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MONEY BOX

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LEWIS: Hello. In today's programme, the Bank of England reduces interest rates again. Will this week's third cut in three months work? Banks and building societies are under pressure to pass on the rate change in full, but is it sensible to charge barely 2% on a home loan and what about savers? Bob Howard's been looking at the plight of some buy-to-let tenants.

HOWARD: If their landlord's facing repossession, where does that leave them?

ANDY: I don't think it's right. It leaves us in the dark. We're just stuck in the middle between everybody.

LEWIS: And the Revenue says it has £250m tax to give back. Some of it could be yours.

But first, the Bank of England interest rate cut, cut again this week for the third month in a row. Bank rate has now fallen from 5.75% just over a year ago to 2% now, as low as it's ever been. The rate was last cut to 2% at the outbreak of World War II. So will this third rate change in three months boost the economy and reduce the pain of the coming recession? With me is Howard Wheeldon, senior strategist at BGC Partners. Howard Wheeldon, another interest rate cut. What good will it do?

WHEELDON: It'll certainly provide a boost to those with mortgages. Mortgage payments will obviously come down. I know you're covering that issue later. And it will encourage consumers to go out and spend. The feel good factor will certainly be back in fashion this Christmas and the retail sector will do a lot better than it would have done had we not moved into that situation.

LEWIS: But has the bank cut it to this level too quickly?

WHEELDON: It isn't what the Bank of England has done that concerns me. Monetary policy, which is the Bank of England's mandate, in response to inflation and in response to where it sees the economy moving, I think is fair enough. So I don't think it's necessarily moved *too* quickly, although perhaps a half percent cut this week as opposed to one might have been better, with another cut in a month's time. What concerns me more though is the fiscal policy that the government has adapted - bringing down that by 2.5% - and the cost of that to the national debt. I mean we're talking of £12bn here additional debt. I don't think that was necessary and I think it's the government really that is probably rushing its fences more than the Bank of England.

LEWIS: So that won't encourage spending as much as we'd hoped. But once rates get down to 2%, or possibly even lower in the future, doesn't that change the way the economy works?

WHEELDON: Well it certainly does because it will, assuming that the credit market situation is sorted, assuming that banks do suddenly find their internal liquidity is available to lend, we will see a rise in borrowings from the personal sector. So it will do the trick. My concern though is whether it's right to do that; and by encouraging borrowing and spending, what we're doing is bringing forward the next recession and making a problem for ourselves further out.

LEWIS: Yes because if you count mortgages, borrowing is now almost £1.5 trillion isn't it?

WHEELDON: Indeed it is. That's just *personal* borrowing.

LEWIS: Yes.

WHEELDON: Of course government borrowing is currently round about 600…

LEWIS: Puts that into the shade.

WHEELDON: … yes, £637bn. Total borrowing's about 43% of our gross domestic product. Add in Northern Rock and Bradford & Bingley of course…

LEWIS: Which the government doesn't in its official figure.

WHEELDON: … takes it to over 100% of GDP.

LEWIS: Howard, stay with us, but we'll move on to the topic you mentioned. One of the first effects of the cut in the bank rate is supposed to be a fall in the cost of mortgages. With three cuts in three months, they really should be tumbling. With me is Melanie Bien, a director of mortgage brokers Savills Private Finance. Melanie, lots of comment in the press about lenders not passing on this cut and huge pressure to do so. Who's done what?

BIEN: Well absolutely right. We've seen a tiny number of lenders - Lloyds TSB, C&G, HSBC, Bristol & West - have all passed on the full 1% of their standard variable rates. We've seen some other lenders come in, such as Abbey, saying we're reviewing our standard variable rate, and then we've seen Halifax passing just a quarter of a point, RBS three quarters of a point. And Nationwide, which can normally be relied upon to pass on most of it, .69 of a percentage point. So you know not all of them have been able to pass on the full amount.

LEWIS: No. Though some of the trackers are coming right down, aren't they? And those where they have a collar - Nationwide, for example, it's not applying it - some of them are coming right down and, as I said earlier, people are paying just over 2% on their mortgage. Is that a sensible amount to charge on a mortgage?

BIEN: Well people with tracker rate mortgages will be delighted because, yes exactly, some of them have got some very low rates. There's one - a Cheltenham & Gloucester one 1.01% below base rate. I mean you know there's lots of questions now about what happens you know if base rate were to fall further. You know would the bank end up paying the customer for having a mortgage with them? You know these are ridiculous times.

LEWIS: Yes, well listening to us is Michael Coogan of the Council of Mortgage Lenders, the director general. Michael Coogan, lenders are under all this pressure to cut rates for borrowers, but of course doesn't that just punish the savers who far outnumber the borrowers?

COOGAN: They do and I think the savers are going to be squeezed until the pip squeak as a result of the work that the government is doing to try and pressurise the banks. I think it's irrational in fact for the politicians to think helping the standard variable rate borrowers is the right focus because if savers stop saving, the mortgage rationing we've already seen this year will be even worse next year for new customers.

LEWIS: Yes, but of course it will also encourage people to borrow more, won't it - perhaps borrow too much - if they're only being charged a couple of percent on their mortgages?

COOGAN: Well I think it's safe to say if there are no funds to provide them, they won't be able to borrow anything at all. And we're entering into an interest rate environment where there are systemic risks that we don't have, as you've described, collars to try and reduce… stop the way in which mortgage rates can fall but, more particularly, keep savings rates high enough to keep people saving.

LEWIS: Yes, so we're going to see an even worse mortgage famine, so people who want to buy or want to move will simply find they can't do so. Your members won't be lending us the money.

COOGAN: The mortgage market is funded by savers. If they aren't saving, then there's no money.

LEWIS: Melanie Bien, people who have benefited from this fall - I mean I worked out over the last 13 months a £100,000 mortgage has been cut by 33% if you're a repayment mortgage, 65% interest only. Should people be going out and spending that money as the government wants or paying off the capital?

BIEN: Well the government would like us to go out spending you know to try and get the economy going again, but you know a rational person perhaps would just look at you know their own situation. Would they be better off reducing the capital they owe on their mortgage? And the fact of the matter is, as Michael was saying, you know we've got this rationing of mortgages available. Most lenders are looking you know to lend up to 75% loan to value. With house prices falling, a lot of people are finding the equity in their homes is also declining. If you've got spare cash every month you know because your mortgage has come down, it makes perfect sense to me, I think, to try and reduce what you owe.

LEWIS: Melanie Bien, thanks. Now we're just moving onto another mortgage story because the prime minister announced radical news this week that the government, or I suppose I should say more precisely us taxpayers, are to guarantee the mortgages with people who fall behind with their payments. The support will be provided, as we understand it, on loans of less than £400,000 for two years for families who suffer a collapse in income. Here's Housing Minister Margaret Beckett telling Radio Five Live how it would work.

BECKETT: There are a group of people who could have short-term problems. Maybe one of them has lost their job or maybe they've lost their overtime and they want to pay their mortgage but they're really struggling. We want that group of people, for whom at the moment you know they don't qualify for any of the existing help which we are putting in place, to know that there may be something that could help them. It encourages them to go to their lender, it encourages them to sort things out because you know maybe they can be tidied over.

ALLEN: What's your estimate of the number of people who might take advantage of this scheme?

BECKETT: It's really quite hard to tell. I think some of the lenders have said maybe they think about 9,000 families.

LEWIS: Margaret Beckett talking to Peter Allen on Radio Five Live. Well Michael Coogan from the Council for Mortgage Lenders, Margaret Beckett says maybe 9,000 families "tidied over", as she puts it. The detail is very sketchy. What do you know so far?

COOGAN: I think we know very little more than has been in the public domain. But what we have said to the government is two things: they can make a difference to minimise possessions if they improve state support from income support for mortgage interest, if they have an effective mortgage rescue scheme. We did not propose to them a homeowner mortgage support scheme. My own view is the 9,000 is likely to be on the optimistic side.

LEWIS: But that's 9,000 families. You've been quoted earlier this week as saying there could be up to 75,000 repossessions. Most people will simply be excluded, including a lot of people who are in difficulties because your members lent them too much money in the first place.

COOGAN: We haven't got a formal forecast. The Treasury minister leaked a number in advance of Gordon Brown's statement this week. Clearly we are talking to the government regularly about various scenarios. I don't think the scheme we've got in front of us, we're yet convinced it's going to make much difference.

LEWIS: And should it be extended to people who can't pay their mortgage because they've borrowed too much, or, as they might say, been lent too much?

COOGAN: I think what you'll find is it will be very important to make sure that those who won't pay their mortgage but could should be excluded. The people who should be helped are those hardworking families that have been reducing their income in a difficult environment - lost income in their job or lost their job completely. They need to be tied over in the short-term. That's what income support for mortgage interest does.

LEWIS: Yes. But I mean we're always talking about hardworking families, but of course there are many households without children. There are many people who haven't had a change in income. They've just got too little money. Stay with us, Michael. Just let me ask Howard Wheeldon as an economist, does this scheme make sense to you?

WHEELDON: Given the circumstances we're in, some sort of scheme along these lines was probably predictable and to a point it's welcome. But it does to me send out the wrong message. It sends out a message that the government will always be there to protect those who actually have either taken on too big a borrowing or indeed they can use that money for other purposes and carry on raising their debt. We've got to get back to a savings culture somewhere.

LEWIS: Well you mentioned savings. Michael Coogan, doesn't this do exactly the opposite to what you want? It props up people who've over borrowed or not got enough income to meet it now and it penalises savers because their rates are falling and yet the people who've borrowed too much are now being bailed out.

COOGAN: As I say, there is irrational behaviour on display here. From my own perspective, it is important to minimise possessions because one of the things we haven't talked about is that as possessions take effect, as people sell in a distressed way, it actually drives house prices down for everyone.

LEWIS: Michael Coogan from the Council of Mortgage Lenders, thanks. And thanks also to Howard Wheeldon from BGC and Melanie Bien from Savills.

One of Britain's smaller banks, London Scottish, was put into administration this week after the City watchdog said it didn't have enough cash to keep operating. The Manchester based bank, which lost millions of pounds over the last year or so, has 70,000 borrowers and 10,000 savers. The administrators Ernst & Young say that all borrowers with mortgages or doorstep loans should carry on paying as usual; collectors will still call. Savers who have fixed term bonds over one, two or three years, some are due for repayment now. They will all get all their money back even if it's more than £50,000. I asked Jonathan Clark, director of claims at the Financial Services Compensations Scheme, how soon those with bonds due to mature might be paid out.

CLARK: What we're doing at the moment is getting hold of information so we can do a mailing to London Scottish Bank depositors, to send them a claim form next week, and that will allow us then really to start processing the claims with the information we'll receive from them.

LEWIS: So this will be a paper based exercise. How long will it take for them to get their money?

CLARK: Well our plan is that we will deal with claims for bonds as they mature and that that will allow people to get their compensation following the maturity date of the individual accounts.

LEWIS: Sure. But the ones that have already matured or are due to mature shortly, how long will they have to wait?

CLARK: We'll endeavour to get the money to people as soon as possible.

LEWIS: But not before Christmas?

CLARK: It really depends on the data and how quickly we can receive people's claim forms.

LEWIS: Well London Scottish is a small task for Jonathan Clark compared with more than 200,000 investors in Icesave. They were promised their money back by the end of November. I asked him if that had been achieved.

CLARK: We've sent second e-mails for an online process to 198,000 Icesave customers, a little over that number in fact, and more than 174,000 customers have completed the online process. Around 17,000 customers weren't able to use that online application process and approximately 16,000 of those have already received an application form. The majority have been returned and are already being processed.

LEWIS: So about what, one in eight, hasn't responded? What happens to them?

CLARK: What we'd like to try and do is encourage those people to log onto their Icesave account and attempt to complete the claims process. Some of the second e-mails haven't been received as swiftly and are taking a little longer to reach people than we might like. Anyone can initiate their claim by going onto the site at the moment. If they want to read the contents of the second e-mail, that can be found on our website.

LEWIS: So just to be clear, people can log into their account on the website and initiate the claim even if they haven't had the second e-mail?

CLARK: Well certainly we're encouraging people who have had their second e-mails but not yet claimed to log on. And I'd also suggest that the accounts are open and that if you haven't received a second e-mail try logging on and complete the process, which only takes a few minutes.

LEWIS: And how long can they do that for?

CLARK: We'll try and keep the online process open till the end of the month.

LEWIS: Right, so they've got to do it by the end of December, otherwise what?

CLARK: Otherwise we'll then take the site information and provide a manual process, a claim form to those individuals who are unable to complete in that time.

LEWIS: So they'll have to join the others who couldn't do it online. How long's that going to take, the paper based system?

CLARK: The claims that we've got in at the moment, we're intending to complete over the next couple of weeks as we undertook at the start. And obviously difficult to say till we get to the end of December how many other claimants they'll be, but I anticipate that most people will seek to complete the online process.

LEWIS: But I mean a paper based system by its nature is going to take a few weeks, isn't it?

CLARK: We've been saying that we'll take up to six weeks from receipt of the completed application form, but our targets are to achieve faster times than that.

LEWIS: Jonathan Clark. And if you had an ISA with Icesave, you'll soon get a letter explaining how to reinvest in another ISA without losing the tax free status.

A growing number of tenants are facing eviction because their landlord is behind with the mortgage payments. The number of buy-to-let landlords in arrears and facing repossession are both growing, but their tenants are often not told what's happening and can face rapid eviction even if their rent is up to date. Bob Howard reports.

ANDY: Would you like a cup of tea, Katie?

KATIE: Yeah, please, go on.

HOWARD: Andy and Katie have just got back to their flat in Huddersfield after a day's work. They started renting it in February and have been model tenants, keeping it in good condition and paying their rent on time. In September they renewed the lease for another six months. Two weeks later, post arrived which caught them completely off balance.

ANDY: The letter was just addressed to "the occupier", so we just opened it. I just thought it was a flier advertisement. All it said was that our landlord was up in court in October for possession and that was it. No advice, nothing. It turned our world upside down; came as a total shock to us because we like the place and we didn't know what to do.

HOWARD: The letter had been sent to them by solicitors acting for their landlord's buy-to-let lender. Worried they could lose their home, Andy contacted the lender and the lender's solicitors to find out what was happening. They said they couldn't tell Andy anything because their relationship was with the landlord, not with him. That's left Andy frustrated and upset.

ANDY: I don't think it's right. It leaves us in the dark. It seems that we have no rights or no-one to advise us of any rights. We're just stuck in the middle between everybody. We could get a letter tomorrow morning to say we've got two weeks to move out and that would be it.

HOWARD: How does that make you feel?

ANDY: It's disheartening. We feel gutted that we could lose the house we like, that we've rented and we've made our own now.

HOWARD: Because Andy and Katie's rental agreement is with their landlord, not the lender, if the property is repossessed their contract is void and they can be forced out long before it expires. Three months after first receiving that letter, they still don't know if this is going to happen. So why can't Andy and Katie's letting agent provide more information? Ian Potter, head of operations at the Association of Residential Letting Agents, says his members can only pass on what landlords tell them.

POTTER: A responsible landlord would let their agent know, but it is not common practice for the landlord to do so. Most of them are running away and hiding from the repossession situation themselves, so the last thing they're going to do is go and say to a tenant, "Oh by the way, you might be getting a letter saying you might be evicted".

HOWARD: Figures for July to September of this year show a jump of almost 50% in buy-to-let landlords who are behind with their mortgage payments by three months or more - £18,000 in total. Adam Sampson, chief executive of the housing charity Shelter, says where these become repossessions in some cases tenants are getting no notice at all that they're facing possible eviction.

SAMPSON: Very rarely does the tenant have the remotest idea that the landlord isn't paying the mortgage. We have any number of cases where the first time a tenant's find out about this is when the bailiff's turned up at the door, and in some cases those tenants have to be evicted within a matter of hours of ever knowing about it.

HOWARD: Lenders should give tenants at least two weeks notice of a repossession hearing. Money Box has learnt the government is now considering extending this to seven. The Council of Mortgage Lenders insists most of its members already do their best to keep tenants informed and lenders who get a possession order do have an alternative to evicting the tenant. That involves appointing a receiver of rent who collects the tenant's payments on behalf of the lender, allowing them to stay in, as the CML's Sue Anderson explains.

ANDERSON: Lenders can either take possession of a property just as they would in an owner occupier case. Or on buy-to-let they can use this receiver of rent route, which is in some ways a very good protection for tenants because if the tenant is paying their rent, this at least gives them the opportunity to pay rent, that rent to be passed directly to the lender, and therefore make it more likely that the lender can keep them in to the end of their tenancy period.

HOWARD: Some lenders at least seem to be exploring the receiver of rent option, but Shelter's Adam Sampson believes too often the decision is eviction, which is a bad move for both tenant and lender.

SAMPSON: It is in the interests of all parties concerned for the lender to continue to act as a landlord for the duration of the tenancy and indeed in some cases beyond. The strategy of dumping people out of homes and then dumping the empty property on an already depressed housing market only guarantees that they get a very, very poor price.

ANDY: Well it's good that it's in the town centre. It would be very convenient for us.

HOWARD: Back in Huddersfield, Andy and Katie don't know if their lender will go down this route and are already looking at new flats to rent. In the current climate, it looks like many more tenants are going to have to go through the same agonising process.

LEWIS: Thanks, Bob. And if you're a tenant or a landlord with experiences like this, you can have your say about it on our website, bbc.co.uk/moneybox.

Well as the rate you get on your savings declines, it's more important than ever to check you're not having too much tax deducted. The bank or building society automatically takes 20% off the interest you earn and passes it to the Revenue. But what if your income's low enough that you don't pay tax? Most pensioners now fall into that category and this month the Revenue's launching another attempt to persuade people to reclaim overpaid tax. Earlier, I talked to Claire Merrills of HMRC and asked if a campaign like this would really work.

MERRILLS: I think the fact is we're accused of not telling people about things, and when we do try to tell people about them accusations are made that we're not doing it well enough. I mean we do try very hard and particularly at this particular time we know that there are a lot of pensioners who need every penny that they can get hold of and this is why we're targeting it now - so that we do reach people.

LEWIS: You know all our names and addresses, you know our taxable income. Why don't you just do it automatically?

MERRILLS: Not everybody who is a pensioner is actually on our records because if they're not paying tax then they're not actually on the HMRC books. It's not always possible to share all this information from one department to another because we need special information sharing gateways set up to do that. And obviously people again would be quite cross if they thought that information that they'd given to one department was being given willy-nilly to another department. It's a very careful line…

LEWIS: But it's not willy-nilly, is it? If you take information from DWP and you say Joe Bloggs of 13 Railway Cuttings pays no tax but he does get a pension and he's got money coming in from his savings that we're taxing, you know you ought to give it back to him.

MERRILLS: The process that you describe there sounds very simple and very straightforward, but it really isn't that straightforward. This is the way we feel is the best way at the present time with the information sharing that we have that we can actually do that.

LEWIS: So the position at the moment is you tax everyone automatically and it's up to them to tell you they don't pay tax and please give it back?

MERRILLS: In a nutshell, yes that's exactly what happens. The banks and building societies will automatically take tax off of any interest that they pay.

LEWIS: So just remind us about the income levels. Who shouldn't be paying tax on the interest on their savings?

MERRILLS: If you're under 65, you will have a tax free income for the year of £6,035. Once you get over 65, the allowances actually increase, so if you're aged 65 to 74, it’s just over £9,000, and if 75 and over it’s £9,180. What people need to do is they need to add up all the bits and pieces - add all their income together, including the income that they’re actually getting from those bank or building society accounts - and if it is less than that amount, they need to fill in one of these forms so that they don’t get tax taken off of the interest before it’s actually paid across to them.

LEWIS: And what about the tax they’ve paid in previous years?

MERRILLS: What they need to do is to contact us and we can send them a form to make a claim for those earlier years as well.

LEWIS: And that’s the form R40?

MERRILLS: It is.

LEWIS: And you need one for each of those tax years.

MERRILLS: You do.

LEWIS: Back to when?

MERRILLS: At present, you can actually claim back to the 2002/2003 tax year.

LEWIS: We’ve talked about this in previous years, Claire. You’ve had other campaigns in the past and there was a time when you were saying there was up to £300m waiting to be reclaimed. Do you have a current figure?

MERRILLS: We reckon it’s now about £250m.

LEWIS: So you’ve taken £250m of tax that - I won’t say you shouldn’t have taken it, but that shouldn’t have been paid - and people can now reclaim that following the rules you’ve outlined?

MERRILLS: Indeed. We reckon that there's somewhere between two and a half million and three million people that could be entitled to a share of this money, so if they want that money back, please claim it because it's yours.

LEWIS: Claire revenue… Claire Merrills of Revenue & Customs.

Well Howard Wheeldon of BGC Partners liked the programme so much, he stayed on to listen and he now has just about twelve seconds to answer this question. Howard, how low will interest rates go and by when?

WHEELDON: I think we will see further cuts in interest rates taking it down to 1% in February. That's as low as I think we need to go. I'm afraid it's further bad news for savers.

LEWIS: Thanks very much, Howard. I knew we'd have a cheery end to the programme. That's it for today. You can find out more - the BBC Action Line 0800 044 044; our website, with lots of interesting stuff to do: bbc.co.uk/moneybox. I'm back here… And Have your Say of course on tenants and buy-to-let, which some of you are beginning to. I'm back on Monday with Money Box Live, this week taking your questions on benefits for carers. Back next weekend with Money Box. Today the reporter was Bob Howard, the producer Lesley McAlpine, and I'm Paul Lewis.