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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme … *(Actuality: ICAP dealing floor)* mortgages being made in the City of London. But with the price of borrowing lower than it's ever been, why are we being charged more? We bring you the bank complaints countdown - who was the worst bank? - and an expert gives us his top tips on how to complain successfully. Bob Howard's been pounding the pavements to find out if local currencies work.

HOWARD: There are now four in different UK locations and this trader's convinced they do.

MAY: There's a little bit of magic with it. People will go the extra penny really to beat the supermarket and buy it here.

LEWIS: And can company pensions be improved by a quality mark?

But, first, why is the price of a fixed rate mortgage going up when the cost of that loan to the banks and building societies has never been cheaper? They pay less than 2%, but typically charge us more than 5. And that 3 percentage point difference is as high as it's been. Two years ago, it was next to nothing. The cost of borrowing is fixed at 2% using something called the 'swap rate', a term we've heard a lot on Money Box over the years, to explain the price of fixed rate mortgages.

There's a very wide range of mortgage rates that will depend on 2 year swap rates *(fades)* Two year swap rates are now down to 3.65%, likely to fall … *(fades)* Two year swap rates, 3 year swap rates etcetera - they've fallen quite dramatically.

LEWIS: But why does the swap rate determine the price of a fixed rate loan? Where do these rates come from? Who makes them? I went to the City of London this week to visit one of the world's top money brokers, ICAP. Its global network of traders handles almost one and a half trillion pounds every day. I was taken down to the dealing floor by ICAP economist Don Smith to meet traders at the interest rate desk where the financial deals that underpin fixed rate mortgages are thrashed out. *(to Don)* So Don, we've come here. There's, what, 15 or so people in front of these large screens full of numbers. What are they doing?

SMITH: Well they're matching buyers and sellers of interest rate swaps. Now I know you're going to ask me what is an interest rate swap.

LEWIS: Don, what is an interest rate swap?

SMITH: Well let me give you an example. You have a bank offering a fixed rate mortgage. The funding for that mortgage is often variable rate. The bank is paying a variable rate of interest on the money that it's lending to you for fixed rate either through deposits, interest on deposits, or it's borrowed that money from the money market.

LEWIS: So when we put our money in the bank or the building society, we are actually lending it the money and of course they pay us a variable rate. That's the source of the money in many cases.

SMITH: In many cases, yes. Banks will also go into the money market and borrow at a variable rate. So the bank's running balance sheet risk. It's receiving fixed rate of interest and it's paying a variable rate of interest. What happens if interest rates go up? Well the bank suffers. And the interest rate swap market exists to enable institutions to transform this variable rate risk into fixed rate risk, and the bank can do this by buying an interest rate swap in the market. It’s simply an agreement to exchange a fixed rate of interest paid over a certain period of time for a floating rate of interest.

LEWIS: What we would call a variable rate.

SMITH: A variable rate.

LEWIS: So we hear a lot about the swap rate. Where is the swap rate so to speak on that screen?

SMITH: Well you can see from the screens now that a 2 year swap rate is currently 1.87%. Now what does that mean? Well if you think about a swap, you’re exchanging a fixed rate of interest - this rate, 1.87% - for a variable rate of interest. You don’t know what that’s going to be over the next 2 years and so you can regard that swap rate, that fixed rate essentially as the market’s expectation of average floating rates over the next 2 years.

LEWIS: So if the market expects interest rates to be 1.87% over the next 2 years, where should fixed rate mortgages be because they’re a lot more than that, aren’t they?

SMITH: They are. Now the interesting thing about 2 year swaps is that we are now seeing these rates at historic lows. Other things being equal, if swap rates are falling then the cost to banks - the fixed rate funds, the funds that they use to lend to the mortgage market - that cost is also falling. In isolation, other things being equal, you would expect that to result in lower fixed rate mortgage rates, and what we’re seeing actually is the reverse.

LEWIS: Why?

SMITH: Risk aversion ultimately, I think, and its balance sheet repair.

LEWIS: You’re talking about making a profit now, aren’t you?

SMITH: I am essentially, yeah. Profits for banks, for lending money for mortgages are rising, as indicated by the differential that's building between fixed mortgage rates and the swap rate. I suspect a lot of what's going on relates to balance sheet repair, but it also I think reflects a lack of competitive pressure.

LEWIS: Well that was Don Smith showing me mortgages being made at ICAP in the City of London. With me is Ray Boulger, Technical Manager of mortgage brokers John Charcol. Ray Boulger, are the lenders just taking advantage of us?

BOULGER: Well in any market the price that you pay for the products you're buying - in this case mortgage - depends fundamentally on supply and demand. The big problem in the mortgage market at the moment is there is not enough supply, and that means that lenders' margins, gross margins certainly are much higher than they have been in the past and so you could say that's taking advantage. Having said that, the cost of funds is not as simple as purely looking at the swap rate. Only in the last month or so have the long-term unsecured loan markets reopened to lenders, and that's really good news because it means they have access to a new supply of money. Now Nationwide, for example, have just borrowed money for 10 to 12 years at 1.85% over Libor.

LEWIS: What's Libor? Now that's the interbank lending rate. What's that?

BOULGER: That's right, 3 months Libor is 0.58%.

LEWIS: Right.

BOULGER: So they pay about 2.5% for that money.

LEWIS: So they're not going to lend it to us at 2.5%, are they?

BOULGER: Absolutely, they've got to make a profit. Barclays and Lloyds have also borrowed money in those markets. Interestingly, Lloyds, although they're semi-nationalised, had to pay more. And so the cost of funds when they buy swap rate is not the swap rate. It's the swap rate plus the actual they're paying over the Libor rate.

LEWIS: Yes, so there's lots of markets and you're saying it's a bit more complicated than looking at that one figure on the screen. Don Smith also talked about balance sheet building, which I said oh that's making a profit, but of course they've got to have these reserves and they've got to build those reserves up, haven't they?

BOULGER: That's right. And because they've lost money in the past on bad debts, etcetera, but also because they've offered mortgages in the past which are now unprofitable - very low margins above bank rate and indeed margins below bank rate - they've actually got to make allowance for that money they're losing in the new money they're lending. And because there's a lack of competition, they can do that.

LEWIS: So we're paying more now because we've paid far too little in the past?

BOULGER: That's one way of putting it, yes.

LEWIS: Don Smith also talked about risk aversion, which we didn't go into, but that means they don't want to lend to people who aren't going to pay the money back. Is that right?

BOULGER: Well certainly because of the lack of competition, banks and building societies are cherry picking much more than they would have done before the credit crunch, but I think an even bigger issue than risk aversion is the capital requirement. Lenders now have to set aside about 8 to 10 times as much capital to support a 90% mortgage as a 60% as a result of new international rules which came in at the beginning of January last year, and that's very costly for them.

LEWIS: That's the money they sort of have tucked away in the vaults in case things go wrong and they have to bring it out to pay?

BOULGER: Correct.

LEWIS: So that's all the sort of City side and how it works and I hope that has helped people understand it. We'll have to have a contest at the end on this question. But people really want to know what do I do? My mortgage is coming up for renewal or I want to get a mortgage. What should they be looking at? Fixed rates are the most popular at the moment. Is that a good way to go?

BOULGER: Well if you look at the last figures from the Council of Mortgage Lenders, that's absolutely right, but what you've got to bear in mind is the figures from the CML are based on mortgage completions and on average it takes 10 to 12 weeks for a mortgage to complete. So we're talking here about mortgages which people decided on back in June, and at that stage we were recommending most of our clients take fixed rates. Indeed about 80% did. Since then, the market's changed considerably. In June the swap rates went up, but fixed rates went up much more, and since then it's become increasingly obvious from comments from Mervyn King and the MPC that interest rates are likely to stay low for longer. So we are now recommending tracker rates for most of our clients and most are now buying tracker rates or discounted rates. Don't discount discounted rates because standard variable rates actually are unlikely to widen the gap between bank rate now, so I think discounts are worth considering as well.

LEWIS: Ray Boulger, thanks very much. And if you can define a swap rate in ten words or less, let us know through our website: bbc.co.uk/moneybox.

Now new figures out this week from the Financial Ombudsman reveal which banks and other financial companies it gets the most complaints about. The tables also show what proportion of those complaints from each company were upheld. On banking and credit more than 6 out of 10 were found in the customer's favour. The Ombudsman hopes that naming the companies will cause them to improve. So who is top of the un-pops on banking and credit? Ruth Alexander has the top five.

CHART COUNTDOWN MUSIC

ALEXANDER: At number five, it's Egg Banking with 78% of complaints upheld in favour of the customer. It's almost neck and neck with Santander Cards UK at number four with 79% of complaints upheld. At three, Shop Direct Financial Services, which provides finance for Littlewood catalogue customers, among others. 80% of complaints about the company were successful. At number two, Capital One Bank Europe. More than 4 million customers in the UK, but 87% of complaints found in favour of customers by the Ombudsman. And straight in at number one, CitiFinancial Europe. That's Citibank to you and me. A chart topping 88% of complaints to the Ombudsman found that customers were right and the bank was wrong.

LEWIS: That was pop picker Ruth Alexander. Well those are just the complaints on things like bank accounts and credit cards. With insurance, which includes Payment Protection Insurance, an astonishing 99% of complaints were upheld against the worst offenders: Lloyds, Black Horse Finance, Egg, First Plus and MBNA. No major bank or worst offender would come on Money Box. Yesterday though, I spoke to the British Banking Association's Head of Retail, Eric Leenders, and asked him why things were so bad.

LEENDERS: Actually when you look at the volume of complaints upheld by the Financial Ombudsman relative to total number of products and services, it's about sort of 6 or 7 per 100,000 products and services, and that's why we're talking with Treasury and others to make sure that we've got a better way of dealing with these complaints going forward.

LEWIS: Yes, I mean I've seen these figures of 6 or whatever it is in 100,000 products actually generated complaints. The other way round is we're all 99.995% happy with our bank products. But you've only got to go down the pub to know that's not true.

LEENDERS: I think that we would be rather ambitious if we were to suggest that we could invert the statistics we've put in our table. I think what we're really saying is that relative to the overall numbers of products and services, actually those complaints ultimately upheld by the Financial Ombudsman Service is rather small.

LEWIS: Yes, but it's a long process, isn't it? It's a long process.

LEENDERS: Absolutely, absolutely, and that's what we need to look at, I think.

LEWIS: Yes. And if you look at the uphold rates, even the big four high street banks, 81% of complaints to Lloyds were upheld; 71% to Barclays and to Royal Bank of Scotland; 60% to HSBC. These have all gone through a lot of stages with the bank. Why aren't your members sorting out our problems before we have to go to an arbiter?

LEENDERS: The way that the process is structured at the moment leads to an outcome, which isn't satisfactory for consumers, it's not helpful for the Financial Ombudsman, and it's certainly not helpful to the industry that doesn't want to be seen or portrayed through these numbers as trying to be recalcitrant in some way.

LEWIS: Are you confident that complaints will be dealt with in a speedier and better way in the future?

LEENDERS: Well I think we'd all like to see complaints dealt with as quickly as possible. What I think we want to do as a next step is to make sure that we have a process whereby the totality of these complaints with wider implications can be dealt with far more efficiently.

LEWIS: Eric Leenders. Well most people with a problem with their bank would rather sort it out *before* going to the Ombudsman or even to Money Box. Jasper Griegson is a professional complainer. He's written more than 5,000 letters of complaint and here are his top tips for getting the results you want.

GRIEGSON: Don't scream and shout. Don't moan in a very loud voice to the person on the other side of the counter. Compose yourself and then compose your letter. Your letter should be personalised, so don't just write it to customer services. Find the name of a senior director and write to that person by name. Write to three or four directors. Even if they don't respond in person, in many cases, there's a special customer services unit attached to the main board that deal with the people who write to the main board. The letter should be short and sweet. It should be no more than a page. It should be typed. And leave it open-ended. Say something like, 'I look to you for a meaningful gesture of good will. Let me assure you now that a dismissive two-line apology from customer services will not suffice'. One of my most pleasurable complaints was when a bank who had better remain nameless - Barclays - put £200 into my bank account by mistake and then wrote me a fairly stroppy letter asking for the money back. I was more than happy to refund the money, which I did, but I did deduct £20 for my administrative charges. That felt so good.

LEWIS: Jasper Griegson. And you can share your tips or experiences of complaining about money on our website: bbc.co.uk/moneybox. Let us know what you think.

The number of towns in Britain with their own currency doubled this week. Lewes and Totnes have had their own money for more than a year. This week they were joined by the Stroud pound in Gloucestershire, and on Thursday the latest local pound was launched in the inner London borough of Brixton. These currencies can only be used in locally owned shops who've signed up to the scheme, but do they really keep money in their own community? Bob Howard went to the ancient Sussex town of Lewes to talk to some who are using the Lewes pound.

CRAWFORD: I'm Patrick Crawford and I work with a group of volunteers on the Lewes pound. We're in the riverside in Lewes where we have a local fishmongers with local produce, local butcher.

HOWARD: And they'll all accept the Lewes pound here?

CRAWFORD: Yes.

HOWARD: Okay, well I've got £10 sterling, so where can I change?

CRAWFORD: Ben the butchers.

HOWARD: Ben the butchers. Hello Ben, the butcher, can I buy some Lewes pounds, please?

BEN: You certainly can.

HOWARD: That's marvellous.

BEN: Thank you very much.

HOWARD: Cheers! Thank you. So these are my first Lewes notes. Who have we got on the front?

CRAWFORD: Well we've got Tom Paine who's one of the heroes of Lewes for his radical approach that we all have the power to build the world anew.

HOWARD: Each Lewes pound is worth £1 sterling. Is that how it works? How did you initially get the notes into circulation?

CRAWFORD: We hadn't realised how popular the scheme would be, and within the first three days the £10,000 we'd issued originally had all disappeared from the streets.

HOWARD: But a lot of those went to note collectors, which wasn't quite the original intention, was it?

CRAWFORD: Some went to note collectors, but even now they're still being used.

HOWARD: This isn't legal tender. A shopkeeper's not obliged to take this.

CRAWFORD: They're notes that are based on trust and we have 150 traders and visitors signed up who'll accept these. We have 11 issuing points around the town. We have about £45,000 out at the moment. We encourage Lewes pounds to be given out in change. We encourage them to be spent particularly on local suppliers and local producers. And if they have too many, then they can be exchanged back at any of the issuing points for sterling.

HOWARD: But this is no use to me once I leave Lewes?

CRAWFORD: Well the use is that you'll have to come back to spend them.

HOWARD: *(laughs)* Okay. Well I've only got a short time to spend my pounds and talk to traders and customers, so I'm off first to talk to Sue May at May's General Store.

MAY: There's a little bit of magic with it. People are excited a bit about it. People will go the extra penny really to beat the supermarket and buy it here because they have Lewes pounds.

HOWARD: And they can't spend it in the supermarket.

MAY: No.

HOWARD: But surely people who are minded to shop locally would shop locally whether or not you had the currency, and people who want to go and do a massive splurge in the big supermarket would do that anyway, wouldn't they?

MAY: I think having the publicity about the Lewes pound and having the Lewes pound has made people think about local shopping. I really do.

CUSTOMER: I actually forgot I had them in there.

HOWARD: So you've just paid for your purchase. Was it a Lewes pound note or …

CUSTOMER: One Lewes pound, yeah - a pound note. It is a bit of a faff having two different currencies in your wallet at the same time. I tend to stuff them away and I only just remembered that I had those ones in there because you were here talking about it. But in principle, I support it.

HOWARD: The recent introduction of higher denominations, including a very interesting £21 note, might encourage shoppers like that who don't like stuffing their wallets full of £1 notes. But there are also both residents and traders in the town who think the Lewes pound is frankly more trouble than it's worth. Cindy Holmes, owner of Lansdown Health Food, takes them but only reluctantly.

HOLMES: Most people don't actually want them in their change. Occasionally people will ask if we've got them, but much less so since the enthusiasm has waned. I can't really see the point of it. Most of the things that I buy, I can't actually pay for in Lewes pounds. I can't pay my staff in Lewes pounds, I can't pay the taxman in Lewes pounds.

HOWARD: Why do you accept them because when I went to the fishing shop, they said that "We don't take them"?

HOLMES: I take them because of my customers would like me to and we try and do everything we can to cooperate with our customers.

HOWARD: Despite these reservations, several other UK towns are also rumoured to be considering introducing their own local currencies. To succeed, alternative currency expert, Peter North, believes they'll need money that really looks the part, a strong sense of community, and organisers who can continually push the project if it starts to flag. Then, he says, we may even see regional currencies.

NORTH: If you talk to a lot of traders in Lewes, they say it's great, but they'd prefer perhaps a Sussex pound. I think that might be the next level of innovation we have.

HOWARD: Or the Yorkshire pound indeed, possibly with Geoff Boycott on a note?

NORTH: I can so see a Yorkshire pound taking off in a way that perhaps the South East pound wouldn't. Places that have their own particular cultures, I could see it working in.

LEWIS: Or maybe even an English pound. We've paid BBC pounds to Bob Howard to come back in the studio with a word of warning, Bob, about rogue stockbrokers.

HOWARD: Yes, this concerns so-called penny shares, normally in obscure and often very small companies which are pedalled as a good investment but are in fact very risky. The Financial Services Authority says some firms are aggressively pestering elderly individuals into buying them and it's ordered the 11 companies to quit the market. The FSA's Lesley

Titcomb.

TITCOMB: People have to be very careful. They should be challenging the advice that a broker gives them. They should do their own research and verify what they're being told. People have said eleven times in a phone call that they don't want those particular shares and yet the broker still keeps pushing them at them. So they have to be very, very careful and very thoughtful.

LEWIS: And, Bob, the High Court sanctioned the deal for Aviva with-profits policyholders.

HOWARD: Yes, policyholders will get £500 million in exchange for giving up their rights to a fund worth £1.2 billion. That's between £200 and £1,150 each. Most should get their cash by Christmas.

LEWIS: Thanks, Bob. Now how good is your company pension scheme? At the moment there's not really any way to know, but on Monday the National Association of Pension Funds is setting a pension quality mark, which it hopes many companies will sign up to. Now these schemes are not the final salary schemes that are rapidly disappearing, but the alternative sort which stores up your own money and the contributions paid by your employer in a little pot with your name on it. There are almost a million people in such schemes and the hope is it will improve them and encourage more employers to offer them. With me is Joanne Segars, Chief Executive of the National Association of Pension Funds. Joanne, what standards will your quality mark set?

SEGARS: Well we've set standards around three core issues we think go to the heart of good quality defined contribution provision. The first is around contributions where we say the contributions need to be at least 10% or 15% to get the pension quality mark plus. Secondly around governance to make sure the scheme is being run in the interests of the members. And, thirdly, around communications, so that it's very clear that members receive information in a way that's clear and simple to understand.

LEWIS: Now those percentages - 10%, or for this quality mark plus 15% - they're fairly low, aren’t they, because the average employer contribution is 6% and that’s what you have to put in to get your quality mark?

SEGARS: Well we actually think the standards around contributions are quite stretching. Our data shows that around a third of schemes, so only the top third of defined contribution schemes could qualify, and only around half of them will qualify for the pension quality mark plus. And of course the 6% is twice the amount that people will get from 2012 as a statutory minimum, so I think it does take us quite a long way towards where we need to be going.

LEWIS: Yes. I was going to mention that later, but the government’s launching its own scheme, isn’t it - Personal Accounts from 2012 - and that sets 3% for the employer, as you say. Now if the government scheme won’t get your quality mark, that’s going to be a bit embarrassing, isn’t it?

SEGARS: Well we’re not excluding Personal Accounts from getting the pension quality mark.

LEWIS: Though it’ll have to be a lot more than the standard rate.

SEGARS: But of course the 3% is the minimum, and we do hope that employers will see that it is a minimum and they want to contribute more to attract workers.

LEWIS: You mentioned other things. You mentioned what you call governance, how the scheme is run. But I mean apart from the contributions going in, it’s how the investment performs. Are you going to set any standards for what kind of investments the money has to be put into?

SEGARS: Well we’re obviously not guaranteeing the outcomes - these are defined contribution schemes and that’s not the purpose here - but we are saying there needs to be simple investment options, so a default scheme or a limited range of scheme choices. And when there are more scheme choices, information and advice for workers, so they’re not just left by themselves to navigate their way through the investment waters.

LEWIS: But the experience is most people just put it into what's called the default fund, don't they - 80 or 90% do, don't they? - so most people are just going to get what the company scheme offers. And where's that going to be? Is it going to be on the stock market, is it going to be tracking the FTSE index, is it going to be in cash?

SEGARS: Well most schemes at the moment, most default options are what are called lifestyle funds, so they invest in stocks and shares when people are younger and they gradually move to safer investments - gilts and cash - as people approach retirement. But clearly there's a big debate at the moment about what those default funds should be looking like.

LEWIS: And how will this really affect schemes? What do you think in a year's time will you be able to come back and say to us well the pension quality mark actually raised the contributions going in and raised the number of schemes being offered?

SEGARS: Well we certainly hope that in a year's time we would have seen a big take up of the pension quality mark and we certainly hope it will have made a difference in terms of getting employees to join pension schemes. Our research shows that actually the presence of a pension quality mark would make a difference and would it make it more likely that people will join their pension scheme. Joanne Segars from the National Association of Pension Funds, thanks very much.

Well that's just about 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 sign up to my weekly newsletter, almost a blog, download a podcast, listen again, find out more. Let us know what you want us to look into and have your say on complaints and complaining. One man's told us that he had to go through 13 different people at the bank to put his complaint. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on banking. (Money Box Live Weds September 23rd is on taxation – editor). I'm back as usual with Money Box next weekend. Today the reporter was Bob Howard, the producer Karen Kiernan, and I'm Paul Lewis.