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MONEY BOX LIVE

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TRANSMISSION: 21st SEPTEMBER 2011   3.00-3.30   RADIO 4

DUGGLEBY: Opinion is still sharply divided over whether house prices are more likely to fall than to rise from their present level. Some argue the market won't recover until mortgages are more readily affordable by first-time buyers and, in particular, those who simply can't raise the 25% deposit to get the best terms. Others point to the fact that with interest rates so low, it's an ideal time to secure a loan which will actually cost far less than paying rent. As to how long the base rate can stay at half of 1 per cent when inflation is over 5% - seemingly as long as it takes the economy to recover. It's savers, not borrowers, who are paying the price. Whatever your point of view, there's now a wide choice of loans for new and existing borrowers below 4%, and some of them are fixed for up to 5 years, with tracker loans available at less than 3% for the best risks. A key question is the so-called loan to value ratio, which ideally should be no more than 75%, and (if you can manage it) 60%. The larger the ratio, the higher the interest rates. However one lender, the Aldermore Bank, has come up with the first 100% mortgage since the credit crunch, but there are a lot of strings attached and at 6.28 that interest rate looks pretty expensive. Mind you, it's unwise to judge a mortgage on headline interest when arrangement fees (which can be anything from 0 to £1,000 or more) have to be taken into account. Ideally a loan should also be transferable with flexibility for overpayment. And if working all that out sounds like hard work, it is, which is why many borrowers turn to mortgage brokers and advisers for help. Three of them are with me in the studio to answer your questions: Jane King from Ash-Ridge Private Finance; David Hollingworth from London and Country; and Melanie Bien in our Guildford studio. She's from Private

Finance. A reminder of the Money Box Live number: 03700 100 444. Lois, you're the first caller in London.

LOIS: Hello. I'm just coming out of a fixed rate mortgage and I've been offered a 2 year fix at 2.39 or a 5 year fix at 3.49. And the big question is what do we think will happen to interest rates in 2 years? Do I risk going on the 2 year, which is clearly quite a lower repayment, or go on the 5 year?

DUGGLEBY: So you've been on a 2 year already, have you?

LOIS: I have been, yes.

DUGGLEBY: Were you happy with that?

LOIS: Yes I was, yeah.

DUGGLEBY: Alright. So I just asked that, David, in anticipation of sort of it's the comfort factor, isn't it really here? It's how secure and how sure do you want to be?

HOLLINGWORTH: Yeah absolutely. So a fixed rate gives you that security no matter what. It's then how long do you fix in for. The issue really to bear in mind is that both of those deals are bound to lock you in, so it's about have you got anything on the horizon where you might need to review the mortgage and then of course what's going to happen with interest rates. Now it may look fairly benign at the moment and therefore the lower rate looks quite attractive, but the issue will be when you come out of the 2 year fix what's going to happen then. And of course at some point base rate must climb and it's how comfortable you would feel with renegotiating in a couple of years time when deals might be just that bit higher. So you're buying security over a longer period, but you're going to pay for that at the moment.

DUGGLEBY: Jane King, am I right in saying that 5 year deals have actually got more competitive in the last few months?

KING: Yes they have. I mean 3.49 is pretty competitive. More lenders are coming out with them now. We've had at least three or four new ones come in over the last couple of months. But I think David's right: I think it's really down to your own piece of mind. If you're not planning to move or if you feel that there's going to be significant changes to your circumstances whereby you'd like to be able to go for 5 years without worrying, then the fixed rate might be right for you.

DUGGLEBY: Melanie, what's your gut feeling on that question?

BIEN: Well she's in a nice position because both of those rates are very competitive, so it's a nice problem to have.

DUGGLEBY: Can you just say who they're with? What are the offers … who are they from?

LOIS: It's the Woolwich.

DUGGLEBY: Woolwich. Okay, I expect you're familiar with that one, Melanie?

BIEN: Yeah they're very good products, and so yes it really just comes down to whether you're happy with fixing for 5 years because more people are tending to go for longer fixes at the moment because they're worried about interest rates you know starting to rise in a couple of years time.

DUGGLEBY: And just generally, David, when you enter into these fixed rates of course there is always the after the event, which is the variable that comes up automatically. Is that generally tending to be taken up now at all?

HOLLINGWORTH: Are people sticking with standard variable rates?

DUGGLEBY: Yes.

HOLLINGWORTH: They have been over the last few years, they have done, but of course many lenders have now blocked off their very, very cheap low rate. So actually with products improving, there's a lot more opportunity to save money by going to either a tracker or to all these fixed rates to shore up.

DUGGLEBY: So you know just in a word, David, 3 or 5?

HOLLINGWORTH: I'd probably go for the 5 at that rate.

DUGGLEBY: Okay, Jane?

KING: Well with the Woolwich, I'd consider the 2 because I think at the end of the 2 years the Woolwich put you on a pretty attractive tracker rate at the moment.

DUGGLEBY: Right. And Melanie?

BIEN: I'm tempted by the longer term, the 5 years.

DUGGLEBY: Okay, there you are, Lois. You've got 2 5s and one 2 with all the arguments put for you.

LOIS: That's great. Thank you very much for your help.

DUGGLEBY: Alright, indeed. Simon in Oxford now, a not dissimilar question.

SIMON: Yeah, good afternoon, this is a bit similar. We came off a fixed rate mortgage with First Direct in June and took out another fixed rate at 4.7 when it looked likely that interest rates might have been rising and a lot of good deals were being withdrawn, and that's at 4.7%. And with the way things have gone since then, we're now thinking would we be better off taking a hit on the penalty of buying ourselves out of that fixed rate and going onto a variable rate?

DUGGLEBY: What is the penalty?

SIMON: I haven't looked into that yet because this is just really a conversation that we've just been having for the last sort of week.

DUGGLEBY: I can hear other listeners saying you what, you took out a loan in June and now you want to change your mind 3 months later?

SIMON: Well yeah, indeed.

DUGGLEBY: I mean I do sympathise Jane that the view very much was until fairly recently that interest rates were going to go up fairly quickly, so yeah pity you made the decision but you know you have to do it at the time.

KING: Good afternoon, Simon.

SIMON: Hi.

KING: A 5 year fixed, I think the penalty is probably going to be quite onerous. They usually are on 5 year fixes if you're coming out very, very early. Why would you consider going onto a variable now rather than when you decided to fix? Was it purely because of interest rates?

SIMON: Yes it was. I mean at the time I think the mood music was that with inflation going up and with a lot of the lenders withdrawing their best rates, we thought that it might be sensible to fix because it looked like interest rates might be on the rise. Since then things haven't got any better.

DUGGLEBY: Haven't you thought, Simon, that the moment you did, just as soon as you went onto a tracker, you know what will happen - interest rates will go up and you'll find you'll get caught both ways around. And I imagine that you know … This is the Co-op. I mean I don't know whether they have a suitable product I mean that you could switch into, but I very much doubt it.

KING: What I would tend to do if I was you, I would find out what your penalty is and then I think I would sit down and do some very accurate calculations and see whether it is worth it. But I would tend to think that it probably isn't right now.

SIMON: Okay. Thanks very much.

DUGGLEBY: Thank you for the call, Simon. And Angela is in Macclesfield. Your call, Angela.

ANGELA: Hi. We came out of a fixed rate in 2009 and we did arrange for another fixed rate to start in the September of 2009 at 5.49%. We have actually been in dispute with the Ombudsman because we went into the branch before that new fixed rate started and we did actually verbally say that we didn't want to continue with it; we wanted to revert to the standard variable, which would give us more time to look around because interest rates were low and they seemed to be continuing in that vein. But unfortunately, because nothing was in writing, the Ombudsman has found against us and so we are now stuck in this fixed rate. We are 2 years into it and we have £38,000 still to pay on the mortgage. It 's due to finish in 2014 and we're wondering, just like the last caller, whether it's worth us paying the penalty and looking around for a better deal?

DUGGLEBY: Do you know what the penalty is?

ANGELA: I don't at the moment.

DUGGLEBY: Well neither did the last listener …

ANGELA: No, I'm sorry.

DUGGLEBY: I mean the point about this is we really can't answer a question on a hypothetical that there is a penalty if we don't know what the penalty is. But David Hollingworth has got perhaps some ideas as to how to go about it.

HOLLINGWORTH: Well if you're looking at the cold, hard maths of it, it's a case of finding out how much that penalty is and then can you save that back over the remaining period of the current fixed rate. Now one of the things to look out for when you do go to investigate how much the early repayment charge will be, just be aware that they tend to step down each year. So if you're coming up to the anniversary of taking that deal, you might find that rather than - if you do decide to switch away - rather than doing it right away, you might want to hang on for a few months because it could step down by as much as 1%.

DUGGLEBY: Melanie, if you were doing like with like. We've got a loan that finishes in 2014. Okay so they come out of it 2011. That would be a 3 year fix. So what sort of rate, if we were starting with a clean sheet, what sort of rate would you get now?

BIEN: Angela, what loan to value do you have on your mortgage? Do you know?

ANGELA: I don't know, I'm sorry.

DUGGLEBY: Well how much is your house worth?

ANGELA: The house is probably worth over £200,000.

DUGGLEBY: And your total loan?

ANGELA: £38,000.

DUGGLEBY: Well that's a very small mortgage.

BIEN: Oh yeah, tiny. So you would have the pick of the deals. So if you were looking for … Do you think you'd like another fix, or would you …

DUGGLEBY: *(over)* I think compare like with like. We probably ought to try a fix and see how it compares first.

ANGELA: Yeah, that sounds fine.

BIEN: *(laughs)* Okay so in terms of 2, 3 year fixes, you've got the pick of the deals, so you can probably get for a 2 year fix anything from 2.69%. That's from the Chelsea Building Society. And obviously you'll pay a little more if you're going to fix for slightly longer, for 3 years. So the rate is quite a bit lower. It will just depend, yes, how much your penalty is going to be to get out of your existing deal.

ANGELA: We're sort of paying over £900 a month now, which seems you know an awful lot. I'm sure with the penalty we'd still …

DUGGLEBY: You'd certainly come in less than that, wouldn't you? Jane?

KING: Absolutely, yes. No, I agree with Melanie. You're going to get less than 3%. The only other thing you're going to have to consider also is any added fees - valuation fees, product fees that are added to this interest rate - but on such a small loan … I would think as well if your early redemption penalties are a percent of the loan, because your loan is quite small hopefully your redemption penalty will be reasonably small as well.

ANGELA: Right, that's great.

DUGGLEBY: Okay. Many thanks Angela for that call.

ANGELA: Thank you very much.

DUGGLEBY: Let's have an email now. It's Karen and she's emailed us to say she's 66 and has a healthy fixed income. She wants to move house but can't get a decent mortgage even though she essentially, like Angela, can put down basically 75% to 80% of the price and only needs to borrow £50,000. Is she too old? Can she have some advice? David?

HOLLINGWORTH: There has been big moves in the market as regards maximum age, so the presumption will be that you will be mortgagable to retirement age, so typically 65.

DUGGLEBY: Well she's past retirement.

HOLLINGWORTH: Now that can be overridden if you've got income going on, so the lender will be able to look at income beyond retirement age and look at pension income and so forth. However, maximum age is now tending to come in at 75 pretty much across the board. There's one or two will go a little beyond that, to say 80 - someone like Leeds or Nottingham. But really that will be the limiting factor and that will probably be what is causing her the difficulties.

DUGGLEBY: Jane, I read into this question really a downsize here. It's somebody who's retiring, you know maybe living in a nice little bungalow or detached house, something like that, wants to release capital but also wants to get the loan really as a way of releasing capital. Now I don't think we're talking about equity release here because obviously the interest rates on those are more expensive and the whole thing is more restrictive. I can understand where they're coming from.

KING: Yes, no I agree with you. Equity release isn't for everybody. But you also find sometimes that when people get to that sort of age, they actually don't want to move. There are various things. I mean even if she was to, I don't know, rent out a room or something, the income can't even be used towards mortgage. She may have investment income that she could use to perhaps you know be able to afford the repayments, but I think again, as David says, 75's going to be about the limit on it.

DUGGLEBY: Yes. But I mean there's no reason why she shouldn't get a mortgage for the next 12 or 14 years?

KING: Yeah.

DUGGLEBY: And £50,000 is okay, that's a reasonable mortgage. And again she's got the same rules I suspect, Melanie, as everyone else - fixed or variable - but there's no restrictions on age as far as that's concerned?

BIEN: No, exactly. The same choice of products will be available. There'll just be a fewer number of lenders who will actually consider her because of her age.

DUGGLEBY: Right, now Sidney you've got an almost identical question. In fact I think you're practically the same age. She's 66 and you're I think 64?

SIDNEY: I'm 64. Sorry, I didn't hear the previous person.

DUGGLEBY: The previous caller or previous email was a lady of 66 who wants to move house. She's not a first-time buyer and we were saying that she can get a mortgage, but it doesn't last perhaps as long as the conventional mortgages - 25 years or so. So you're 64 anyway.

SIDNEY: And I haven't purchased a house in this country before.

DUGGLEBY: And you haven't purchased a house before.

SIDNEY: And I can put a pretty substantial deposit down, but I can't pay the full amount off. I no longer have to retire in a year's time because of the rule changes, but half my income is salary and half is self-employed, so I'm not an ideal candidate I think for the mortgage companies. I just wonder if there's any possibility at all of me getting a mortgage?

DUGGLEBY: Well I'm sure, David Hollingworth from London and Country, I'm sure he's not a lost cause, is he?

HOLLINGWORTH: No. I mean in terms of income, it's about what evidence you can supply of that income. So lenders have got tighter on self-employed and in terms of what they will require to see, so as evidence of that income typically 2 or maybe 3 years accounts. But it's not that they won't lend on that basis. I think here it will be a case of trying to get all your ducks in a row with maximum age, the income. But the deposit goes well in your favour. The only thing is with maximum age, it does limit the term and that can really bump up the repayments if you're trying to pay it off in just over 10 years.

DUGGLEBY: Melanie, backing off Sidney's particular case to Robert who sends an email from Church Stretton in Shropshire, he says by way of a comment: 'People are increasingly reaching retirement without paying off their mortgages and yet lenders don't seem to recognise that longevity is being extended and you know there should be more flexible products if we're all going to live longer in retirement and work longer.'

BIEN: Yes, this is a growing issue just as people are living longer, have more demands on their money. I mean a lot of people going into retirement will be helping their own children or even grandchildren onto the housing ladder and so really aren't in a position to pay off their mortgages and want to carry on into retirement. You know it's not reckless borrowing, but lenders are you know cutting right back in this area. I mean Halifax, for example, had an excellent product that you could carry on for you know 40 years into retirement and just pay the interest on the loan, pay off the capital at the end of the term, but they've pulled that quite recently. So there is very little choice available and it's making it increasingly difficult.

DUGGLEBY: Your experience, Jane?

KING: Yeah I agree with Melanie; there's just little choice. We are dictated to by the maximum 75 years of age, and the repayments (if you choose a repayment only mortgage) are going to be substantial.

DUGGLEBY: Are there any lenders specifically that spring to mind that are still sort of worth approaching?

HOLLINGWORTH: Leeds Building Society, they pulled back. They did go to 85 maximum age, but they've pulled back to 80. Nottingham … Darlington might be an option to look at. They have some discretion around maximum age.

KING: You can go to your own bank if you've got a good relationship with your own bank. They may look at doing something for you.

DUGGLEBY: Well there's an allusion there to people, parents in particular, never really being free of mortgages because the moment they're free of their mortgages then it's the children who come along. And Bob in London, you've got this very problem?

BOB: Well yes I do. My wife and I would like to help our daughter (who's 27) get started on the housing ladder. She wants to buy a flat in London and have a lodger. She can get a £225,000 mortgage and we are thinking of providing another £125,000, which we can borrow from our existing mortgage account.

DUGGLEBY: You have a mortgage yourself, do you?

BOB: Yes we do.

DUGGLEBY: And you can increase it?

BOB: Yes, ours is almost paid off, but we could get another £125,000 from the bank for 7 years without any trouble and the interest rate is very low. Really we're not quite sure how to handle this. Should we charge her interest at a low rate or should we hope for a capital gain on our share of the flat when it's eventually sold?

DUGGLEBY: It's probably a personal question, but I'm interested in the mechanics of this one. So, Melanie, you handle this sort of question I think quite regularly?

BIEN: Yeah, absolutely. Well, firstly, isn't your daughter in a great position to have parents able to do this for her because that's going to make a huge difference to the size of mortgage she can get and the rate she pays, so that's great news.

DUGGLEBY: But who pays what when the loan is set up?

BIEN: Well it depends how it's set up - whether it's set up as a joint mortgage between parents and child or whether it just goes in the daughter's name and there might be a legal document. You know Bob might go and see his solicitor and get something in writing to say that he's put x amount in and expects to get it back when the property's sold. I mean, like you say Vincent, it really depends on what these people are comfortable doing, you know, because there's no hard and fast rules about it.

DUGGLEBY: But the lender, Jane, draws up this package, which is £225,000 and say £100,000 from Bob, the father, and the daughter then signs the papers to be responsible for the whole mortgage? Who ultimately gets the proceeds of the flat? Is that anything to do with the lender at all?

KING: Again I think it's pretty much how it's set up. I mean the daughter's got to realise that if an agreement is set up whereby she's repaying the loan with interest, over a period of time this is going to be treated by a lender as a financial commitment and is going to have to be put on the application form.

DUGGLEBY: That's paying interest to Bob?

KING: If she is, yes.

DUGGLEBY: Yeah, that's not a good idea.

KING: Unless it doesn't affect the affordability, then yes the lenders will take that into consideration.

DUGGLEBY: So think about that one, Bob.

BOB: Okay.

DUGGLEBY: If you form your own interest, that could affect the lender's approach to it. But in principle, I mean the system ought to work, but I think this is one of the cases where go to a broker. Again I'll just bring in David briefly. Presumably you could structure something which would be with a satisfactory lender who deals with this sort of mortgage. It's quite a big mortgage.

HOLLINGWORTH: Yeah, I think you've got to be aware of how lenders will treat that because some will insist on it being a gifted deposit. They won't want to be finding there's any interest from another party, even the father. The other thing Bob, of course, is you mentioned 7 years on your borrowing facility. I guess you've got to think about how that's going to come back your way eventually.

DUGGLEBY: Okay, Bob, well thanks for that interesting call. And we'll take a call now from Rita in West Byfleet. Rita?

RITA: Hello there. Yes, my question is my son and his girlfriend are having trouble finding a lender to supply a mortgage for part ownership property. It's not a council one. They've both just finished their MScs. She hasn't got a job; he's got a job now, 23k. Forty per cent of the property, which is what they're looking for, is £82,000. The rent on that would be £300 a month. They have a deposit of £30,000 in cash, but they're being offered a mortgage of £27,000, which is just slightly over my son's earnings. She is looking for a job. I assume she'll get a good job. And their problem is they can't find somebody who is willing to help them out with a mortgage even though they've got, I thought, quite a big deposit, not like Bob.

DUGGLEBY: Jane King from Ash-Ridge has made a study of this particular problem. Jane?

KING: Oh good afternoon Rita.

RITA: Hello.

KING: Hello. What I wanted to ask you was can I ask which lender you've approached so far?

RITA: Yes, they've been to the Nationwide and my son's girlfriend has been on the phone for a few hours now trying to find somebody. Some of them really aren't interested. She seems to have had a positive reaction from the Halifax and is hoping to see them on Saturday. The other problem is she is Canadian British. She did her MSc here and has lived in Canada, and that seems to count against her.

KING: Yeah mortgages for shared ownership are quite different from the normal route. They tend to be more onerous. They don't like anybody that … Does the girlfriend have indefinite rights to remain in the UK?

RITA: Yes, she's got a British passport. Her parents are British.

KING: Okay that's fine then, that's fine. The only problem that I can foresee is that when the lenders come to do the mortgages, although the figures look very good - big deposit, reasonably good earnings - the lender has to factor the rent and you'll probably find there's a service charge as well on these properties. They have to be factored in and they're treated as a financial commitment.

RITA: Yes, we realise that.

KING: And once all of those things are added together, and it's quite unfortunate that the lower the salary, the more difficult it is to get a mortgage, which is really the reverse thing of how it should be. So anybody coming to buy a shared ownership property with £40,000 is not going to have a problem. However with £23,000 and your … Is he planning to live with his girlfriend in the property?

RITA: Yes.

KING: Yes, so she will be treated as a financial dependent. So it might be worth …

RITA: Because she hasn’t got a job yet?

KING: It may just be worth doing it in his name alone.

RITA: His name alone.

KING: That will bump up the affordability by just doing it in one person’s name. The other option you might have is to extend the mortgage. I don’t know what sort of term you’re looking at.

RITA: 35 years basically.

KING: Yeah 35. If you can extend it for as long as you can, again that bumps up the affordability. But we are very restricted on the lenders that can be used for it.

DUGGLEBY: Indeed.

RITA: So you can’t recommend anybody they could go to?

DUGGLEBY: I was just going to say. You’ve mentioned Nationwide, Halifax.

KING: Yeah you’re putting down quite a good deposit. If I was looking for a lender that would take a reasonable view on affordability, I would look at the Woolwich.

RITA: Right. Thank you so much.

DUGGLEBY: Thank you for that call. And we'll take a call now from Kevin in Kent. Hello Kevin.

KEVIN: Hello there.

DUGGLEBY: Yes your call.

KEVIN: Hi there. I was interested to hear on your trailer for the show that you mentioned on types of mortgage that people might consider the interest free option.

DUGGLEBY: Interest only, yeah.

KEVIN: Interest only, sorry. Interest free would be nice, wouldn't it? Interest only. *(laughter)* The reason I rung in is that I recently approached my bank, which was Barclays - the mortgage was taken across from Woolwich originally - because in these financial times we've found it rather difficult over the last year to 18 months and I was investigating ways that I could manage my finances and find …

DUGGLEBY: Kevin, can you tell us what the question is?

KEVIN: Barclays told me that an interest only option was not available because it had been regulated out.

DUGGLEBY: Okay that's the question - interest only. I know it's getting more difficult.

HOLLINGWORTH: It has got more difficult, Kevin - not just with Woolwich but across the board - so lenders are very much more keen to see just how you're going to repay the mortgage. They want to see a repayment vehicle in place. Now that might have been in the past an endowment or some other kind of investment vehicle, but where borrowers were taking a mortgage without any kind of repayment vehicle lenders have completely pulled away from that and of course there were dangers within that kind of lending. But very much tougher on interest only across the board.

DUGGLEBY: Okay. We've time for one more call. It's Davina in Croydon. Davina?

DAVINA: Hi.

DUGGLEBY: Your call.

DAVINA: Yeah so my question is me and my husband have recently secured a mortgage for £250,000, including the deposit. That's a couple of weeks ago and we've got a mortgage certificate. *(baby cries in background)* I'm currently on maternity leave …

DUGGLEBY: Yes, so I gathered. *(laughter)*

DAVINA: Sorry, I'm just going to try and get him to be quiet. So for the first 3 months of my maternity, I get full pay from my employer. I'm now in my fourth month of maternity and I'm on statutory maternity, which is £600 a month. When I go to actually apply for the mortgage proper, when we find a property, how will they calculate our mortgage then? Would it affect what we …

DUGGLEBY: Right, well Davina I was going to say you're luck, but Melanie I think you've got more or less a personal interest in this question.

BIEN: Yes, I am also on maternity leave at the moment. It really depends on the lender. Unfortunately there's no quick answer because they all treat this slightly differently. What they'll want to see is that you and your husband's income can afford to support the mortgage that you end up taking out, so they'll run the figures again really with this reduced statutory maternity pay potentially and they might say no you can no longer afford to borrow that size mortgage. But it really depends on the lender.

If you're going back to work fairly soon at your normal salary, then they might take that salary into account rather than your reduced maternity pay. So it really depends on your own situation and the lender, I'm afraid.

DAVINA: Okay.

DUGGLEBY: Just a few moments for the other two panelists to comment on this change of circumstances, you might say Jane, when you're making an application.

KING: Yes it's really as Melanie says. I mean it might be worth you checking with the lender, just giving them a call, a general inquiry to see how they're going to treat an application based on this. Otherwise you may feel that you need to approach another lender who'll perhaps accept a letter from your employer to confirm your salary on your return and see if you can get it through that way.

DUGGLEBY: But briefly - final comment from you David - it is essential to tell a lender about changed circumstances?

HOLLINGWORTH: What you don't want to be doing is find yourself signing something which says no circumstances have changed when you quite clearly know you have because then you start getting into very difficult territory.

DUGGLEBY: Okay, well thanks very much panel. That's Jane King from Ash-Ridge Private Finance; David Hollingworth from London and Country; and Melanie Bien from Private Finance. Our website, bbc.co.uk/moneybox, has more information about the programme and you can listen again, download a podcast, and email us with your comments and ideas. Paul Lewis will be here with Money Box at noon on Saturday and I'll be back taking your calls on tax on next Wednesday's Money Box Live.