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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. Today Money Box is devoted to one subject: the crisis in the Eurozone. We're taking a practical approach in response to many emails and tweets from our listeners. Just how does it affect our money, our mortgage, our savings, our pension, our foreign currency, our holiday home?

WOMAN: We're sort of stuck between take your money and run and risk the bank or taking a risk on the long-term future of Greece, I guess.

MALE: We've got a euro, so what do we do from there if Greece comes out of the euro?

WOMAN 2: We wondered if there was any risk to our home if we were to stay with Santander?

LEWIS: Well we'll try to answer those and other questions with our experts in the studio. And we start not in Greece but in Spain, or rather in the UK, and perhaps the most common question - I've been asked it around the office, on the street, my email and twitter over the last 48 hours - since Santander UK had its credit running cut.

WOMAN 1: I have money held in a Santander ISA. However, with the current financial crisis in Spain, I am wondering how safe my investment now is. Is it possible for the parent bank or any other bank in Spain to claw back funds through its UK banks should it face bankruptcy? And, if so, are UK investors covered by UK compensation and protection laws?

LEWIS: Well one of many similar questions we've had. With me is banking analyst Ralph Silva, Chief Executive of SRN Global. Ralph Silva, we've heard about Spanish banks, their exposure to falling property markets. Would Santander UK here be in danger if its parent bank in Spain got into difficulties?

SILVA: Banco Santander in the UK is regulated by the UK Government, so it has the same regulations as any other British bank. In other words, the money that you deposit within Santander in the UK is protected in the UK. Now can Banco Santander move money back to Spain? The answer is yes, but not deposits, not customers' money. If they have profits, if they have some money left in the bank at the end of the year, yes they can move that back, but not the deposits themselves.

LEWIS: How absolute is that because the money is there? Supposing that Banco Santander in Spain said well blow all the rules and the laws and everything, we need that cash, bring it over, is there a physical stop on that?

SILVA: Well the police. *(laughter)* It's absolutely not going to happen because it's just not permitted. Now let's just be clear on this - this whole economic crisis, not one single European in Europe has actually lost their deposits within the banks, and there is no indication whatsoever that that's actually going to happen.

LEWIS: No and we'll come onto those compensation rules in a moment. And what about the other banks in Spain? Sixteen have had their credit ratings cut. We've had questions from listeners with homes over there maybe with money in those banks because they've got an account over there.

SILVA: We have to realise that when we're talking about bank failures, we're not talking about people losing their monies. We're talking about the physical entity of the bank not being viable. Bradford & Bingley is the perfect example. It basically went bankrupt, it went insolvent, but yet nobody lost their money. And that's exactly what we think is going to happen in Spain. Banks will fail, but the customers' deposits will move to another viable bank and you will retain your money.

LEWIS: And ultimately is that dependent on the financial strength of the Government? Now I'm thinking of Greek banks here. People perhaps have money in Greek banks. The financial … the compensation scheme is underpinned by the Government as it was here in the last crisis.

SILVA: With all respect to the Spanish Government, they're irrelevant. It is really the European Government, and to be more specific it's the Germans. They're the ones that are going to support this. Why? Because the huge failure of the banking industry in Spain affects the rest of the Eurozone, and the big Eurozone countries simply won't let that happen.

LEWIS: And if Greece left the euro - as many people now think is likely, some people think it's inevitable - how will that affect UK banks? Are they at risk with that?

SILVA: They are at risk, but much less risk now than they were a mere 3 years ago. Over the past few years, the British banks have been taking their money out of Greece and out of the deposits of the big banks in Greece. There is still some money there, but no bank in the UK will suffer insolvency because of Greece. They will hurt, but it won't be that bad.

LEWIS: And we've heard from Robert Chote, who's Director of the Office for Budget Responsibility, that the UK may never recover if the Eurozone collapses. Is that a bit over the top in your view?

SILVA: It is a bit over the top. They'll recover. Will they recover in the next 4 or 5 years? Probably not. It's probably a longer term thing and it will hurt immensely. It will hurt us all immensely, but nevertheless we will recover. We've recovered from much worse.

LEWIS: Ralph Silva of SRN Global, thanks very much. Well regardless of the safety of Santander UK as a bank, how is the money we have in it and other banks protected as listeners have asked? Money in Santander UK of course is protected by the Financial Services Compensation Scheme and if all those safeguards Ralph Silva explained did fail (if that's possible) and Santander or indeed any UK bank went out of business - up to £85,000 of your money is fully protected. But the rules inevitably have their complicated bits. Money Box's Bob Howard's here to explain. Bob, I said cash was protected up to £85,000. Is that always true?

HOWARD: Well, Paul, that limit applies to the total cash you have in one bank, and in the case of Santander that includes money in Alliance & Leicester and Cahoot as it owns both of those. So if the total in your current account, savings account and ISA is up to £85,000, it will all be guaranteed by the Financial Services Compensation Scheme, which will reimburse you in full. And a limit applies per person, so for a joint account it would be double £85,000 or £170,000.

LEWIS: And what about people who have a mortgage or a loan or a savings account? Can the bank deduct the money owed from the savings before paying it over?

HOWARD: Well that used to be a problem, but not anymore. You'll normally get your cash reimbursed if the savings and the mortgage are separate, but of course you'll still owe the bank or its administrators the full debt on your mortgage.

LEWIS: And what about money over the limit? When Icesave and Northern Rock collapsed, the Government here paid out the full amount however much was in there, and we heard from Ralph that no-one in Europe has actually lost money. Would that happen again, do you think, if anything went wrong with Santander?

HOWARD: Well, Paul, you're right - nobody with cash in a bank or building society in the UK lost any money in the last banking crisis. But whether that would happen again isn't at all certain. We just don't know.

LEWIS: And the practical advice then I suppose at any time is to keep your savings in any one bank to £85,000 or £170,000 for a joint account. And, Bob, you said the limit applies to any one bank. Now with Santander, as we said, that includes its subsidiaries Alliance & Leicester and Cahoot. Many banks are now in groups, aren't they? How do we know who owns whom?

HOWARD: Well this is where it gets slightly complicated, Paul. The limit applies to every separately licensed bank. Now Bank of Scotland is owned by Lloyds, but it still keeps a separate licence, so if you have £85,000 in Bank of Scotland and £85,000 in Lloyds, both lots will be protected. But the Bank of Scotland shares its licence with Halifax, Birmingham Midshires, AA Savings and a number of others, so there only the total in all those places is covered up to £85,000.

LEWIS: And I do hope you're going to tell us all there's a list showing those links?

HOWARD: There are several - one on the FSA website as well as some independent websites like Savingschampion and Moneysavingexpert.

LEWIS: And there are links on our website: bbc.co.uk/moneybox. And, Bob, before you go, there's another little complexity, isn't there? Santander UK is UK registered and licensed here, but some European banks that operate in the UK are not. How is money in them protected?

HOWARD: Well banks in any of the 29 other countries of the European economic area can operate in the UK by setting up a branch either on the high street or online.

They're covered by essentially the same rules, but the protection is limited to the sterling equivalent of 100,000 euros. Now until recently that was worth around £85,000, but the exchange rate now would make it closer to about £80,000. And if one of those banks got into trouble, you'd have to go to the country where they're based for your compensation.

LEWIS: And that may take longer of course. And I should also point out to people who have money in banks in Greece or Spain, their money is also covered up to £100,000 - 100,000 euro, I should say - but that promise is ultimately as strong as the Government of the country, or maybe the European Central Bank itself. Lots of useful links on our website. So that's the message: don't worry too much.

Now the crisis in the European Eurozone is very real for hundreds of thousands of Britons who've bought a place in the country, in the sun, as a second or even their main home. But with the current Eurozone crisis, what do you do if you want to sell that home and what if you're in the middle of it - in Greece - and don't quite know how the current turbulence will pan out or affect the deal? Alison's a listener from St. Albans and she's been trying to sell her holiday villa on Crete for 2 years. She's just had an offer.

ALISON: Now we're at a point where we have to legalise the sale. The sale will take 8 weeks to go through and the Greek re-election will be in about 4 weeks and we have to transfer large amounts of money through Greek accounts that will come out, that we need to come back out into the UK. And we feel this leaves us really vulnerable and whilst we really would dearly love to sell the house because buyers are scare and we'd like to get rid of our Greek risk, we're really, really worried. So we're sort of stuck between you know take your money and run and risk the bank or taking a risk on the long-term future of Greece, I guess.

LEWIS: So how do you get your money out of a country safely when a banking collapse could just happen in those few days when your money was in limbo between the property and the banking over here? We've also had a similar question asked by people selling property in Spain. And with me is Robin Haynes who's the Managing Director of Currency Index. Robin, understandable concerns there from Alison. A large amount of cash coming from her home which she's been trying to sell for 2 years. If it goes into a Greek bank (or in other cases into a Spanish bank) and then they're nationalised or collapse, the money (or most of it) she feels might be at risk.

HAYNES: Well there are two concerns here, I think. Firstly, as you point out, is the stability of the bank that funds are passing through. As we've heard, that is mostly protected by the individual governments and indeed the EU itself, so I think concerns about money disappearing are very unlikely to materialise. The other concern of course when you're selling a property is the exchange rate that you might get when you actually repatriate your funds; and of course particularly with the Greek elections coming up, we could be in for a lot of volatility in the euro exchange rate and potentially another currency that may replace the euro in Greece. We just don't know.

LEWIS: And that would probably be worth a lot less if it was in that currency than it was in Europe?

HAYNES: Exactly. I mean if Greece were to leave the euro, one of the main benefits for their economy would be that they could devalue a new currency within Greece, which would, therefore, devalue any assets that you were holding there. So it's worth knowing that you can actually fix an exchange rate in advance if you've got a transaction coming up and you're unsure what the exchange rate might be.

LEWIS: So you don't just agree the price. You agree the rate at which it will be converted into sterling at the end?

HAYNES: That's right. By using a currency broker in the UK, you can actually fix a rate to sell your euros in 6 or 8 or 12 weeks, whenever it may be, based on where the market is now, and that will at least give you some protection from the volatility that may be coming up.

LEWIS: And I suppose the volatility, the uncertainty even if the money itself is not at risk - and I mean I asked that originally because we did know when the last banking crisis happened people had money passing through the Channel Islands, for example, and they did find difficulties - but if the money itself is safe, the problems could cause delays. You might find it takes quite a long time to repatriate that cash into sterling?

HAYNES: Well, I suppose that depends how bad the situation gets. But in theory, if you're selling a property your solicitor will receive funds from your vendor on the day of completion and you should be able to transfer that money back across to the UK, be it in euros or however you want to do it. So in theory, you should be able to still move through the system fairly quickly, but of course we just don't know what's going to happen.

LEWIS: No. And supposing that the euro did collapse, Greece left the euro and then subsequently the euro collapsed, what difference would that make? It would make this kind of thing put on hold presumably?

HAYNES: Well I think we'd all be in a lot of trouble if that happened whether you're selling a property or whatever you're trying to do. So who knows, but yes certainly you would expect delays in the banking system. I'm sure the European Union will do everything it can to keep things moving because there's no alternative really to that.

LEWIS: No and of course to keep Greece in the euro.

HAYNES: Indeed.

LEWIS: They've made that very clear. Whether they'll achieve it is another matter. Robin Haynes of Currency Index, thanks.

Well closer to home, of course, many people will have been concerned about headlines this week suggesting that a full-blown euro crisis could push up interest rates on mortgages, potentially affecting millions of people. One newspaper is reporting this morning that there's a mortgage drought led by, yes Santander, which has reduced its lending to people buying homes. And even those who already have a mortgage with Santander are concerned.

ANNA: Hello, my name's Anna. My question is we're 2.5 years into a 5 year fixed rate mortgage with Santander. We wondered if there was any risk to our home if we were to stay with Santander and would the advice of the panel be that we ought to be moving to a UK based mortgage lender bearing in mind we'd need to pay around £10,000 for early repayment fees?

LEWIS: Right, well that was one worried listener and we've had another emails along those lines as well. Ray Boulger in fact is the panel. He's Senior Technical Manager of mortgage brokers John Charcol. Ray Boulger, advice for Anna and others like her. Any reason to take a mortgage out of Santander?

BOULGER: Absolutely none at all, and I think the first point to make is Santander is a UK based mortgage lender. Santander UK obtains its deposits from the UK and it has virtually no assets outside the UK. So you know it should be regarded just like any other UK bank.

LEWIS: And in fact perhaps a bit safer than some of them because a lot of them do have interests in Europe, don't they?

BOULGER: Absolutely, I would regard it as one of the safest UK banks. If you look at banks like Lloyds, they've got quite heavy exposure to Ireland, for example. Barclays have got big exposure overseas. In fact most of the banks have. So I think in many respects Santander UK is one of the safest UK banks.

LEWIS: And is there a mortgage drought coming? I mean if Anna had to remortgage, that could affect her if she was looking for an alternative.

BOULGER: Well frankly that's already been happening. With this particular crisis in Greece, this has been on a slow burn for 2 years and that means that banks have been able to prepare for it; and, as was said earlier in the programme, a lot of banks have reduced their exposure to Greece and have now got very little exposure to Greece. And we saw Santander cut back the amount of lending it wanted to do from about mid-February. They changed their criteria, particularly with regard to interest only mortgages, and reduced the amount of lending they want to do, and in their first quarter results a couple of weeks ago they said there will be negative lending territory this year, so they are cutting back.

LEWIS: Right, so that's one bank. But of course the Bank of England has said that if funding costs for mortgages didn't fall mortgage rates must rise. It warned that in its inflation report earlier this week.

BOULGER: You see this has already been happening. To some extent that's backward looking. If you look at mortgage rates for new business over the last 3 months, on average they've gone up by about half a point, and that largely reflects the difference between supply and demand. With some of the big banks cutting back on what they're lending, even though some of the smaller players are looking to increase their share of the mortgage market, they don't have the capacity to pick up all the slack. So demand's exceeded supply, partly for the reason I've just given but also because demand for property in the first 3 months of the year was quite strong. That's easing off a little bit now and that's the fundamental reason why rates have been going up.

LEWIS: Yes and we have seen them go up, haven't we, for six lenders at least, over a million people? How should we protect ourselves, Ray? Should we be looking for a fixed rate deal?

BOULGER: Well I think people certainly need to take even more than they may normally do a long-term view of their mortgage. People tend to think even though their mortgage may be for 20, 25, 30 years, they look at the initial term of the deal.

It’s really important to look at what will happen after that initial deal finishes. Now with some lenders - Barclays, for example, Barclays Woolwich - you always revert to a term tracker; and although that tracker tracks Barclays’ bank base rate, that’s always followed the bank rate, so that gives you some long-term protection even if you take a short-term deal. You can take a term tracker which obviously gives you the same degree of protection. And I think a good way of looking at whether you take for example a 5 year fixed rate or a term tracker is to look at the premium you’ve got to pay for that security. It’s about three quarters of a point depending on the loan to value. And so for a lot of people, even though rates are likely to stay low for quite some time, paying that sort of premium will be a price worth paying for security.

LEWIS: And, Ray, you’ve got five seconds to tell me if Greece leaves the euro, how will that affect the mortgage market? Will it come to a halt for a while?

BOULGER: In the short-term, I don’t think it will because it’s factored in. The big question is how much contagion is there going to be. It could get nasty later in the year.

LEWIS: Ray Boulger of John Charcol, thanks very much.

Well one effect of the continuing crisis has been seen already: the pension you can buy with the money you’ve saved up is at a record low. A man aged 65 with £100,000 to buy a pension for life will get barely £6,000 a year; £3,500 if he wants it to rise with inflation, and less if he wants to provide for a widow. A woman of that age will get slightly less. And that’s for £100,000. The average pension pot is a quarter of that. With me is Billy Burrows, an annuity specialist and Director of the Better Retirement Group. Billy Burrows, those figures of what you get for £100,000, they’ve fallen by more than 10% in a year. Why is the euro crisis cutting the amount we get from our pension pot?

BURROWS: I mean very simply annuities are based on gilt yields, and as people have been concerned about Europe, they've invested in UK bonds. The price has risen and the yield has fallen and annuity rates have fallen in line.

LEWIS: Right, so it really is just that arithmetic. And will it get worse if the crisis carries on?

BURROWS: Well I mean that's the million dollar question. At the moment the bond yield we follow …

LEWIS: *(over)* It's probably the hundred billion dollar question actually.

BURROWS: … yields you know 2.4%. You know for another 10% fall in annuities, we'd have to see bond yields down to you know 1.5% and I don't think that's realistic in the short-term.

LEWIS: And those figures we've been discussing, they're best buys. If you work at it, you can get a lot less than that, can't you, just by buying the wrong annuity?

BURROWS: Ah, well that's right. I mean we've covered this on this programme before and you can get better annuities for poor health and so forth, but of course shop around is so important.

LEWIS: And finding the best deal. What about those who don't buy an annuity though? You can take drawdown from your fund if you've got enough pension beside it and we've heard from people whose income has been halved recently.

BURROWS: Well that's right, I mean that reflects the fall in bond yields. There was a technical adjustment where the maximum limit fell from 120% of GAD to 100. But the good news is …

LEWIS: And GAD is the rate set by the Government Actuary's Department of what you can have, take from your money?

BURROWS: That's correct. That's the maximum income from a drawdown plan.

LEWIS: Right. And also the other side of it, I suppose, is people who are paying into a pension. They're not looking to retire in the near future, but they've seen the value of shares in London fall 5% this week, nearly 12% since March. They're being punished both ways, aren't they; the value of their pot is falling and what they'll get for it at the end is going to be lower?

BURROWS: Well that's right. I think there's two things there. Those people who are a long way from retirement can you know invest through it, but those people approaching retirement are in a really difficult place. On the one hand, they need to think about investing in safe assets to protect their fund. On the other hand, quite naturally they'll be saying if they've had losses, you know will it bounce back? But my message is the priority is to hang on to what you've got rather than to make more.

LEWIS: Well yes. Maybe put it in a cash fund?

BURROWS: Well that's right. Again be careful where you invest it.

LEWIS: Crystallising your losses at that point. And okay it's bad now. Will it get worse? What if Greece leaves the euro and what if after that the euro itself gets into difficulties?

BURROWS: Well I mean all eyes are on what happens to the UK bond markets. And I think we'll see yields fall slightly, but I don't think it's going to be as bad as we've seen in the last year.

LEWIS: Okay Billy Burrows from Better Retirement Group, thanks.

And finally back to the nitty-gritty from bond yields. What do you do about buying currency if you're going off for a bit of Greek or Spanish or Euro sun? David is just one of many off to Greece wondering what to do about money.

DAVID: We're going on holiday to Crete in September and we would normally buy our euros a week or two beforehand, but because the pound to euro ratio is good at the moment, we were going to buy them within this next week or so. However, with the Greek election results throwing up confusion as to whether Greece would stay in the euro or resort back to the drachma, is it wise to buy the euros now or wait and see? If we buy euros now, would we need to change them for the drachma if Greece leaves the euro, or would there be some kind of transition from the euro to the drachma?

LEWIS: Yes, I've never heard the word drachma said so much as I have in the last week, I don't think. With me is Simon Calder, Travel Editor for the Independent newspaper. Simon, very common question, I'm sure you're getting it all the time: what to do about currency if you're going to Greece?

CALDER: Well I'm lucky enough to be going there next month. I'm looking forward to it very much indeed. It's a fantastic time, if I may, to be a traveller anywhere in the Eurozone and in particular in Greece, partly because demand is soft at the moment and there's a fixed supply in the short-term, so holidays are very, very cheap. Going to Corfu on Wednesday, £153 for a week with Thomson. And of course if you book a package then you are transferring the risk to them; they have to look after you. In terms of when to buy the currency, well I went round last week and collected my 500 euros and I must say it's much more a question of where you change your money than when. Just in London I found a spread between £468 to buy 500 euros (and that was at St. Pancras Station) to £406 at a hole in the wall bureau de change in West London.

LEWIS: Of course they're good because they're getting lots of foreign currency in, aren't they, and they want to give it back to you?

CALDER: And I got more currency than I thought I would need because I am not going to rely on plastic. I've been through one of these countries leaving a currency zone before. The Soviet Union fell apart in 1991. Absolutely awful for the people of the various republics. For the tourists, it was slightly inconvenient, that's all, and they just want cash. Look at the papers …

LEWIS: *(over)* They wanted American dollars in the Soviet Union, as I recall.

CALDER: Well actually the deutschmark is just as good, but dollars are very good.

LEWIS: *(over)* Or was just as good.

CALDER: I am certainly not going to rely on plastic because we've already seen pictures of people taking all their savings out of ATMs. I mean have a prepaid card, have a debit card, but if there's no money in the machine you won't be able to get any out. Some people are recommending travellers cheques, which I think are a bit last millennium. Just cash in euros. Even if in September they are spending a new drachma there, you can be absolutely sure that the one currency that will have the thinnest spread relative to the drachma is going to be the euro and that is the currency to be in. It's basically just a diluted deutschmark, isn't it?

LEWIS: Yes, I mean euros would be very popular if they moved to the drachma, I should think, if you've got them without the stamp over the top that says one new Greek drachma. You mentioned not relying on credit or debit cards. I mean in the past I have often said well that is the best thing to do because you get the Visa or the Mastercard conversion rate as long as you've got one that doesn't charge you every time you use it. You're saying there might just be a danger they won't work now?

CALDER: Well, look, already this is happening. Talking to people who are just back from Greece, they're saying we found it very difficult to use plastic even in quite sort of upmarket restaurants and hotels. The hotel I've booked for next month, they said okay how are you going to secure the room, and I said well you can have a credit card number or transfer some money, and they said actually we'd like 100 euros in cash posted to us registered. *(Lewis laughs)* And it got there. So it's a cash economy.

LEWIS: It's 21st century, I think, yeah. And briefly the rumour that you shouldn't have euro notes issued by Greece or printed by Greece with this Y prefix.

CALDER: There's an awful lot of nonsense going around.

LEWIS: It is nonsense?

CALDER: Okay, yes, if you've go an X there, it's a good German euro, but they're all equally valuable.

LEWIS: And in five seconds, if you're worried about unrest in Greece or other places, can you cancel your holiday?

CALDER: You almost certainly can't without losing some or probably all of your money.

LEWIS: Simon Calder from the Independent, thanks very much. Well that's all we have time for, I'm afraid. Thanks for all your questions and thanks to the wonderful people here who answered them. There are links on our website: bbc.co.uk/moneybox. You can of course download or order the regular Money Box podcast and listen to it all again, and in a few days you'll be able to read a transcript of this euro crisis programme for the fiddly bits you didn't write down. If you want to know how a country could leave the euro and what the effects would be, Analysis looks at that tomorrow evening at 9.30 here on Radio Four. I'm back on Wednesday with Money Box Live, this week taking your questions on student finance. Back with Money Box next weekend. Today the reporter was Bob Howard, the producer Emma Rippon, and I'm Paul Lewis.