Barclays is paying 3.55% on its Golden ISA.

LEWIS: Those are exceptional though, aren't they? I mean if you look at the rates charged to mortgages and what they pay on savings, the gaps are much bigger than that generally. I mean NatWest is charging its borrowers 4%, but it's paying 1.1% on E-savings. I mean there are many other examples. Woolwich, which Richard mentioned - 4.99% mortgage - but a Barclays E-savings account pays 0.1%. So there are many examples where they're paying people who lend them money - the savers - tiny, tiny rates, but they're charging huge rates to their borrowers.

CLARKE: Clearly the margin between savings and lending rates have widened. I wouldn't pretend otherwise. Clearly …

LEWIS: But why have they widened?

CLARKE: Well lenders are under enormous pressure to rebuild their businesses, under all sorts of regulatory and market pressure to rebuild capital and repair their balance sheets. And while you're quite right to point out that some savings rates are very low, there are many paying between 1 and 2%. That's not untypical. You know that's much higher than the base rate.

LEWIS: So Richard Mason's right - you are charging us more to rebuild balance sheets and boost profits?

CLARKE: Well, as I say, I don't think levels of profitability are going to be very high in the lending sector. Lenders have to cover the costs of running their businesses; that there is clearly a floor below which lending rates cannot go if lenders are to cover those costs, particularly based on current volumes of business in the lending sector.

MASON: Bernard, you keep mentioning the turnover is very low at the moment, but that is completely irrelevant. This is the Standard Variable Rate charged to existing borrowers who are now expecting their banks to bring the rates down in line with the base rate. And they are the profit fodder. It's nothing to do with new borrowers or turnover.

CLARKE: Well I think the Bank of England figures show, that were published in early May, that Standard Variable Rates are now at their lowest levels historically. We've got an average mortgage rate of under 4%. That's the lowest since the banks started publishing monthly data back in 1999 and it's likely to be the lowest ever.

LEWIS: Bernard Clarke, and earlier Richard Mason of Moneyextra.com.

Apathy over your personal pension could mean working an extra 5 years or cost you thousands of pounds a year in retirement. That warning this week from one financial adviser, backed up by figures produced both here and in the USA. This isn't because your pension plan has done badly due to falling stock markets, but just because hundreds of thousands of us are stuck in old pension plans with high costs - much higher than more modern pensions that the money could be moved to. Well live now first to Somerset to talk to independent financial adviser Mark Meldon, Director of RC Gray & Company Limited. Mark Meldon, just go through the numbers for us. How much might you really save by moving your pension fund?

MELDON: An extraordinary amount, Paul. Take a very simple example of a 30 year old who wants to retire at age 65, is currently saving £250 a month and already has £10,000 in his old pension plan. And if that plan costs 1.75% a year - which is you know easily found in the old marketplace - and that fund grows at 7% going forward, he'll end up with about £343,000, which in today's terms would provide a pension of £24,000. If, however, the money was moved to a contract that had a total cost of about .7 of a percent and there was a £1500 penalty on the £10,000 in the plan, he would end up with a much higher figure of £460,000 and a pension of £32,500.

LEWIS: So a much bigger fund and, what, £8,000 more pension. I mean it sounds compelling even after the penalties. But we are warned, aren't we, that we shouldn't always trust financial advisers who tell us to move our pension because you make money by us doing it?

MELDON: That's true and in fact sometimes the commission rates on transfers into, for example, insurance company SIPPs are very high. I've based my figures on no commission being taken out of the replacement contract and the investor paying a modest fee for arranging that. And I think it's very important to note that commission can affect the actual charges the consumer pays.

LEWIS: So go to an independent adviser who charges fees, I suppose you'd say, and make sure the calculations are all done properly. Listening to that in Glasgow is Maggie Craig who's Director of Consumer Affairs, sorry Consumer Strategy at the Association of British Insurers. They of course represent many pension providers. Maggie, on the face of it what Mark Meldon says works, doesn't it? Changing from an old high charging policy to a new one sounds like a good idea.

CRAIG: I think changing from an old policy to a new one may be a good idea. I think the core of what Mark is saying is absolutely right and that people should review their pension arrangements and they should definitely do that, preferably with financial advice from people like Mark. It may be that you want to … I mean there are a number of factors that come here, not just charges. That’s the only point I would like I think to expand on. For example … Sorry, Paul?

LEWIS: No, you were going to say. Such as what?

CRAIG: Well there may be penalties and Mark covered it in that particular case. There may be different investments. It may be that you’re in a contract which has … you’re investing in a specialist fund and that’s why the charge is higher.

LEWIS: Yes. I mean let me ask Mark about that because you’re simply looking at the standard 7% a year, which I know you have to under the FSA rules, but some people believe in particular investments, whether it’s you know Bolivian mining shares or the FTSE 100 index, don’t they?

MELDON: They do, but that’s really I think probably rather short-sighted because one has to look … The only thing you can predict going forward is the cost and the value of the contract you’re in. You cannot really take any serious account of future performance because clearly that’s unpredictable.

LEWIS: That’s unknown. And Maggie Craig, that is what a lot of your members do though, isn’t it? They try to sell funds on the basis of what they’ve done in the past as a good place for your pension because they’ll grow strongly.

CRAIG: Well we certainly do talk about our past investment performance. But actually in this market, in the individual pensions market, our members are if you like the manufacturers of the product. I mean something like 90% of the individual pensions business is sold via independent financial advisers like Mark, so they’re the people who are out there speaking to the customers, assessing what their risk reward appetite is and advising them.

LEWIS: So they’re the ones that we have to trust. And, Mark Meldon, you mentioned SIPPS - Self Invested Pensions. A lot of your colleagues - I don’t mean in your firm but generally - do advise people to go into a Self Invested Pension. Is that a good move?

MELDON: It might be occasionally if you’re really going to use the control that a SIPP can give you. But they cost a lot of money - 2, 2.5% a year is not unheard of.

LEWIS: So you're not going to get those .7 percents that you mentioned?

MELDON: No, you're not.

LEWIS: We must leave it there. Mark Meldon and Maggie Craig, thanks very much.

Now nearly 3 million people with shares in Lloyds Banking Group have to make a difficult choice over the next couple of weeks. They're being offered the chance to buy yet more shares in the part nationalised bank at a big discount. If they choose not to, then they could get a cash payout instead. Now many of these shareholders are not professional investors - half of them got their shares originally when Halifax Building Society demutualised more than a decade ago. As you know, Gavin Oldham is here, Chief Executive of the Share Centre. Gavin, explain this offer simply to us because I was a bit baffled by it, I must admit.

OLDHAM: Well it's a bit like a rights issue except that you can't sell or buy the nil paid rights, and so really the thing is that it runs with 2 weeks for you to actually get your money in on the call. And if you haven't actually paid the money over, then they'll sell the shares which haven't been taken up into the market and they will take the premium over the 38.43 pence that they're actually taking out of the share and they'll return that to the shareholders who didn't take it up.

LEWIS: But just explain. You're being offered more shares in Lloyds. What price are you being offered them and how many can you buy?

OLDHAM: For every share you currently hold, you will be able to pay 38.43 pence on a new .6213 of a share, if I put it like that, and they're raising £4 billion through this. Of course the Government owns 43% of it and so you know the Government will be taking up its part.

LEWIS: So you're getting the shares at a discount. Though the shares have been up and down, haven't they? I mean they've been more than £8. Then they were down to 40 pence in March and I think they were about 70 pence, under 70 pence, under 60 pence yesterday. Is it worth buying shares in a bank? Are they now a good bet?

OLDHAM: Well I mean I think that for existing holders, it is worth paying this up. The worst is really over for Lloyds. This will enable them to start thinking about paying dividends again in the future and really it will simply dilute your holding if you don't take it up. And the amount of windfall which you might get through *not* taking it up is going to be much smaller than has been predicted by the media. I reckon it's only going to be just over £100.

LEWIS: Yes because the way it works, as I understand it, is all the shares that *aren't* bought by shareholders will be then sold on the market and that cash divided amongst the shareholders that exist that haven't taken it up. So what might you get?

OLDHAM: Well I mean if my calculations are correct, I think, all things being equal, the price will settle at around about 57/58 pence right after the whole issue, which would indicate that on the average holding of 550 shares it will be just over £100.

LEWIS: And I've looked at the documents. I haven't read them, I have to say. There's 327 pages on the Internet, which have been posted to people. Very complicated! When have people got to decide by?

OLDHAM: Well it's really got to be done over the next 2 weeks. Really if your shares are held in a nominee, will normally be on 3rd June. If they are directly on the register, it could be another day or so longer.

LEWIS: And very briefly, just give us your recommendation in a few words.

OLDHAM: Well I mean take up the call. And if you don't hold shares in Lloyds you know it's a very high risk position, but if the shares open very low afterwards you know they may be interesting to look at.

LEWIS: Gavin Oldham from the Share Centre, thanks very much for that. And, Bob, just time to talk about more changes to the way these credit rating agencies now view UK building societies.

HOWARD: Yes, Paul. This time it's the Fitch credit rating agency. It's downgraded five building societies - the Chelsea, the Newcastle, Principality, West Bromwich and the Yorkshire. And that comes 3 weeks after another credit rating agency, Moody's, reduced the rating of 9 UK mutuals.

LEWIS: Okay, we'll find out more as their results come out over the next few weeks.

Thanks for that, Bob. Well that is 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 do all sorts of exciting things - watch videos, sign up to my weekly newsletter, download a podcast, listen again, and of course have your say on fake currency. And, goodness, there are many tales coming in - including tales of fake £20 notes coming out of cash machines in the UK. Vincent Duggleby’s here on Wednesday with Money Box Live taking your questions on student finances. I’m back with Money Box next weekend. Today the reporter was Bob Howard, the producer Caroline Bayley, and I’m Paul Lewis.