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MONEY BOX

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LEWIS: Hello. In today's programme, we'll be asking if the Chief Executive of Barclays Bank was right to say bank lending would return to normal in a couple of years. The boss of the Council of Mortgage Lenders admits to us that banks and building societies are rationing mortgages. Bob Howard's been looking at the problem faced by close relatives when they sort out the finances of someone who has died.

HOWARD: Most of the banks have special guides in departments, but do they always get it right?

GREY: Emotionally I was an absolute wreck, and, much to my own amazement, the first thing that happened was he proceeded to sell me an insurance policy.

LEWIS: And as the winter bites, the Government pays out £12 million in cold weather payments. But what are they and who gets them?

Well, as you heard in the news, the boss of Barclays has warned that 2009 is going to be another tough year. He also said that borrowing money may not get any easier throughout most of 2010. Talking to Business Editor Robert Peston, he said banks had to tighten up on the money they lent and that process wouldn't end for some time.

VARLEY: I think that we will see the process of reduced borrowing play out over at least the

course of the next 12 months and maybe 24 months. I think it's important to say though that the industry is open for business. If I look at Barclays, I mean we're open for business. So I think there is a point of view that credit has stopped, that the supply of credit to the market is something that has been switched off. That's absolutely not the case.

PESTON: No, no, I wouldn't take that view, but we all know that overall the amount of credit available globally and in the UK is shrinking.

VARLEY: It absolutely is and that is a painful process, it's a process through which the world absolutely has to go. And if you ask when will it stop, I think it will stop when asset prices stabilise. When will that occur? That will occur some time over the course of the next 18 months.

LEWIS: John Varley talking to Robert Peston. Well live now to speak to Sandy Chen, a director at Panmure Gordon. Sandy Chen, John Varley says things won't start to get better for 18 months; borrowing tight for up to 2 years. Will it get back to normal after that?

CHEN: Well one of the key things is what is normal because what we would regard in the past say 5 years of lending, those lending levels we would think of as abnormally high and probably the level of lending that was occurring throughout the 90s and the early part of this decade as what would be normal, which is a lot less than what was being lent last year.

LEWIS: So even when it gets back to normal, it won't be like it was a couple of years ago?

CHEN: We don't think so. And one of the things that needs to happen is really - it's a two-way process. It's not just that banks are cutting back or being stricter in their lending. It's that borrowers themselves, whether or not you're individuals or companies, are being warier about lending as well.

LEWIS: And the crisis itself - again John Varley says that could begin to come to an end in 18 months. Do you think the crisis that we've become so familiar with over the last 3 or 4 months is really going to end that quickly? Some people say it's going to go on for years and

years.

CHEN: I think what's different about it this time versus the past couple of decades is that this time borrowers are really changing their behaviour patterns. They're saying well I'm not going to just ... the market isn't going to get better in say the next month or so, so what we'll do is concentrate on for example if they've got a mortgage maybe paying down that mortgage; if it's a company, maybe paying down some of their existing borrowings because they don't want to get into a situation that's untenable should the environment worsen.

LEWIS: The Governor of the Bank of England's also warned the banks are going to need still more help from taxpayers, doesn't he? Despite already pumping tens, indeed hundreds of billions of pounds available into the banking system, he thinks that's not enough.

CHEN: I think what's changed in the past couple of months is that people in general have been surprised at how deep and how long this downturn will be, and it seems like every month that goes on the expectations get worse.

LEWIS: And when will the banks start lending to each other? I mean the problem is we think of banks lending money to us - it's got the money, it lends it to us - but that's not what happens, is it? It lends it to us and then it borrows it off someone else and we're all in a kind of scheme where everyone's lending to everyone else. Have they just been lending money that didn't really exist in the first place?

CHEN: Well if you want to be extreme about it, I mean you could think of this as a broad macroeconomic Ponzi scheme, but ...

LEWIS: That's a scheme where you pay out today's investors by taking the money off yesterday's investors?

CHEN: But that's probably too extreme a way to put it. What I would say is that the assumptions that were being made in lending even up to a year ago were that most, roughly half of the loans that a bank would give out, they would expect to pass on to somebody else.

And nowadays that's much more difficult to do, so for the banks themselves, they're finding that they're stuck with much more of the loans that they're lending out than they had been even a year or so ago.

LEWIS: And some of those might indeed be bad debts. Sandy Chen of Panmure Gordon, thanks very much. And Robert Peston's interview with John Varley of Barclays will be on Panorama, BBC1, 8.30pm on Monday.

Well John Varley's comments come after warnings by the Council of Mortgage Lenders that there could be less lending next year than this. The Council represents all the banks and building societies who help us buy homes, and I asked the Council's Director General, Mike Coogan, why aren't his members, Barclays included, doing more to lend people the money they need?

COOGAN: Well I think the simple answer is there is insufficient supply in the market, and one of the reasons why the Government and the industry have been in regular dialogue over recent months is to try and reverse that trend. What we're also seeing now in an environment of house price falls is that fewer consumers are willing to commit themselves, fewer first time buyers able to get their deposit, and that therefore affects the whole train of transactions. So certainly there needs to be more done. We would like to have a better forecast for next year. We're working with government to try and make sure there's more money flowing. But actually if the money that is available is being used to have capital to back losses on potential cases on arrears, then it's actually becoming more difficult rather than less and that's why this week we've announced we could have a negative lending figure.

LEWIS: Yes, if people are paying off more than they're borrowing. You said there were insufficient funds to lend to people at the levels you've been doing over the last year or two. Is one way your members are rationing that limited supply of money by putting up prices, by not passing on rate cuts, by increasing their margins to new lenders?

COOGAN: Well there are two things happening in relation to mortgage pricing: clearly the mortgage pricing has gone up because the risk is seen as higher; and also when customers are

going to individual lenders more than they have the capacity to meet the need, they are actually putting their price up a bit further in order to discourage too many customers going to them. So there are a number of factors which are causing the price to go up, but the effect of rationing is that prices are going up and that not everyone who wants a loan is able to get one.

LEWIS: So they are rationing by price?

COOGAN: Rationing by price. They're also rationing by criteria. And clearly we've seen in first time buyer mortgages that you need a higher deposit and that means you need to put down more savings of your own or have Bank of Mum and Dad able to fund you. And what we've also seen in recent months is that there's less equity withdrawal, so Bank of Mum and Dad is closing.

LEWIS: The banking crisis is even reaching the Bank of Mum and Dad. Michael Coogan from the Council of Mortgage Lenders there. Well live now to Sheffield to talk to Ray Boulger from the mortgage broker John Charcol. Ray, a fairly bleak picture there by Michael Coogan and, earlier, John Varley. Rationing is happening.

BOULGER: It is and I think that actually criteria is more important than price at the moment in terms of rationing. As Michael said, unless you've got a good deposit you can't get a mortgage these days. You need an absolute minimum of 10%, and even at that level your choice of deal is very limited. Nobody, for example, is offering a tracker mortgage above 80% loan to value apart from a couple of tiny societies. And the difference between what you pay if you have a good deposit and if you have a small deposit is huge. If you go back before the credit crunch, you could borrow 90% loan to value at the same price as if you put down a 50% deposit, for example. Now the difference is typically well over 1%.

LEWIS: But Nationwide has started offering 95% mortgages again to some customers this week, hasn't it?

BOULGER: It has and that's a really encouraging move. What Nationwide have said is that they will offer 95% mortgages to existing mortgage customers who want to move home. So

what would happen, assuming those customers have a mortgage which is still in their fixed rate or tracker period, is they would port that element of the mortgage to the new property and then they would take the additional borrowing on a different rate. But really encouraging they're doing that. And Nationwide are one of the lenders who do not impose a mortgage indemnity guarantee premium, as it used to be called - higher lending charge, to give the new term - so again there's no extra charges for that apart from the higher interest rate on the extra borrowing.

LEWIS: So it's encouraging news, but isn't there a danger we'll get back to the bad old days or the bad recent days when people were being lent too much?

BOULGER: I think we're a long way away from that. I actually thought John Varley's forecast was very encouraging. If he thinks there's a reasonable chance that we'll get back within 2 years to a level of lending that can accommodate most credit worthy people, that I see as very encouraging. I would have anticipated having to wait a longer period.

LEWIS: You say rationing by the criteria is more important than the price, but some figures came out yesterday, I think, showing that the fixed rate mortgages, which used to be just sort of nearly a bit above 1% above bank rate, are now nearly 3% above, so the banks are raising their margins, raising their prices.

BOULGER: No, that's absolutely true, Paul. But the key point is that if you do not qualify for a mortgage because you can't meet the lenders' criteria, then the price becomes irrelevant. And now, because first time buyers must put down at least 10% and even with a 10% deposit their choice of mortgages is very limited ... I'll just give you an example. Talking about Barclays, they will only lend up to 80% loan to value at the moment. If you want a tracker from Barclays, Woolwich with a 20% deposit, it will cost you bank rate plus 2.99%, so you'll be paying about 5%. Before the credit crunch, when we had bank rate at 5.75% even, the cheapest tracker mortgage was bank rate minus a half, so you'd have been paying 5.25%. So despite bank rate coming down all the way, tracker mortgages if you have little deposit have hardly fallen.

LEWIS: Ray Boulger, thanks very much for talking to us. And next week the whole of Money Box is devoted to housing and the effect on house prices of investing rather than buying somewhere to live. That's Money Box next Saturday.

Now when someone you love dies, sorting out their financial affairs can be a distressing and confusing process just at a time when you really don't feel like doing it. Most of the big banks have a special department to sort things out sensitively, but not all companies manage that. Bob Howard reports.

GREY: Capital One credit card, Abbey credit card, American Express, Co-operative Bank joint account ...

HOWARD: Chris Grey from West London's showing me a large box of files which hold the details of the different banks his wife had accounts with when she died unexpectedly in October. As he began to try and sort out her financial affairs, he became angry at the way he was treated by some of the companies involved.

GREY: My wife died completely unexpectedly in a matter of seconds almost and I was in deep, deep shock. And about five or six days after she died, I had this realisation that I couldn't just sit there and I had to start dealing with my wife's affairs. And one of the first companies that I approached was the mortgage company because the mortgage for our house happened to be in my wife's name. And I specifically asked the mortgage company what their procedure was for me to inform them of a policyholder's death and they told me quite clearly that I had to ring the local branch, make an appointment and take the originals of all the documentation in - the death certificate, the birth certificate - and that they then would take copies and institute their formal procedures. At the appointed time, went to the local office, was ushered into a side room. Physically, mentally and emotionally I was an absolute wreck. I was still in floods of tears. And much to my own amazement, the first thing that happened when I sat down with the gentleman was he proceeded to sell me an insurance policy, a combined buildings and insurance policy. And at the time I didn't actually know what policies we had covering the rest of our house, but I was in no state to really argue about this and I was more taken aback and shocked but not having the wherewithal to actually respond to him. And so a form was completed, which I duly signed. And then the formalities of

registering my wife's death occurred and copies were taken. And it was only about three weeks later, after I'd had my wife's funeral and I'd actually left the country and was trying to gather my thoughts, that I received a phone call from the same gentleman in the office who informed me that the insurance application was proceeding smoothly but that they'd lost my wife's death certificate and I had to post more in. And I'd recovered sufficient composure by this point to start questioning the entire process of what had happened.

HOWARD: Chris's wife already had buildings and contents insurance and so he felt the sale was completely inappropriate given the circumstances. He wrote to the Chief Executive of the building society concerned, Britannia, but received no reply. After we contacted the society on Chris's behalf, staff phoned him to apologise. Nobody was willing to give Money Box an interview, but in a statement the society said it felt the adviser was acting in Chris's best interests in having the house insured in his name. It's offered to make a donation to a charity of his choice.

LEWIS: Well, Bob, that was one apparently inappropriate sale to Chris. How did sorting out the rest of his wife's finances work out?

HOWARD: Well, Paul, his wife had about half a dozen credit cards and he's informed all the companies that his wife's died. He says the best ones have politely sent a short response and are not badgering him, but others he says are constantly phoning and even texting him to ask when the balance will be settled. We inquired if there was any code for how banks deal with people who've been bereaved. Many of the big banks say they offer guides and have special departments, but there's no industry wide agreement over how people in this position should be treated.

LEWIS: Well thanks, Bob, and live now to Brighton to talk to Nicola Plant who's a partner with solicitors Thomas Eggar. Nicola Plant, in your experience how good are the banks and insurance companies at dealing with newly bereaved people like Chris?

PLANT: Well I have to say that on the whole, as you say, many of the large banks do have particular departments to deal with this. So on the whole we find that they are very

understanding and once they're aware of what the situation is and they've been told that you know as soon as funds are available any debt will be paid off, they you know tend to deal with it in a patient manner. But there are always exceptions to that rule, unfortunately.

LEWIS: And with debts, things like debts on credit cards and so on, when do they have to be paid?

PLANT: Well the standard contract rules are going to apply, so it's entirely up to the institution's discretion whether they continue to apply interest to the outstanding debts and that's true with outstanding mortgages and things. So you're at the mercy of whatever the contract was.

LEWIS: So the executors should be making payments even before probate is agreed and the whole estate is settled, which can take up to a year, can't it?

PLANT: That's right. But I mean often you may want to make payments, but it just depends upon whether you've got funds available and there's no reason why the individuals themselves who are having to deal with the estate should actually use their own money to pay for it. What I would say is that certainly we've noticed a change over the last 3 or 4 months in the way that some institutions are dealing with this situation and there perhaps isn't the patience and this is part of the wider economic climate. So this is very new territory for us as well.

LEWIS: Right, so they're trying to get their money earlier even from bereaved people because they're having a bit of a cash flow problem themselves?

PLANT: Exactly. And what we're having to do ... You know we are battling with one or two institutions where there are mortgages outstanding. You know we may have the houses on the market, we've got buyers, we're trying to sell them as quickly as we can, and repossessing the property just isn't going to help. And we in some cases have had to write to chairmen of the banks to try and ask them to intervene.

LEWIS: And if someone is thrown in at the deep end and maybe they haven't got a solicitor, someone dies very unexpectedly like Chris's wife, what do they have to do? Where should you start?

PLANT: Well there is just a huge amount to do and at a time when you are very, very vulnerable, and I would really suggest that you do go and have a chat to a local solicitor. You know we can do as much or as little as the individual needs, but you're very vulnerable and even if it's just a question of sitting down for an hour and sorting through what the priorities are, it really can help.

LEWIS: That's going to cost you money though, isn't it?

PLANT: It is, but you know for an hour of a qualified individual's time, it could be well worth it.

LEWIS: So just get the advice and do it yourself. And, finally, does this mean because of these problems, Nicola, that we should all set out our finances in a piece of paper, a file while we're alive, so that if we do unexpectedly die it helps our relatives or the executors?

PLANT: There is a real advantage to you know dealing with someone's estate where they have died tidily, shall I say.

LEWIS: Right.

PLANT: You know there's a huge amount of junk mail that one has to sort through and there are checklists, yes.

LEWIS: A dying tidily file.

PLANT: Yes.

LEWIS: Nicola Plant of Thomas Eggar, thanks. And you can have your say on your

experiences of sorting out a relative's finances on our website, bbc.co.uk/moneybox. Some of you are. Legal and General coming in for praise, though a Vauxhall car dealership not given such good marks.

Well the winter has certainly arrived, especially in the north of Britain. In fact the temperature there has been so low that it's triggered half a million cold weather payments. These are made to pensioners on pension credit and some younger people on means tested benefits when the weather's very cold. But how do they relate to winter fuel payment or the new enhanced Christmas bonus? I asked Sally West, Policy Manager at Age Concern, to guide us through the maze.

WEST: Cold weather payments are linked to receipt of the income related benefits, so they're made to people getting pension credit and also other benefits such as income based jobseeker's allowance, if you have a child under the age of 5 or certain disability premiums. And they're paid for each week of very cold weather in your particular area. Then you'll get a payment of £25 for that particular week. And these payments are made automatically, so people don't need to put in a claim.

LEWIS: Right. And this has been triggered in some areas - presumably in the north of England and Scotland?

WEST: Yes, that's right. There's been a couple of weeks where payments have been triggered and, as I say, people in that situation will get the payments automatically. And whether there are other payments made during the winter will depend on how cold it is and how cold it is in your particular area.

LEWIS: Now these payments have been around for a while, of course, but I suppose they're more important this winter because they've gone up, haven't they?

WEST: Absolutely. I mean they've been paid at around £8.50 a week for a while, but this winter they're going to be paid at £25 a week. So you know that will really help to give a bit of an extra boost when the weather's particularly cold.

LEWIS: Now cold weather payments are completely separate from the similarly named winter fuel payment. That's an entirely different thing, isn't it?

WEST: Yes, absolutely. Winter fuel payment is just for people aged 60 and over; and, unlike the cold weather payments, it's not based on income, so it's for nearly everybody who's aged 60 or over. And people should probably have had their payments by now. They're generally paid before Christmas.

LEWIS: But one group does have to be careful and make a claim, don't they?

WEST: Yes, that's right. If you're not receiving state pension or another benefit like pension credit and if you haven't had a payment in the past - and that will be particularly maybe men of 60 who perhaps aren't receiving pension credit - you do need to make a claim. And here, to receive your payment, you've got to make the claim by March 30th.

LEWIS: Sally, how much are winter fuel payments this year?

WEST: Well this year for somebody who's 60 to 79, the payment will be £250 if you're the only person in the household who qualifies and £125 if there's more than one person who qualifies. For people over 80, there's a higher amount; and again this year it'll be £400 if you're the only person who qualifies and £200 if there's more than one person over 80 who qualifies.

LEWIS: So well worth having and also they're tax free and don't affect any other means tested benefits, do they?

WEST: That's right. The winter fuel payments and the other payments, as you say, are tax free and you don't need to declare them, they don't reduce other benefits that you're getting.

LEWIS: And there's yet a third payment, isn't there, that was also boosted in the pre-Budget Report a few weeks ago? That's the Christmas bonus, another amount that's been so low a lot of people tend to ignore it. But that's going up as well.

WEST: Yes. The Christmas bonus is paid to pensioners - again people getting the state pension - but also people getting a range of other benefits, including some of the disability benefits like disability living allowance and incapacity benefit. And, as you say, it's been £10 for years and years and people should have received that at the beginning of December. But in the pre-Budget Report, the Chancellor announced that he was in effect going to increase this by £60, but the extra £60 will be paid *after* Christmas. So anyone who's received a Christmas bonus should also get the additional payment of £60 some time between January and March, so another kind of payment which people can put towards fuel or whatever other bills they're getting.

LEWIS: Sally West of Age Concern. And an eagle eyed listener has pointed out you have to be 60 by 21st September 2008 to get the winter fuel payment this year.

And, Bob, the race is on to claim for old children's tax credits.

HOWARD: That's right, Paul. These were targeted at basic rate taxpayers with children and existed for just 2 years between 2001 and 2003 before being replaced by the current tax credit system. Some parents could be due up to £1,000 depending on when the child was born, but any claim must be made by 31st January. If you think you may be eligible, there's a form you can download on the Revenue & Customs website.

LEWIS: Thanks, Bob. And now it's quiz time. Bob, how tall is the BBC Economics Editor Hugh Pym?

HOWARD: (*laughs*) Very, very tall. Several hands taller than I am, I can tell you that.

LEWIS: I'm not sure whether that answer's good enough because that's one of our quiz questions in the Money Box Christmas Quiz. Another is when did seven forty-sevenths become three twenty-thirds? This year the quiz is all online. You get your score as you go along, so there's no prize. Now I have to confess I only got 18 of the 20 questions right when I tried it yesterday and I wrote some of them, so test your knowledge of personal finance and of course personal heights at bbc.co.uk/moneybox. See if you can beat my score of 18. That,

as I said, is on our website. You can do all sorts of other things apart from the quiz. You can watch videos, have your say on bereavement, listen to the items on the programme, download a podcast, and read a transcript: bbc.co.uk/moneybox. I'm back on Monday with Money Box Live taking questions on saving for children. We're back next weekend with a debate on housing. But for now, from reporter Bob Howard, producer Martin Bedford, all the Money Box team and me, Paul Lewis, have a very good Christmas.