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MONEY BOX

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LEWIS: Hello. In today's programme, is the Government about to do its first rescue of a building society? Dunfermline says business as usual, but big losses are not denied. Bob Howard's been looking at a new form of mini-bankruptcy.

HOWARD: People owed money aren't keen on the new Debt Relief Orders, but those in debt say they're desperately needed.

KAREN: It got to the point where I was actually physically sick the other week. I still have sleepless nights. I just don't have the money to pay it.

LEWIS: An ex-minister says the Government should stop taking money off pensioners who use their home to boost their income. And we talk to National Savings and look at the best ISA cash deals.

Scotland's biggest building society could be on the brink of a government backed rescue. The Dunfermline Building Society, which has more than 300,000 savers and 35,000 mortgage customers, won't comment on the speculation except to say it's business as usual. But we do know the Chancellor, Alistair Darling, held talks about its problems on Wednesday with the Scottish First Minister Alex Salmond, and the society has not denied press stories saying it's made a substantial loss over the last year. We'll hear from the local MP in a moment, but last night I spoke to Colin McLean, Managing Director of SVM Asset Management in Edinburgh, and asked him what had gone wrong.

McLEAN: I think in microcosm it has some similarities with some of the problems we've seen at banks. It's got involved in lending more aggressively into commercial areas, which brought much bigger risks than its traditional house lending that building societies normally engage in.

LEWIS: Are those problems big enough to be fatal to the society?

McLEAN: They seem to have got quite disproportionately involved in this - so the actual sums involved, although it's only 15% of the assets, it's still quite a loss and quite a lot of potential losses for a balance sheet that wasn't that strong. The company's not been particularly profitable in recent years. As a mutual organisation it maybe didn't feel the need to be particularly profitable and, therefore, it was giving a benefit to members, but all the same it meant it didn't have much fat stored up to deal with the problems that are now emerging in the recession.

LEWIS: And just put some figures on that about the extent of the losses, as you understand them?

McLEAN: Well there's certainly rumours that losses could be anything you know between 50 and 100 million. I'm not sure whether the higher figure is realistic. But unfortunately, coupled with some of the problems in lending in commercial property, it's also suffered some losses on its information technology developments over the past year. It made a write down last year, which was quite a large percentage of profits; and there may be further write downs in that area or even some of its other areas, social housing, to come as well.

LEWIS: Is the board to blame for these mistakes, if we can call them that?

McLEAN: I think on a parallel that we're seeing with some of the banks there doesn't seem to be a lot of real banking experience and qualifications around the non-executive directors on the board and they do seem to have been rather encouraging of management perhaps. They certainly gave management a lot of praise for success over the last year and seem to have misplaced confidence in the financial strength of the building societies. So it doesn’t look as if the board are coming out of this particularly well.

LEWIS: Of course it has had some change in management, hasn’t it, because its Chief Executive departed I think in December?

McLEAN: Yes, that came on the back of the announcement about the information technology losses and it promoted someone who’d been recruited as Chief Operating Officer.

LEWIS: What do you think might be the solution to this overall problem? With losses like that and mistakes like that being made in the past, what is the future for Dunfermline Building Society?

McLEAN: The society has a good deposit piece and it is a good heartland of lending in Scotland if it sticks to that. So I think there’s a viable business and an organisation which is worth supporting there, but it will need to retrench a bit and, with the additional support it gets, perhaps make some changes. In the sector what has happened to date with building societies is generally we’ve seen them taken over by larger ones and this would be the first time, perhaps, there would be some support injected but without the organisation being swallowed up by another. So that’s a tough challenge for the Treasury to be able to direct it without nationalising or controlling it directly.

LEWIS: Colin McLean of SVM Asset Management. Well live now to Edinburgh to talk to Willie Rennie, the Liberal Democrat MP for Dunfermline and Fife West. Willie Rennie, do you share Colin’s view of the causes of this?

RENNIE: I mean that’s my general understanding, particularly on the capital market exposure and the IT system. Those seem to be the major problems that have been imposed upon the company. I mean the second aspect, however, is the government penalty, is the capital requirement and also the Financial Services Compensation Scheme which has required excessive sums of money to be set aside in reserves but also to be compensated for the

Icelandic banks and Bradford & Bingley.

LEWIS: So this is the contribution by building societies to pay the people who had savings with the failed banks. How much is that in this case? Do you know?

RENNIE: I mean 7.2 million is what I believe it is for the Icelandic banks, London Scottish and the Bradford & Bingley from the Dunfermline Building Society. So that’s quite a substantial sum of money.

LEWIS: Yes, it certainly is, when it’s running at the edge anyway. Now what kind of rescue would be best here? What do you think is going to happen?

RENNIE: I mean I would like to see a partnership between the mutuals, perhaps the biggest mutuals in the UK and the Government, because it’s important that the mutuals look after their own. This is the mutual sector’s reputation at stake here. So I’d like to see them being involved in any kind of deal, but obviously we need government support to make that happen too. So that would be the ideal situation as far as I’m concerned.

LEWIS: And how much government support? What are taxpayers in for? I mean I suppose there’s pressure, isn’t there, because ten of the branches are actually in Gordon Brown’s constituency, as I understand it?

RENNIE: Yeah, that’s right. I mean I’m not privy to the actual sums of money involved and I wouldn’t like to speculate on that either.

LEWIS: No, but something from the Treasury in London, but also, as I understand it, something from the Scottish Executive?

RENNIE: I mean the Scottish Executive have obviously got a vested interest in the Dunfermline continuing to be a strong society because the housing, the social housing sector in Scotland is in the main funded by the Dunfermline Building Society to a large extent. So they will have a vested interest in keeping that going.

LEWIS: But of course any rescue of a bank or a building society raises fears of the people who are customers of it. What about savers? Is there any indication they're concerned?

RENNIE: I mean this has been a traumatic blow to local savers who for 130 years have treated the Dunfermline Building Society as a trusted friend. So there is concern, but there's no evidence that there's anybody withdrawing sums of money. And neither should they because there's guarantees that their savings will be safe.

LEWIS: Yes indeed and I did speak to the Treasury yesterday, or Moneybox spoke to the Treasury, and they said authorities will take whatever steps necessary to protect savers. So I think that's fairly clear.

RENNIE: Yes, absolutely, there's no concern there.

LEWIS: And Willie Rennie, when do you expect to hear more?

RENNIE: I mean I would hope a deal would be announced next week. Perhaps the results will be announced at the same time as well. So I would hope this would be resolved pretty quickly because the longer a concern goes on, the greater the fears are locally.

LEWIS: Willie Rennie, thanks very much for talking to us.

People with debts up to £15,000 may be able to get them written off under new procedures which start in April. Bob Howard's been looking at how these Debt Relief Orders will work. Bob?

HOWARD: Well Debt Relief Orders are a bit like mini-bankruptcies, but instead of going through a court you apply to the Insolvency Service through an intermediary like Citizens Advice. To be eligible, you can't be a homeowner, have more than £300 in assets like savings or more than £50 a month in disposable income. Karen from North Yorkshire is going to apply. She took out loans when she had a job. Now she owes £8,000 to a number of creditors, has almost no assets and no earned income. She says the strain of being in debt is affecting her health.

KAREN: It was like offered to me on a plate years ago. I thought oh, yes, great, no problem. At the time I was working and I thought I could pay it all back. I had a couple of them last week phoning me up every day, at least two or three times in the day. It got to the point where I was actually physically sick the other week. I still have sleepless nights because I'm worried is there going to be any more coming on my door because I just don't have the money to pay it.

HOWARD: Applying for a Debt Relief Order is much simpler and cheaper than bankruptcy. It costs £90, which can be paid in instalments, rather than the hundreds of pounds it costs to go bankrupt. Sue Edwards from Citizens Advice welcomes their introduction.

EDWARDS: They offer people on very low incomes who cannot pay their debts off within their lifetime light at the end of the tunnel. For many people, they're in debt because their circumstances have changed since they took the credit out - they've lost their job, they've become sick or their partner's left them - and what was manageable credit turns into unmanageable debt. If their financial problems are going to be long-term and they're not going to be able to afford to pay their debts, then some form of debt relief like a Debt Relief Order is very important.

HOWARD: If the order's granted, the debts are discharged after a year; although if your circumstances change within that time, you're obliged to pay back the people you owe money to. Some of them are not happy with the new arrangements. They're worried they're too cheap and too easy to apply for given the serious situation people with debts find themselves in, and they're concerned debtors' financial affairs won't be sufficiently scrutinized, so people with assets over £300 and with bigger incomes will be applying and getting the orders. Jeremy Sutcliffe is Vice President of the Civil Court Users Association.

SUTCLIFFE: £15,000 is a lot of money for creditors. I don't think filling in this form is going to be any worse than renewing your insurance or something like that. What I like is the fact that debtors feel that there's a serious process to work out what they owe and what should be done about it, and I'm afraid a lot of this is based on information you've no idea how much of it is fact and how much of it is fiction.

HOWARD: He thinks measures like this have pushed the balance too far in favour of those in debt.

SUTCLIFFE: We believe that the Government is continually assisting debtors at the expense of creditors when what they said a while ago was they wanted to help creditors to get the money they owe back from people, and we think these sort of things get in the way.

HOWARD: The Insolvency Service, which will decide whether or not to grant an order, says intermediaries will be expected to make basic checks and anybody found to be dishonest can have their order revoked. And if you're granted a Debt Relief Order in one year, you can't then apply for another one for another 6 years. Pat McFadden is the government minister responsible for the Insolvency Service. He believes that there are sufficient measures to safeguard creditors' interests and that orders are needed to stop people in debt resorting to desperate means.

McFADDEN: It's certainly not a get out of jail free card. Creditors will be written to and told by the official receiver that someone has applied for this. They'll have a chance to object if there are undeclared assets. But provided it's legitimate, that person than has 12 months to turn their affairs around and perhaps get out of what for many can be a hopeless situation, which if it was unresolved they could even find themselves being driven into either very high interest lending or even loan sharks.

HOWARD: Paul, it seems many people in England and Wales are likely to apply for a Debt Relief Order this year. Citizens Advice estimates around a third of clients they advise on debts each year could be eligible. That's more than 50,000 people.

LEWIS: Thanks Bob. Very interesting.

A former minister in the Department for Work and Pensions is to ask the Government to stop penalising retired people who raise money on their home. At the moment anything they raise can be taken off any means tested benefits they receive like pension credit and council tax benefit. More than a million retired people are thought to have a house worth more than £100,000 but an income low enough to get these means tested top-ups. Some are put off raising money on their home by the fear of losing as much as they would gain. Money Box listener Margaret asked this question on a recent Money Box Live.

MARGARET: Regarding the equity release, would I be better off having that and possibly losing some of the financial benefits of pension credit?

LEWIS: Well live now to Baroness Patricia Hollis who's calling for the change next week. Patricia Hollis, you're raising this in the House of Lords. What are you asking ministers to do to help people like Margaret?

HOLLIS: Well I think it's really important that pensioners whose only asset is their home and their income is very low, who want to be able to invest in their home with a downstairs loo or a walk-in bathroom so they can have the choice of staying there for the rest of their lives, can get access to the equity in their homes without losing their pension credit. Now we have good products, good equity release products because they're regulated by the Safe Homes Income Protection plans of SHIP, which is the trade body. So that's fine - they're safe and they're decent. But the problem is, as your listener Margaret asked, at the moment if you take out say £10,000 or £15,000 equity release from your home, that immediately would wipe out your pension credit, so you lose it pound for pound. And I think this is silly.

LEWIS: Yes. I mean it's complicated though, isn't it? The rules are very complicated. With capital, it adds to your income and that reduces your benefit. Do you think people who go in for this really understand that that might happen?

HOLLIS: Well I think they do understand it, which is why they don't go in for it, because frankly you'd be silly to go for equity release if you're on pension credit under the existing rules if you're you know coming into pension age. But what I'm hoping we can persuade government to accept is that precisely because people *don't* draw down equity release and it therefore costs society more in the long-term if they go into residential care as well as making a lot of people have to take choices they don't want to take, then because they *don't* do it there's virtually no cost to government because if they were able to draw down equity release to put it back into their own home for care or for improvements in their home, then government wouldn't be losing any money they would otherwise get.

LEWIS: Do you think though that some people, perhaps who live next door to someone who did this in the future, who have money from another source and that stopped them getting pension credit would feel it was a bit unfair that money they'd saved up was treated differently from money released from the house?

HOLLIS: Well that's possible. But at the end of the day if you only have assets in your home and you can't access them because you lose your income, then you end up possibly with an elderly person going into residential care, the children may lose any money, and it costs both local authorities and the state far more money. So I think equity release can be for some people a win-win, but to do that we've got to sort out the pension credit rules.

LEWIS: Yes I can see that and I can see the sort of balance at the end, but of course the Treasury very often doesn't think like that, does it? It looks at the actual cost.

HOLLIS: That's true.

LEWIS: What is this going to cost and what implication have you had they'd pay for it?

HOLLIS: It wouldn't. I mean you're right - if you had a general increase in the pension credit rules, so everybody with existing savings now found that for example anybody with £15,000 of savings rather than say £6,000 of savings could still claim pension credit, then you'd be talking about bills between 200 and 250 million pounds. So you're absolutely right. But as far as equity release is concerned, nobody takes equity release at the moment. They wouldn't touch it because it would cost them their pension credit. So, therefore, there is no outgoings or losses to the Treasury.

LEWIS: No net cost. It's a clever argument, Patricia. Let's hope the Treasury takes it up. Thank you very much for talking to us.

HOLLIS: I think it's a decent argument, which is why I hope we ought to succeed.

LEWIS: Indeed.

HOLLIS: Thank you.

LEWIS: Thank you very much. And you can have your say on this problem of equity release and means-tested benefits on our website, bbc.co.uk/moneybox.

Now there's new evidence this week that many people have been saving more - perhaps money for emergencies or as a buffer in these turbulent economic times. That was just one finding of a comprehensive survey of 12,000 people by National Savings & Investments. Peter Cornish is its Director of Customer Offer. I asked him first how much were regular savers now putting aside?

CORNISH: People are saving regularly now over £200 a month, which is the highest figure that we've seen since we began the survey over 4 years ago.

LEWIS: And you say people are saving that, but of course it's not everybody, is it?

CORNISH: No, these are the regular savers. So just over half of the population are saving regularly and this is the £200 a month that we're seeing at the moment, which is an increase since the last survey in the autumn.

LEWIS: Do you think that's because they want the safety of cash rather than risking money on the stock market or other things?

CORNISH: Part of it that we're seeing in the current survey is saving for what we call a rainy day, so for an emergency, so they need quite quick and easy access to the money.

LEWIS: So it's people who don't want their money tied up. They want to be able to get at it. And, presumably, they want it to be earning a reasonable turn, but that's very, very difficult now, isn't it?

CORNISH: Base rates have fallen from a year ago from over 5% down to the current rate of half a percent, and as a result of that savings rates have also fallen.

LEWIS: And your savings rates of course are very low now, aren't they? I mean the premium bond prize fund has gone down to 1% and I think on income bonds you're only paying 0.7% for savings under £25,000. It hardly seems worthwhile.

CORNISH: What we're trying to do is to balance the needs of savers with those of the taxpayer in terms of raising money, but also not having here today gone tomorrow rates.

LEWIS: Yes. I mean there's also a sense that people want somewhere safe for their money, isn't it? They want to be sure that the money they put in, they can get out when they want it, and nothing really is much safer than National Savings because it is government backed.

CORNISH: Well we do have the 100% guarantee. But it's not just that. People also want to deal with an organisation where people understand them as a customer. They can speak to, for example, our call centres where they have over 20 years experience on average.

LEWIS: There is a sort of sense that you're exploiting savers. Because you have this 100% guarantee, you are not keeping your rates as competitive as they have been. I mean just for an example, your direct ISA is 1.3%. Well you can get 3% with other providers. The 3 year index linked certificate is 1%. You can get over 4% on a 2 year bond with other providers. You're nowhere near the best buys, are you?

CORNISH: What we're trying to do, as I say, is to balance the needs of savers, recognising that there is a lot of volatility in the rates that are around. Many of the providers are offering bonuses, which are short-term. With National Savings & Investments, we are being consistent and not offering things that you have to catch the customers out.

LEWIS: And just talk to me a bit about premium bonds because that's something else we've had emails about. They really have been slashed, those prizes. You've halved the lowest prize from £50 to £25. You've slashed the number of bigger prizes. I think there used to be more than 200,000 bigger prizes. Now there's about 40,000. And the odds of winning have been cut over the last year. Why have you taken the axe to premium bond prizes?

CORNISH: Well we last changed the rate on premium bonds in December of last year, and since then base rates have fallen by 2.5%. The change that we're making next week for the April prize draw is to reduce the rate from 1.8% to 1%. So even now it's still double base rate and we promise to hold that rate for the next three draws.

LEWIS: Yes, but when people have got a big holding of premium bonds, they're now going to be getting £25 cheques, aren't they, rather than £50 cheques?

CORNISH: Customers have said to us that what's important to them is the frequency with which they win prizes. They like the envelopes coming through the door on a regular basis. And in order to do that, what we've done is to redistribute one of the million pound prizes across the whole range of prizes and then introduce the £25 prize so that we can maintain this frequency of winning.

LEWIS: Peter Cornish of National Savings. Well if National Savings' cash ISA isn't a market leader, what are the choices for your cash with barely a week left to get money into an ISA for this year? Cash ISA's are suitable for any cash savings up to £3,600 a year, but you have to use the allowance by April 5th. With interest rates plunging, are there really any good deals out there? Live now to Michelle Slade from the comparison company Moneyfacts. Michelle, best cash ISA rates. What can you get?

SLADE: Yeah, well if you're looking for a variable rate account, then the top rate on offer probably is from Barclays Bank. That's 3.55 on their Golden ISA. Alternatively NatWest has got their Cash ISA Plus that pays 3.45.

LEWIS: It's interesting, isn't it - it's the banks at the top? That hasn't been the case for some time.

SLADE: It hasn't, no. It's really switched on its head really. You know we used to see the best rates from the building societies, but this year for the ISA's it's been yeah the banks.

LEWIS: And what about the fixed rate if you're willing to tie your money up for a year or more?

SLADE: Yeah, I mean the top one at the moment is Leeds BS. Their 5 year fixed rate bond is paying 3.5 and that allows you to take 25% out during that term penalty free as well, which you don't get on many fixed rate ISA's.

LEWIS: These really sound quite good rates compared with bank rate of 0.5%. What are the new things to look out for though because some of the banks and building societies are introducing … I won't call them tricks, but conditions that punish you if you do the wrong thing?

SLADE: Exactly, yeah. I mean some of the … If you're in time for the fixed rate ones, you know there's not much access; and if you come out there's transfer out penalties, you know 180 day loss of interest sort of up to … You know also you've got to check whether you know you can transfer in. Some of them will only just accept this year's ISA allowance, which you know may not be suitable for you if you've got you know previous years allowances as well.

LEWIS: Yes. So tell us which ones you can transfer in because people often take this moment of the year, don't they, to think well I've got many thousands of pounds in a cash ISA, I'll move it to the best rate for the next year?

SLADE: Yeah, I mean the Leeds BS one, their 5 year fixed rate, that allows transfers in, along with the Halifax's fixed rate ISA. If you're looking for more access, then NatWest has an e-ISA at 3.2. That accepts transfers in, as does the Marks & Spencer's Money Advantage Cash ISA, which pays 3.1.

LEWIS: So lots of names there. And I should just remind people you can read all those on our website in a few days time in our transcript. But Michelle stay with us because, talking of ISA transfers, Money Box has learned that up to 90,000 people who have money in an Icesave ISA and have been repaid have now been given an extra 6 months to reinvest the money without losing the ISA status. The deadline was going to be 5th April, but last night HM Revenue & Customs told me that it had been extended for all Icesave ISA customers who hadn't yet reinvested their money until 5th October. More details on our website a bit later in the afternoon. Michelle, that's good news for these ex-Icesavers. Can they put that into any ISA that accepts transfers in?

SLADE: Yes, as far as we're aware. We've heard no things that they couldn't be able to. So, yeah, you know if you've got your reinstatement certificate, then look around and find one that accepts transfers in and you can keep your tax free status.

LEWIS: Great, and you've got another 6 months to do it.

SLADE: Indeed.

LEWIS: Michelle Slade of Moneyfacts, thanks very much for that.

SLADE: Thank you.

LEWIS: And, Bob, just time for a bit of slightly better news for people buying an annuity.

HOWARD: Indeed. Last week, we mentioned the effect of negative inflation on pension annuities and we said that two big pension companies, AXA and LV, would both cut their annuity rates if RPI inflation went negative. Both companies told us this week they've recently reviewed their policy and neither will cut annuities they provide themselves. If inflation goes negative, they will carry on paying the same. But AXA warned that some annuities sold on behalf of other providers may be cut by their trustees.

LEWIS: Thanks for that, Bob. Well that's it for today. You can find out more from the BBC

Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can do lots of exciting things: download a podcast, sign up to my weekly newsletter, have your say on concessions for pensioners releasing money from their homes, and watch videos. There are personal finance stories on Working Lunch, BBC lunchtimes, BBC Television at lunchtimes. Vincent Duggleby's here on Wednesday with Money Box Live - this week taking your questions on rights at work. A few emails coming in. Somebody's saying they still haven't had their compensation from their Icesave account. I'm back next weekend with Money Box. Today the reporter was Bob Howard, producer Lesley McAlpine. I'm Paul Lewis.