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MONEY BOX

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LEWIS: Hello. In today's programme ...

SMITH: Once more banks aren't thinking about their customers. They're thinking about what works for them.

HENDERSON: They're saying "it's for our customers' benefit." That just seems insulting to me.

LEWIS: The not so happy customers of Halifax. Find out why. In the biggest shake-up of the way mortgages are sold - perhaps ever - borrowers and lenders could be forced to get up close and personal.

HOLLINGWORTH: Other miscellaneous goods and services?

WALKER: The last time I went to the hairdresser's was in May, and it shows.

LEWIS: How to make a bank collapse in Dutch.

LAKEMAN ANNOUNCEMENT:

LEWIS: Translation later. And the Revenue takes a quarter of a billion pounds from

older people by mistake. How to get it back.

But we start with those angry customers of Halifax Bank of Scotland who've been contacting Money Box to complain about charges to the amount they're charged for an unapproved ... I'll start that again. Been contacting Money Box to complain about changes to the amount they're charged for an approved overdraft. From December 6th, more than 6 million customers will be charged a flat fee of £1 a day even if they're just a penny overdrawn. The fee rises to £2 a day if the overdraft exceeds £2,500. No interest will now be charged on the amount owed, but many customers have told us they'll end up paying a great deal more even though the overdraft has been approved. Some are threatening to close their accounts and Bob Howard's been talking to them. Bob?

HOWARD: Paul, at the moment Halifax and Bank of Scotland customers pay interest per day on any agreed current account overdrafts. That means they can have one for part of a month or even much longer periods without feeling they're being excessively penalised. But in six weeks that changes for all customers except those with student accounts. Money Box has calculated anybody with an overdraft below £1,872 is going to be worse off as a result, and that's really putting listeners backs up. Nicola Henderson from Leeds feels the new charging system is completely disproportionate.

HENDERSON: I was really annoyed when I got the letter on Monday evening. It's just like a massive increase in the amount of money that I'll be paying out.

HOWARD: So what difference will it make to you personally, do you think?

HENDERSON: At the moment, I pay roughly say £1.50 in interest charges every month for being charged interest on my overdraft. Now that'll probably increase to about between £10 and £14 in a month, which is like 660 odd percent increase.

HOWARD: And the Reverend Tim Smith from Plymouth is also deeply unhappy.

SMITH: The change in our case, if I compared one month on another, goes from a fee of 24p for a month to a fee of £12. And the fact that they can apply a charge of £1 for an overdraft of a penny per day, it's beyond loan shark-ism.

HOWARD: Listeners are not just worrying about their own finances. Adrian Greenwood from Oxford is also concerned this way of charging a flat rate for running an overdraft means customers getting deeper into debt.

GREENWOOD: It's going to encourage people to borrow more because there's no additional cost to borrowing up to £2,500 if you're already overdrawn by £50. So it's fundamentally irresponsible.

HOWARD: And if that wasn't enough, the way the bank's explaining the change is also upsetting listeners. The letter being sent out by HBOS stresses the fees are 'simple and easy to manage' and implies this is the reason for the change. But listeners Nicola and Tim believe this is another example of banks being out of touch with their customers.

HENDERSON: They think that they're untouchable and that they can do whatever they want and that the little person in the street has no choice but to accept it, and I don't think that's fair.

SMITH: I think I'm just really disappointed that once more banks aren't thinking about their customers; that they're thinking about what works for them.

HOWARD: So do you think you're going to stay with the bank?

HENDERSON: I'm looking into moving my bank account.

SMITH: We're moving our bank account today, as it happens.

LEWIS: Well just some of the many, many angry Money Box listeners talking to

Bob Howard. Halifax Bank of Scotland had to be rescued last year after it lost more than £10 billion. It's now part of Lloyds Banking Group, which was itself rescued by a £17 billion government bailout. It's now 43% owned by taxpayers. That's you, me, and indeed the Reverend Tim, Adrian and Nicola. But the bank we partly own refused all our requests for someone to come on Money Box to explain the new charges to us, its shareholders. But with me is Martin Hocking, Editor of consumer magazine *Which?* Not implying you're second best in any way, Martin. (*Hocking laughs*) Now these new charges, as Bob said, the bank does say they're simple. And they are, aren't they? £1 a day if you're overdrawn, £2 if it's more than £2,500, and £5 if it's unauthorised. They are simple. Are they fair?

HOCKING: They're simply outrageous. This is just appalling. We can look at extreme examples of saying oh if you're a penny overdrawn, it'll cost you this. Let's look at a real scenario. 70% of people who use an arranged overdraft - that's an overdraft given to them by their bank - are overdrawn by less than £500, so let me quote you a real example of what would happen to a real person. You're overdrawn by an average of £200 for 15 days a month. Under the current fee structure, you would pay £16 a year in interest. Under the new structure, you would pay £180 a year. That's over ten times as much.

LEWIS: And of course one of the things people have been saying to us is these are actually *arranged* overdrafts. They're not *unapproved* ones. So the people who've been following the rules are going to be much worse off, and some people who haven't will actually be better off under the new system.

HOCKING: Absolutely. If the bank did not want you to be overdrawn, if it felt this was in some way damaging to its business, why on earth did it give you that overdraft in the first place? And I can answer that question. The OFT study showed that banks make more revenue from current accounts per year than from savings accounts and credit cards combined. Something like £8 billion was the figure I saw. This is simply a case of a bank trying to take even more money from its customers.

LEWIS: Now of course £1 a day (**Note: Editors correction**) may not seem very

much to someone on a good banking salary, but for some people - pensioners, people on jobseeker's allowance, they all have to have a bank account - it can be a fortune, can't it?

HOCKING: Absolutely. And, again, the Office of Fair Trading research into current accounts shows that the people most likely to use an overdraft are the young, the less well off, and those very people who are feeling the pinch right now in the recession.

LEWIS: And the bank told me it didn't have to quote APRs on these because they were a fee, but some of them can be thousands of percent, can't they?

HOCKING: Absolutely. I mean again, if we take a real example: you're overdrawn by £100. That equates to 365% interest.

LEWIS: Yes, I mean it is absolutely extraordinary. Now what should Halifax customers do? They've been complaining and got nowhere. What should they do?

HOCKING: Okay, if you do nothing you're going to continue to get stitched up. The one fair thing about this is you've got six weeks before these fees come in on 6th December to move. The OFT report said 'low consumer switching in particular has reduced incentives to compete. We allow the banks to get away with this because people only *think* about switching. They *don't* switch. This weekend, if you do nothing else ... If you're an HBOS customer and you have an arranged overdraft, you are almost certainly going to be worse off as a result of these changes. Get online and find a better deal.

LEWIS: And it is though maybe difficult for people who are overdrawn to switch.

HOCKING: It would be difficult if you were in that 5% who were around £2,000 or more overdrawn. As I said, 70% of people who are overdrawn are overdrawn by £500 or less. Let me just quote you a couple of examples of banks.

LEWIS: Very briefly, Martin.

HOCKING: First Direct have an interest free overdraft facility up to £200. Alliance & Leicester, for a whole year you are not paying interest on that overdraft.

LEWIS: Martin Hocking of Which?, thanks. And you can have your say on these overdraft charges on our website: bbc.co.uk/moneybox. And, goodness, many of you already have. And we'll be putting these points to Halifax and we'll let you know what the bank says.

Hundreds of thousands of people with a mortgage that comes up for renewal in the next couple of years could face a set of tough questions when they try to find a new mortgage deal. The changes were proposed this week by the Financial Services Authority. It says lenders should always make sure customers can afford to repay the money they borrow. That would contrast sharply with past practice. In 2007, half of all home loans were made without checking the borrower's income at all. The new system though would mean asking borrowers not just about essentials like utility bills, but about *all* their expenditure. So how would they work when they begin perhaps as soon as next year? David Hollingworth from mortgage brokers London & Country asked the new questions to one of our colleagues, Clare Walker.

HOLLINGWORTH: Food and drink ...

WALKER: Yes.

HOLLINGWORTH: ... how much do you think you might spend on that?

WALKER: I probably spend about £60 a week.

HOLLINGWORTH: Clothing and footwear?

WALKER: A pair of shoes - probably, what, 60 quid; a nice pair of boots, £100.

Let's say I buy a pair of trainers. That's 60 quid.

HOLLINGWORTH: And health and personal care?

WALKER: So that's £78 a month. It's something I'm thinking about dropping though.

HOLLINGWORTH: Now alcohol and tobacco?

WALKER: This really depends because I might have a blow-out with my friends and buy Kahlua and vodka and make White Russians and a whole load of beers, and other days I don't drink at all.

HOLLINGWORTH: Here's the catch-all - other miscellaneous goods and services?

WALKER: The last time I went to the hairdresser's was in May, and it shows. But, you know, I have to think about it and because I'm not flush at the moment, I'm thinking no, no, you can't go to the hairdresser's. It might explain why there's always too much month and not enough money. (*laughs*)

HOLLINGWORTH: It does get really very difficult for people to establish what they've got and we could end up spending a lot of time poring over monthly budgets and ultimately we start saying well there's a lot of discretionary spending here that people wouldn't make if they had a larger mortgage payment to meet.

LEWIS: Clare Walker talking to David Hollingworth. Well all borrowers could face those questions in future. And could people be refused a mortgage even if they would be perfectly able to repay it by cutting back on what they spend now? I put this point to Jon Pain, Managing Director of Retail Markets at the FSA.

PAIN: If this process just means that people stop and think and reflect on the fact that they do think very carefully about their financial position - you know which is, as we

already know, the largest single undertaking they're ever going to make in terms of a financial commitment with taking out a mortgage - that they do so carefully and with the full knowledge that they can afford it.

LEWIS: Won't some people just fib though? I mean if somebody smokes forty a day, that's I think more than £300 a month. That will make a big difference to what they can afford. They might just say no, don't smoke.

PAIN: Sure. Paul, all of those are the issues. What we've laid out in the discussion paper is by way of illustration of what some of the existing best practice actually is in the marketplace. As I say, we want to see that adopted by all lenders on that basis, so they put themselves in the position of being responsible for all the lending they give to the borrowers.

LEWIS: The banks of course say to me that it's not in their interest to lend people money they can't afford to repay and this rule isn't needed.

PAIN: Well I think then some of the evidence, and I think one of the things we did do very carefully as part of this mortgage review is analyse some of the actual facts in the mortgage market in very careful detail. As I say, some of the facts that show that 49% of mortgages had no income verification, had no affordability checks.

LEWIS: You mention though income verification, what people often call self-certified or self-cert mortgages, where I say to you "I earn £100,000" and the lender says, "Fine, here's a £350,000 mortgage." I mean it really isn't the way to run a sensible lending policy. But it's going to affect a lot of people now and people are very concerned if they're self-employed, if their income goes up and down because of commission or bonuses, that they're simply not going to get the mortgage that they genuinely could afford.

PAIN: I'm not looking to make it difficult for people who are self-employed, make it difficult for them to obtain a mortgage. A lot of people, either from their tax returns or from their accounts, you know, do have to have other bases of proving their income

over the last couple of years, so I don't think that's going to be an insurmountable barrier for those people getting a mortgage.

LEWIS: One of the other techniques that people have used to buy a house that possibly they couldn't afford otherwise is to have an interest only mortgage where of course the monthly repayments are cheaper because you're not paying off the capital. You are concerned about that. What controls are you planning on that?

PAIN: For all mortgages on an interest only basis, we want them to see a greater clarity in terms of what the repayment vehicle for that mortgage is going to be on a capital basis and also assess the affordability - this is important - assess the affordability on a repayment basis.

LEWIS: So they'd have to prove they could afford it if it was a repayment mortgage even though it isn't?

PAIN: Correct, correct.

LEWIS: And you don't think that by formalising it all and setting down all these detailed rules on all sorts of things, you will actually exclude some people from mortgages who would actually be very good borrowers and would make sure they repaid that debt?

PAIN: Well it's not our intention, of course, but it's always ...

LEWIS: *(over)* No, I know it's not your intention, but is it a possibility?

PAIN: Well nobody can deny in terms of in practice obviously at the margin that might be what happens. But of course we shouldn't underestimate. We are committed to obviously bringing about some more stability in the mortgage market, give consumers better protection, and I think affordability is at the heart of our proposals.

LEWIS: Jon Pain.

The FSA is a fairly late convert to the idea that we don't always behave like rational consumers. A school of academic thought, behavioural economics, believes that is a major flaw in the way financial services are regulated. Dr Pete Lunn is author of 'Basic Instincts: Human Nature and the New Economics'.

LUNN: After years of talk about empowering the consumer and encouraging the active consumer, the regulator is suddenly talking about saving the consumer from themselves. So why the FSA's change of tune? The answer lies in behavioural economics. This isn't merely jargon. It's a scientific discipline - one that's changing how economists and regulators think. Traditionally it was assumed that consumers would act in their own best interests. Regulators just had to ensure consumers had good enough information about what was on offer. But behavioural economists, by doing tests on how people actually take decisions, have uncovered some systematic problems. The evidence shows that in fact, given too much complex information, consumers tend to ignore it altogether. Take mortgages, for example. (*Mortgage Advert*) In theory, we consumers ought to balance our desire for that new house against the dangers of taking on too much debt. The evidence shows that we don't. Instead, we care more about the immediate reward and hope the future will look after itself. (*Loan Advert*) We tend to extrapolate the latest trends. If house prices are rising fast, we assume they will keep going. And we are very influenced by others: if our friends are buying bigger houses with huge, 30 year loans, we assume it's okay for us to do the same. Put all these behaviours together and house price bubbles appear almost inevitable. We come to view property as a failsafe investment. And now the FSA is talking about re-educating us away from the idea. Arguably marketing people have known about effects like these for years, using them to tempt us with their offerings. But now that experimental tests have shown how strong these influences are, economists and regulators are finally waking up to them. (*Advert*)

LEWIS: Dr Pete Lunn.

And now, how to make a bank collapse in Dutch.

LAKEMAN ANNOUNCEMENT:

LEWIS: Well that was Dutch campaigner, Pieter Lakeman. And if you don't speak Dutch, like me, telling customers of the Dutch bank DSB to protest against the bank overcharging mortgage customers by taking their savings out. He made the announcement live on Dutch television earlier this month, and over the next twelve days customers removed about half a billion pounds - a quarter of the bank's assets. Two weeks ago, the Dutch government stepped in to prop DSB up; and earlier this week, despite a last minute rescue attempt, the Dutch courts declared DSB bankrupt. Job done for Pieter Lakeman. But what about the savers who *didn't* remove their funds? Pieter Lakeman said he didn't want to talk to us, but I'm joined live by Professor Jacob de Haan from Groningen University's Political Economy Department. Jacob de Haan, why did Pieter Lakeman tell customers to take their money out?

DE HAAN: He thought that it would be in the best interest of especially those customers who had troubles with the bank; that the bank would go bankrupt.

LEWIS: And it *has* gone bankrupt. Was it in their interest, people who left their money behind? Surely not?

DE HAAN: That's for sure because those people who left their money behind run the risk of losing at least part of the money because only up to a limit of 100,000 euros the account is guaranteed.

LEWIS: And why did so many people do what he said? Why were they so angry with DSB?

DE HAAN: I think it was not only a matter of being angry. The bank was already under attack and being criticised for being extremely aggressive. Many people borrowed much more than they could afford and as a consequence were in severe financial troubles.

LEWIS: But the majority of savers who didn't follow his advice, as you said, they may not get all their money back - do we know really what position they're in?

DE HAAN: Well pretty much in the sense that up to 100,000 euros, as I said, is guaranteed by the guaranteed deposit system that we have. So they will get at least after some time their money back. People who have more than 100,000 on their deposit might get part of it back, but that will depend on how much money there will be left during the liquidation process.

LEWIS: So they've really been left high and dry. Now, as you said, the bank was in trouble. The regulator had already criticised it and fined it in July. Was it really this run on the bank that did drive it to the wall, or were its days numbered anyway?

DE HAAN: Well you never know, of course, but my impression is that before this bank run actually occurred, even though the bank was definitely not in the best of all possible positions, it was not, let's say, near bankruptcy. In fact a few weeks before this bank run occurred, the central bank issued a statement saying that the bank was both sufficiently with capital and with sufficient liquidity. So in that sense, I think without this bank run the situation would be quite different.

LEWIS: Yes. Though of course central banks do tend to say that, don't they, until banks really do go out of business?

DE HAAN: That's not the case. In the Netherlands, the central bank hardly ever issue statements on individual banks.

LEWIS: Okay. Rather different here. Briefly then, Jacob de Haan, this has been called the ultimate act of consumer revenge, making your bank go bust. Could it catch on?

DE HAAN: No, I don't think so because this is really a very special case and not representative for the situation of any other Dutch bank.

LEWIS: Jacob de Haan, thanks very much. And don't try that at home.

One and a half million pensioners have had £250 million too much tax taken off them by the Revenue over the last 6 years. These shocking figures are in a report out this week from the National Audit Office. The average overpayment is £171, but some have lost far more and it can be difficult to know if you've lost it or how to get it back if you have. Mike merged his two small pension funds and, as they were below a certain amount, took them out in cash. A bit of tax was due, but the Revenue taxed the lot and Mike struggled to get his own money back.

MIKE: It was over £2,300. I knew I was entitled to a certain amount of tax back, but the final amount was quite a surprise. The whole process wasn't easy. For example, I had to go down to the tax office to even find the form to claim it back, and they were of no help whatsoever. I first of all tried to find this form online. That was unsuccessful. They also tried to find it online at my local tax office. That was unsuccessful and they told me to go elsewhere, which I did and finally got the form.

LEWIS: Well Mike was sent to the charity Tax Help for Older People. With me is Jane Moore, a tax manager at the Institute of Chartered Accountants for England and Wales, who also volunteers at Tax Help. Jane, I think Mike there got more than £2,000 back, which I suppose is perhaps exceptional. But how is this happening? How can the Revenue take an extra two grand without realising it?

MOORE: Well I suppose there are two things really. One is the tax system is complicated, as we know, but also the way that it's administered is quite complicated, and these complexities can particularly affect older people because of the sort of changes that they have when they retire, start taking a pension, are bereaved and have to sort out their deceased partner's affairs and get their own in order.

LEWIS: Yeah, I mean tax codes work perfectly well if you have the same job all year, don't they? But if you have different sources of income, if they come and go - which they often do, as you say, when you retire - that can cause problems with PAYE.

MOORE: Well that's right. If you have several pensions, you probably have a tax code for each one. Plus your state pension has tax collected on it by putting it in your tax code for something else, and you'll also have allowances and other sorts of adjustments in your code. So they're not intuitive to understand.

LEWIS: And people over 65, and then over 75, with incomes below a certain amount, do get extra tax allowances. Are those always given automatically by the Revenue?

MOORE: No, they're not. And in fact the NAO Report says that something like 3.2 million people don't claim the higher age allowances that they're entitled to.

LEWIS: Now the Revenue tells us things are going to get better because, guess what, it's got a new computer and that's going to sort it all out. Is that really true?

MOORE: Well it has got a shiny, new computer, and the theory of that is it brings together the records into one place for each person, which is good news. But we do know that there are some teething troubles with this, a few things are being left off codes - so the end result may be good, but there are going to be problems in the short term.

LEWIS: Yeah, there's a surprise. And how can people tell? I mean one and a half million pensioners, many of them I'm sure listening to Money Box, how can they tell if it's them that's been overcharged?

MOORE: Well it's very hard to tell. I mean one of the first things I do advising an older client is just get all the bits of paper together and I do a one page almost back of the envelope summary to show where things stand. And you don't really get that from the Revenue. You get a different PAYE code to take into account.

LEWIS: Well perhaps this new computer will give it to us. And very briefly, Jane, if people do have a suspicion or can't do the arithmetic and want to find out anyway,

briefly what can they do?

MOORE: Go to the tax office. They certainly can give you the advice, though you may need to persist to get the answer you want. Go to an accountant or tax adviser. But if you don't want or can't afford to do that, there are charities such as Tax Help for Older People, TaxAid, Help the Aged and Age Concern.

LEWIS: Jane Moore, thanks very much. And links to all of those are on our website. Details in a moment. But, first, Bob, on the subject of tax - a bit of reassurance for people filing paper tax returns?

HOWARD: Yes, the deadline for filing these is next Saturday, 31st October. There's some concern that the postal strike will have delayed the delivery of people's forms and this could mean having to pay a penalty. I spoke to Her Majesty's Revenue & Customs this morning and I was told the self-assessment deadline is statutory and has not been changed by the postal strike. However, I was also told that any tax returns that miss the deadline purely due to the circumstances of the strike will almost certainly not attract a penalty.

LEWIS: Thanks, Bob. And of course if you do miss it, you can file online by the end of January. But that's it for today. Find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox. All sorts of exciting things to do there, not least having your say on those Halifax bank charges. Many of you are already. I'm back on Wednesday with Money Box Live, this week taking your questions on social security benefits and tax credits. Back with Money Box next weekend. Today the reporter was Bob Howard, producer Karen Kiernan, and I'm Paul Lewis.