MONEY BOX

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LEWIS: Hello. In today's programme, we investigate the loans company which the BBC has received more than a thousand complaints about since 2004 and they're still coming in. We find out why the Houses of Parliament is the country's most exclusive tax haven - for MPs anyway. Are we at risk of rampant inflation? Here's a taste of a surprisingly passionate debate between two economists.

MAGNUS: If you get locked into this deflationary …

ALTMAN: *(over)* But we're not in a deflationary cycle.

MAGNUS: That's not the point, Ros. The point is that we're not in it, but we could easily get into it.

LEWIS: More of that later. The interest paid on savings has begun to rise. Where can you get more than 4%? And people who are trying to escape their credit card debts on a technicality.

But, first, Money Box has discovered that the country's largest sub-prime loan broker has been allowed to run on an expired credit licence for almost a year. The company's accused of not refunding some customers promptly, which would be in breach of consumer regulations. Samantha Washington's here. Sam?

WASHINGTON: Yes Loans, the company that likes to say yes. Well in the last 5 years, the BBC has received over 1,000 complaints about the company. It's a loan broker. It arranges unsecured loans for people, many of whom have a bad credit history. It claims to be the largest company of its kind in the UK and takes in 50,000 applications for loans every month. Well for that, the firm gets a fee typically around £70, but we've been hearing from some of those people that they're finding it difficult to get their cash back. Ahmed from Luton applied for £1,000 to put a deposit on a flat, but he immediately changed his mind. He contacted the company and was told to put his refund request in writing and that it would all be sorted. But it wasn't.

AHMED: I sent them a lot of letters. I did a lot of phone calls, and it's been 7 months now and I haven't got anything yet. I just can't believe it. I'm shocked that a customer can be treated that way.

WASHINGTON: Yes Loans told us it had posted the money to his former address. Ahmed denies this and says he's checked his mail at his old flat regularly. We've spoken to former employees who've told us the company doesn't make it easy for people to get refunds. Forums on the Internet are also abuzz with similar stories. One of those websites is the Consumer Action Group. Its founder, Marc Gander, says something is obviously going wrong.

GANDER: Many people have gone through really a lot of trouble over many, many months and may still not have received their money back even by now. I don't think this is very acceptable. It's very clear under the Consumer Credit Act 1974 - and also, much more recently, Distant Marketing Regulations - that money has to be returned promptly. And even Yes Loans own terms and conditions say that they will return money where somebody has changed their mind or where the loan has not been affected within 30 days.

WASHINGTON: Now we've also found that Yes Loan's credit licence expired in June 2008. The Office of Fair Trading is allowing the company to keep doing business while it decides whether to renew that licence. Marc Gander says the public should be informed.

GANDER: We're a year down the line here. We've no idea what's happening, we've no idea what "expired" or "current but expired" means, so at the moment people really are just going on to the Yes Loan's website. They put their trust in the company, and I think in exactly the same way they reposed their trust in the OFT. And it seems to me that certainly by the OFT they're being let down; and if the stories on the Consumer Action Group website are anything to go by, then maybe they're being let down in a rather larger way.

LEWIS: Marc Gander. So, Sam, how can a company whose licence has expired still be trading?

WASHINGTON: Well it seems odd, doesn't it? The OFT says applications for high risk category licences may take longer to process, so the licence can be expired but current - whatever that means. We can now reveal that Yes Loans has been investigated by the OFT and that it is working to resolve issues.

LEWIS: And do you know what those issues might be?

WASHINGTON: Well it seems that it's not just that it's a sub-prime business and that some people are raising questions about one of the directors. Keith Chorlton is on the board of Yes Loans and he owns 100% of the company, and we've found that he's still serving a 10 year director disqualification for serious misconduct.

LEWIS: Well 10 years is quite a serious ban. How can he run a sub-prime business?

WASHINGTON: Well, put simply, he's allowed to. Eight years into that ban, he applied through the courts for an exemption. The judge there found that he'd shown no dishonesty as part of the disqualification and that his behaviour since had been beyond reproach. But when we looked at the documents relating to the ban and the collapse of his old company, we learnt that the serious misconduct involved diverting money from an insolvent business to himself, and his claims that the money was his were found by a judge to be "incredible". Further, a document which supposedly proved his innocence was found to be "not authentic". So two quite different verdicts there.

LEWIS: Indeed. So does the later court have the final word on the matter?

WASHINGTON: Well the Department for Business Enterprise and Regulatory Reform could have objected, but it didn't. The minister who oversaw the ban back in 2000, Kim Howells, told me that the decision to grant the exemption was "extremely surprising" and a leading business charity says "questions need to be asked". Simon Webley is from the Institute of Business Ethics.

WEBLEY: No, it doesn't seem right that a person who has been a director and has been disqualified should be a director of *any* business and particularly the ones where he seems to now be involved, in the financial services sector. The risk to the public is high and what we expect from our regulators is protection. In this particular case, we're not getting that and we need to know why.

WASHINGTON: Well Yes Loans denies poor practice and says it gets very few complaints. But at the BBC, they keep coming. That credit licence is still not renewed and questions are being asked. It's worth pointing out that the company is doing very nicely. The last set of accounts we have seen shows turnover doubling over one year to £22 million. Oh and by the way, Ahmed finally received his cheque on Friday.

LEWIS: Thanks, Sam. And one last point. Yes Loans is in no way connected to another Cardiff based business called Y3S Loans, which was formerly Yes Loans and Mortgages. And there'll be more on that story on Five Live's Donal MacIntyre programme tomorrow night at 7. And you can have your say on loans through a loan broker through our website: bbc.co.uk/moneybox.

The Houses of Parliament sit on land which used to be an island, and it seems that for MPs at least it is rather like an offshore tax haven. The Second-Homes Allowance or Personal Additional Accommodation Expenditure, as it's now officially called, is tax free. Now if most employees were given more than £24,000 a year to buy a home, furnish it and stock it up with £4,000 worth of food, they'd have to pay tax on some of that at least, but not MPs. In fact all of the expenses and allowances they're paid, which averaged more than £134,000 each in

2007/8, are tax free. Live now to John Whiting who's Tax Policy Director of the Chartered Institute of Taxation. John, some of these expenses for staff - stationary, postage and so on - fair enough, they're not taxable. But buying and equipping a second home, normally that would be taxable.

WHITING: There's a lot of expenses here and of course anybody who works away from home in the course of their job - you, I, many of the people listening - you know there are expenses that they need to draw and be reimbursed to enable them to do their job. Interesting question, of course, is where you draw the line on what is really necessary for doing your job.

LEWIS: Yes and you know £24,222 is pretty much the average full time pay, isn't it? I'm sure people on that would like it to be tax free. Why is all of this, apparently without any question, tax free?

WHITING: I think we're into a sort of pragmatic rule. Again many employers will arrange with the Revenue a dispensation, as the jargon goes, for saying okay pragmatically we could argue out every little bit of expenses, but let's get to a deal. This is what we'll do, this is what we will monitor. Therefore it saves everybody a lot of hassle, the employees know the rules, the organisation knows what it does. The Revenue then potentially comes along and just checks that things are running properly.

LEWIS: But it seems it hasn't done that terribly well, if it's done it at all. I mean you know some of the MPs are now accused of claiming for mortgages that simply didn't exist, leaving aside the more amusing items like clearing out a moat or chocolate santas which some of them have claimed for. And today we learned one's claimed for an £1800 antique rug. Now they've paid that back, but the Revenue surely should have been looking at something?

WHITING: Well there's a bit of something's going funny here, isn't there Paul, because clearly what would normally happen is the organisation - you know again the BBC, my own organisation, any of those listening - would be expected to monitor these in accordance with the dispensation, and every now and again the Revenue would come along and check up. So some of the checks clearly haven't been happening.

LEWIS: And what about the pay MPs get if they lose at an election or don't stand again, and I suspect we're going to have quite a lot of those at the next General Election?

WHITING: I couldn't possibly comment.

LEWIS: They get a winding up allowance of £42,000. Is that taxed?

WHITING: Well there's a specific provision in here, and indeed it was even extended last year in last year's Finance Act to cover members of the Greater London Authority, one or two of whom lost their seats. I mean it's a balance thing, but the fact is that most people if there's something in the contract that says you get this if you leave, that'll be taxable. For MPs - no, there's £30,000 tax free.

LEWIS: Yes. And normally we get £30,000 tax free, but they get all of it tax free.

WHITING: And the point is that if it's in the contract - and this is one of the great anomalies that you know we've pointed out on many occasions - the £30,000 tax free on losing your job, it doesn't often apply to ordinary people because it's in the contract, therefore it's taxable in full.

LEWIS: Yes. And this is part of this law they passed, making the winding up allowance tax free, and also the Second-Homes Allowance. Have MPs passed laws to exempt their claims from tax that otherwise with you and me it would normally be taxable?

WHITING: Well the termination payment is perhaps the classic example of that; that MPs, MEPs, Members of the Scottish Parliament, etcetera, do get this specific allowance that in most cases, you and me, it would be taxable.

LEWIS: John Whiting, thanks very much.

Now passion is not the word most commonly associated with economic debate, but when we brought two economists into studios to discussion inflation, that was what we got. You'll hear that in a moment, but, first - I have to say with very little passion - is Mervyn King, the Governor of the Bank of England, telling us his view that inflation was going to stay low for some time.

KING: Inflation is likely to fall back sharply over the next few months as the impact of past increases in energy and food prices drop out of the 12 month comparison. But on balance, the committee judges that conditional on bank rate following a path implied by market rates inflation is more likely to be below the target than above for most of the forecast period.

LEWIS: Mervyn King, launching in his inimitable style his inflation report this week. There was nothing much in it about the effects of creating £125 billion of new money out of thin air, but it was that which ignited our debate. First Ros Altman, economist and pensions consultant, who's called the bank's actions "wrong" and "a gamble".

ALTMAN: What a prudent policymaker would have said was we've embarked on the biggest monetary stimulus this country has ever seen and there is great uncertainty about what the trajectory of the economy is going to be over the next 12 to 24 months. We also are not sure what is going to happen to inflation. We're going to give it 2 or 3 months to see whether the outlook clarifies a little bit. But, no, we didn't hear that. What we heard was we're going to keep printing money. The result that we've ignored is that the policy experiment actually goes wrong, causes high inflation, we can't undo the easing quickly enough to stop that. And that scenario simply doesn't come through anywhere in the Bank of England's report.

LEWIS: Well listening to us is George Magnus who's Senior Economic Advisor to Swiss Bank UBS. George Magnus, do you accept that there is a real danger of inflation in the bank's policies?

MAGNUS: Oh, I think it's not only a danger. I think it's actually a deliberate intent. What we're facing, I think as everybody understands now, is a very toxic deflationary environment brought about by the asset price bust, including of houses, which was in turn brought about by this unprecedented borrowing binge and leverage that we're trying to unravel. So the whole purpose of trying to correct one of these you know deflationary slumps that we're in is to try to inflate to make sure that we don’t slip into this deflationary psychosis.

ALTMAN: George, I just don’t see that we’re actually in a deflationary slump.

MAGNUS: Well it’s counterfactual. If the Government wasn’t doing what it is doing and if the Bank of England wasn’t doing what it is doing, we would already be in a far, far worse problem than we are in.

LEWIS: But only one of the price indexes is actually negative, is actually in deflation - the Retail Prices Index. The one that leaves out housing costs - which as we know the price of housing is falling - is actually still positive, isn’t it?

ALTMAN: It’s still well above the Bank of England’s target. I mean this idea of deflation is an absolute nonsense at the moment.

MAGNUS: We know that the definition of deflation is a sustained weakness in the overall level of demand in the economy. Now we know the economy is going to collapse by 3 or 4% of GDP this year. The Government thinks it’ll be positive in 2010 and we should hope that it’s right. But it’s equally possible that in 2010 and 2011, there will be no growth or even still negative growth. So who wants to take the risk by doing the wrong policies now - if the risk is that we end up with a rising or maybe even higher inflation than we think is desirable in 12 or 24 months time? So be it. It’s much easier to remove that and to correct it than it would be the reverse situation.

ALTMAN: If you want to remove that, you will create the very slump that you are trying now to avoid; whereas if you had a more moderate policy all the way through, you wouldn’t be in the position where you had to suddenly unwind something that has been dramatically overdone unless you actually want to use inflation to shift wealth from savers and borrowers and to reduce the value of your own government debt.

LEWIS: Are you worried that this policy is going to damage the people - and certainly it’s something that many people say to Money Box: “I’ve saved all my life, I’ve done the right thing. I've invested in a pension and now that pension or those savings are worth less than they were because share prices have collapsed and so on". Is that your worry?

ALTMAN: We are damaging huge sections of the population - for example pensioners - who did the right thing, who saved for their future, and who seem to be treated as some kind of sitting duck targets where you can take money away from them.

LEWIS: But at the moment the reason that people with pension savings are doing badly is because share prices have fallen. People who are retiring at the moment are finding their pension savings are worth less. Those who've already retired are not doing badly, are they?

ALTMAN: No they are because if you've retired and you've been trying to live on your savings, you've seen your income wiped out.

MAGNUS: I don't disagree at all that 5 to 10% inflation is not exactly … well it's not a good outcome for savers and not a good outcome for pensioners, to be sure.

LEWIS: But if it arrived, George, could we cure it?

MAGNUS: It's much easier to cure a 5 to 10% inflation problem than it is if you get locked into this deflationary …

ALTMAN: *(over)* But we're not in a deflationary cycle.

MAGNUS: That's not the point, Ros. The point is that we're not in it, but we could easily get into it because of the weakness of the economy.

LEWIS: In a year from now, George, or two years from now, what will count as a success for this policy from your point of view?

MAGNUS: Economic growth will count as a success. The stabilisation of the economy and the return of some kind of increase in the nominal level of GDP.

LEWIS: And, Ros, what do you fear *will* be the position in two years time?

ALTMAN: We will be facing a major inflationary episode. We will then have the spectre of politicians trying to stay behind the curve in not raising interest rates quickly enough and we will then have again people on fixed incomes seeing the value of their income being eroded.

LEWIS: Economists Ros Altman and George Magnus.

Now bank rate may be stuck down at 0.5%, but the rates you can get on cash savings are rising again. New deals have appeared this week. You can get 4% or more if you tie your money up for a year or longer. There are half a dozen cash ISA’s above 3% and even instant access online savings accounts are available paying more than 2%. So what’s behind this trend and should you join in with your spare cash? Live now to Manchester to talk to Clare Francis who’s Editor of Moneysupermarket.com. Clare, what deals have come up this week?

FRANCIS: Well much of the activity this week’s been in the fixed rate bond market, as you said, so it’s for people who can afford to lock money away for a year or two. And there’s been a real hive of activity. We’re seeing somewhat of a rate war going on almost. We’ve had some big names launch new products, including all the Santander brands, so that’s Abbey, A&L, Bradford & Bingley, Cahoot. Barclays has followed suit with a new 3 year bond and ICICI sort of retaliated again yesterday, increasing the rate on its 2 and 3 year products to take them back to the top of the best buy tables.

LEWIS: And what rates are we talking about?

FRANCIS: Well if you can lock your money away for 2 years, ICICI’s 2 year bond is now paying 4.35%, which a lot of people might think doesn’t sound very much, but when you remember that bank rate’s down at half a percent, you know it’s a very good return.

LEWIS: It certainly is compared to what you can get on some. Now these are fixed rate deals you’ve mentioned. Is it a good idea to fix? How long should you be doing that for?

FRANCIS: Well I think obviously with bank rate at a historic low, you've got to bear that in mind that you are fixing at a time where basically interest rates can't fall any further, so the next moves are going to be upwards. Having said that, economists aren't expecting interest rates to sort of change for the foreseeable future. I think it's sort of quarter three next year is the consensus at the moment that we'll start seeing rates start to rise again. So bearing that in mind, then you can afford to fix for a year or two without running too much of a risk that you're going to be left on a rate that becomes very uncompetitive. I think fixing for sort of 4 or 5 years, it is much more of a gamble because obviously interest rates could climb higher by that time.

LEWIS: And what about the unfixed rates? There are some tempting offers, but some have traps in them, don't they?

FRANCES: Yeah. If you can't afford to tie your money away, then obviously the best option is an easy access account. But most of the best deals available at the moment include bonuses, short-term bonuses which last for a year or so, so you've got to bear that in mind and be prepared to move your money again when the bonus period ends. The other things to watch out for are sort of withdrawal restrictions because although they're called easy access, some of them do penalise you if you do access your money. For example, Abbey's E-Saver Direct is paying 2.5% at the moment and that's including a 1.25% bonus, but you only get that bonus if you leave your money untouched. If you take money out, you only earn 0.1% in the month the withdrawal's made.

LEWIS: Yes, 0.1%. There are quite a few still offering that, aren't there? But just let me ask you finally. You're talking about people moving their money, getting the best rate. Is there a danger of rate chasing? We've seen people go into banks that have then collapsed in the past.

FRANCES: I think obviously following the Icelandic crisis last year, there was a move to safety really; people were very concerned about security of their money. But you've just got to remember that £50,000 is protected under the Financial Services Compensation Scheme, so as long as you don't invest more than that with a single institution your money's perfectly safe.

LEWIS: And of course the Government has given people all their money in the past.

FRANCIS: Yes.

LEWIS: Let's hope it does so in the future. Clare Frances of Moneysupermarket.com, thanks.

FRANCIS: Thank you.

LEWIS: Now thousands of people who have gone to claims firms in the hopes of having their loan or credit card debt written off may soon be helped by a proposed test case. The claims companies are looking for mistakes in credit agreements which could make them unenforceable under the Consumer Credit Act. Bob Howard reports.

HOWARD: It started a couple of years ago when claims companies discovered some lenders' agreements didn't comply with the Act. For example, if the original credit agreement with a customer was lost or if it omitted or incorrectly described the interest on repayments, the upshot was in some cases this made the debt unenforceable, meaning the customer could simply walk away and make no more payments. Since then, there's been an explosion in firms advertising their services. One judge estimates there could be 100,000 potential claimants. Lenders don't like it, but more surprisingly even some consumer rights campaigners have doubts about people pursuing this route. Martin Lewis is the creator of the website Moneysavingexpert.com.

M. LEWIS: While I think campaigns like bank charges or Payment Protection Insurance reclaiming are hugely important because people have been mistreated and mis-sold, if you legitimately borrowed at a set rate, everything was done right, you knew what you were getting into; that you should be allowed to wipe it just because of a dot not put on an application form - if lenders were trying that the other way round, we'd all be up in arms.

HOWARD: Some firms are reported to be asking for up to £500 upfront before even looking at a customer's agreement in any detail to see if it is potentially flawed. As the number of cases has snowballed, judges now want clarity over how they should be dealt with. The designated civil judge for Cheshire, Judge Halbert, has written to claims companies in his area to see if the courts are now seeking test cases potentially affecting claims across the country. Some claims firms admit there's a problem and have welcomed this. Anthony Sultan represents the Claims Standards Council, which speaks for the claims industry. He believes only around one in five of the cases he sees are strong enough to be fought through the courts.

SULTAN: If the courts come out with very clear criteria, it will stop people just getting on a bandwagon, sticking any claim in, charging money for it, because I'm very mindful that you should only take on cases where there are high prospects of success. That's why we probably filter out about 80% of what's submitted to us.

LEWIS: Lenders can see that there are some cases where they may not be able to enforce an agreement, but Jeremy Sutcliffe, Vice President of the Civil Court Users Association which represents lenders using the courts, says in many cases customers are grasping at straws.

SUTCLIFFE: Obviously if there was anything significant in errors or the absence of original signed agreements, then banks and finance houses wouldn't expect to bulldoze customers into meeting unwarranted obligations. But, as I understand it, the methods of avoidance have not come about by debtors defending themselves against oppression but rather by a simple desire to avoid what they have in essence agreed to.

LEWIS: The Ministry of Justice, which now regulates claims companies, has already warned that it will take enforcement action against any company that makes what it calls "dubious claims" and the Solicitors Regulation Authority is already investigating ten law firms in connection with this. But whilst news of a test case is awaited, there's no stay on these cases being heard, so thousands more could be on their way to court.

LEWIS: Bob Howard. 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 all sorts of exciting things - watch videos, sign up to my weekly newsletter, download a podcast, listen again, and of course have your say on using loan brokers, as many of you already are. Personal finance stories on Working Lunch, BBC2 weekday lunchtimes. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on holiday finances. I’m back with Money Box next weekend. Today the reporter was Samantha Washington, the producer Charmaine Cozier, and I’m Paul Lewis.