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MONEY BOX

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LEWIS: Hello. In today's programme, credit card reform. Is it enough? Why did a low risk investment end up like this?

HUDSON: Our fear is, all of us who are invested in this product, that we shall have to be forced to sell our homes.

LEWIS: The Ministry of Justice has closed down claims management company Cartel Client Review. Questions continue over who knew what when about Lord Ashcroft's non-dom tax status. But how does someone born in the UK become non-domiciled here anyway? Gillian Lacey-Solymar's been looking at changes for some Nationwide customers taking out foreign currency.

LACEY-SOLYMAR: Some Nationwide cash card customers are rather annoyed that they'll no longer be able to withdraw money when abroad.

LEWIS: And details of a new £80 rebate off electricity bills for some older customers.

But first, the credit card industry has agreed a voluntary code with the government to improve the way they treat their customers, and credit card holders will be offered greater protection from spiralling debts. Measures include giving customers 60 days instead of 30 to reject an increase in the interest rate; and also a new commitment to make sure that any payment by a

customer is used first to pay the highest cost debt first, not the lowest - as is usual now, as Consumer Minister Kevin Brennan explained.

BRENNAN: This right to repay is a very big win. It completely reverses the order of payment for consumers. So if you have more than one interest rate on your credit card - which over 9 million people do - when you pay something off, it'll go on the most expensive debt, not on the least expensive debt, which was the situation before. So that'll help people with their cost of living and get rid of something which really annoyed people when they found out about it and thought was a bit of a swizz.

LEWIS: But does ending this "bit of a swizz" go far enough? Live now to talk to Peter Harrison, the expert on credit cards at the comparison site Moneysupermarket.com. Peter Harrison, has the government and the industry addressed the biggest problems that people struggling with credit card debts face?

HARRISON: I think it's definitely the case that over ... Sorry, it's definitely the case that over ... Excuse me.

LEWIS: So, Peter Harrison, just explain what this change will mean because what they're going to do is pay off the most expensive debt like cash or a high interest rate and the 0% possibly last; whereas at the moment it's the other way round. Is that right?

HARRISON: Yeah, that's correct. I think two thirds of customers, which we surveyed at Moneysupermarket, weren't actually aware of this. And of course the current order of payments is that if you have cash ATM withdrawals, which can be charged between 24 and 27% interest rate, then that's actually allocated to the 0% payment rather than the most expensive, and this is very, very welcome.

LEWIS: Yes because it does mean that you never get rid of that expensive debt, doesn't it? But looking at this other proposal about people who ... the interest rate goes up - and we know that several million people have been finding their interest rate has been put up unilaterally by the credit card company - what new rights are they going to get?

HARRISON: I think they've obviously got the right to reject that interest rate. And it's very much the case that it's under certain conditions - for example, that you must actually agree with your lender when's a reasonable time to repay that debt - and it also means that you can't actually use that credit card anymore as you make or lend in agreement to repay that outstanding debt.

LEWIS: Yes, so if your rate goes up from 15.9 to 22.9, you can say, "I don't want that to happen", but then you have to pay off that debt over a period and then not use that card again. So you might be stuck without a card, mightn't you?

HARRISON: Of course you can, and that's one of the limitations about freezing the interest rate. I guess, however, there are other products out there in the marketplace.

LEWIS: Yes, well if you've got a good enough credit rating to get one. Now another issue that's concerned many of our listeners is when credit card providers raise or lower your credit limit without any consultation. What's happening there?

HARRISON: I think it's been the case that some of those in financial difficulty have actually had increases in credit limits, which doesn't go really against the code. It's very much about you know keeping control over what your credit limit is and also challenging back to the banks if you think that's unreasonable.

LEWIS: And finally, and very briefly, there was a proposal to raise the minimum amount that had to be paid off each month, but that's been dropped for existing borrowers.

HARRISON: That's correct. And there's a case that you know you should actually pay more than the minimum payment anyway, as the research we've also found is that people could be repaying credit card debts for several years.

LEWIS: Yes, well 20 years in some cases, I think. Peter Harrison from Moneysupermarket.com, thanks very much for talking to us.

Geared traded endowment policies - four words that when brought together have meant big losses to some people despite being marketed as a low to medium risk investment.

Endowments, typically sitting alongside a mortgage and designed to pay it off, are simply an investment with an insurance company that pays out a guaranteed sum at the end of a fixed period - say 20, 25 years. If the policyholder wants to give up the investment, then it can be sold and it then becomes a traded endowment and people buy these for what they see as a low risk investment or at least producing a pretty guaranteed return. But now the final term 'geared' means you *borrow* money for that investment - sometimes twice over - which, with charges, can wipe out or more any return the investment might reasonably make. But the debt still has to be repaid, as Brenda Hudson told me.

HUDSON: The pressure is great. The bank has written to us and reminded us that we have a considerable debt to them, which they want repaying. At the moment our portfolio is about £20,000 less in value than the debt to the bank, so even if we sell the portfolio and liberate the money, the bank still wants another £20,000 from us. And of course we have a £150,000 mortgage, which in retirement we've absolutely no way of paying the capital. The product we invested in is supposed to earn enough money during its lifetime to pay back all the borrowing on the plan. The debt that we've accrued with the bank, we had no idea at the outset that this was going to be as large as it was or grow as fast as it did. The bank loan side of the thing was kept very much away from us when we were investing.

LEWIS: That was one listener, Brenda Hudson. Now many people have already had claims for mis-selling upheld by the Financial Ombudsman Service, but it can only order companies to make compensation claims up to a maximum of £100,000, and many, like Brenda, have lost a great deal more than that. So she and dozens more have turned to Gareth Fatchett, a partner with law firm Regulatory Legal, who's trying to get them fully reimbursed. He explained to me how the product was *supposed* to work.

FATCHETT: The assumption was that the value of the underlying endowment policies and the returns on them would more than exceed the loan repayments, so effectively you're just using the loan as a facility to get extra growth. The problem is that the number of assumptions that would have to go in your favour is fairly large, and on a bear market, you know a recessionary market where things have not gone particularly well, those things could never

have happened.

LEWIS: So in the case of somebody like Brenda Hudson, who we heard from, she would have had to make enough money from this investment to pay the loan to the bank, pay the loan she took out on her house, and then whatever was left would be her return. So the returns would have to have been pretty huge, wouldn't they?

FATCHETT: As well as she would also had to have money to continue to pay the premiums on the endowment policies to keep them live. The returns would have to be you know fantastic or they'd have to be very, very big returns indeed to actually get a neutral position.

LEWIS: And who do you think is mainly to blame for this? Is it the IFAs who sold them, the companies who've designed it, the bank who loaned money against it?

FATCHETT: I think the product wasn't stress tested properly enough. I mean it was authorised by the FSA; I mean they gave the permission to sell the stuff. The bank should have known and had a look at the profile of the people they were taking on. I mean the bulk of people involved in this are retired people and the financial advisers should have considered you know the effect of people taking money out, loans to invest. And ultimately the people who designed the product should have sat down and thought about the fact that there would need to be such a number of fantastical probabilities working together to make the whole thing work.

LEWIS: Gareth Fatchett of Regulatory Legal. Now the creators of the plan which Gareth's clients bought was a company called Integrity Financial Solutions. It went into liquidation in 2009. But the UK Integrity Group, which owned it, is still offering investment opportunities, and live now to Southampton to talk to its Chief Executive Ian Stamp. Ian Stamp, Gareth Fatchett says "fantastical" assumptions were made. Do you still stand by this product?

STAMP: Well I don't believe that fantastical assumptions *were* made. The reality of the with-profits endowment policy over the last well quite a considerable number of decades has earned between 4 and 6% over inflation. Bank interest rates are record lows currently and the

majority of people who made investments into the Maximiser geared traded endowment plan are still enjoying returns from their investment.

LEWIS: So what responsibility do you take for Brenda Hudson who's lost £170,000?

STAMP: Well I don't know Brenda's circumstances individually.

LEWIS: Well she bought one of your plans.

STAMP: Quite clearly she did, and I wasn't involved in the recommendation. I believe her IFA recommended the plan to her. What I *can* say is that the product was designed over a 15 year period and I doubt very much whether Brenda has reached the end of that 15 year term.

LEWIS: So you're saying if she hangs on, she'll make money?

STAMP: Well over the last year, we've seen endowment surrender values increasing between 2 and 10%, so ...

LEWIS: But the problem is she's being asked for more money from the bank because they're now saying their loan's no longer secure. You're saying she should pay that and then hope to make more money in the future?

STAMP: Well I don't know which bank she borrowed the money from.

LEWIS: Bank of Scotland.

STAMP: Well the Bank of Scotland has a very close working relationship with Integrity. We're not seeing any enforcements by the bank.

LEWIS: Right, so you might intervene in her case with Bank of Scotland?

STAMP: Well we've been negotiating with Bank of Scotland now since the global credit crisis and clearly investment values have fallen across the board. And we've been helping investors through our annual review process to do anything possible to keep the plans running for the full 15 years.

LEWIS: Now the IFAs who sold this product relied heavily on your brochure and the illustrated diagrams you provided. A compliance expert, we looked at that, said it wasn't compliant. It didn't even include a warning about using a mortgage to invest in a product that wasn't guaranteed. Do you believe your material *was* compliant?

STAMP: Well the material was actually signed off by the Interdependent Network, which is the institution that we belonged to back in the days of 2002.

LEWIS: Do you believe it was compliant?

STAMP: I believe it was compliant.

LEWIS: But wasn't this pitch always going to fail? I mean we've talked to many people about it. You have an investment, mortgage your house to invest in it, borrow more money against that investment at a higher rate of interest to buy more of the same investment, and hope the investment produces enough return to pay both debts and the capital and give you £12,000 a year. That's not a low to medium risk investment, is it?

STAMP: Well I think we must unpack the programme, and the component is made up of three components: there's an investment into traded endowment policies; there's an investment loan; and there's a mortgage. Now the programme was designed for people who could afford to cover the interest payments on their mortgage and were looking for additional income.

LEWIS: So they'd have to pay the interest not out of the investment but out of their own money? That's not made clear, is it? Certainly Brenda Hudson didn't know that.

STAMP: Well quite clearly throughout all of the literature, it says that the withdrawals from the programme are not guaranteed in any way.

LEWIS: No, but it does give illustrations. Isn't one of the problems the huge amounts of commission you paid? In the CD you sent to IFAs, for a £150,000 plan, the IFA gets £19,400 commission and then £1,500 a year after that, and that's before anybody's made any money.

STAMP: Well IFA commission standard is 3 to 5% of the sum invested, so I don't think that the commission rates on this programme are any greater than any other investment programme.

LEWIS: But this is clearly going to encourage them to sell these products without thoroughly assessing the risk, isn't it?

STAMP: Well I think that's a question for IFAs.

LEWIS: Well you always put it back to IFAs, but your material, which we've seen, says that on a risk scale of 1 to 10, this is 5 to 6. What does that mean?

STAMP: Well I believe that risk and affordability are two very separate issues.

LEWIS: Yeah, but what does it mean? Does it mean you've got a 50 to 60% chance of losing your money?

STAMP: No, it means that risk is typically broken down into categories. There's investment risk, there's market risk, there's currency risk.

LEWIS: You don't do that. You say on a risk scale of 1 to 10, this is considered to be 5 to 6. You don't break it down.

STAMP: I believe that in the suitability report that you may not have seen, it's broken down very clearly; and it says very clearly in there if consumers borrow money to invest in the

programme, the risk will increase.

LEWIS: Yeah, but that's the essence of the programme: they are to borrow. That's what the property income plan does, isn't it? People borrow money on a mortgage and they borrow it again to buy more. That is part of the plan.

STAMP: The risk profile that's in the brochure is talking about the investment into traded endowment policies. It's not talking about borrowing money.

LEWIS: Well that's not true, as far as I can see. And, finally, do you take any responsibility for the fact that Brenda Hudson bought your product and might lose her home?

STAMP: Well obviously we have great empathy with anybody who ...

LEWIS: Do you take responsibility for it?

STAMP: We *can't* take responsibility. But ...

LEWIS: You don't. Ian Wright of Integrity, thanks for talking to us. Now we did ask Bank of Scotland for an interview. It said no, but said "We take our obligation to lend responsibly very seriously." That was Ian Stamp of Integrity.

Cartel Client Review, the claims management company first exposed by Money Box, has been effectively shut down this week after the Ministry of Justice took its licence away. Karen Kiernan has been working on this investigation since the beginning and she has an update.

KIERNAN: Money Box listeners will know that the Ministry of Justice has been investigating Cartel since February. Customers say they have paid Cartel hundreds, even thousands of pounds, to help them get out of paying back debts like loans or credit cards, or to help them get compensation for mortgage agreements that haven't been drawn up correctly. But after handing over the money, they say they've heard practically nothing back from

Cartel and that even when they have been told they don't have a claim and should be refunded, Cartel won't give them their money back.

LEWIS: And what's Cartel said?

KIERNAN: Well so far Cartel have turned down requests to speak to Money Box, but this week the Managing Director Carl Wright did speak to the Mirror newspaper. He admitted the company had taken about £20 million from customers, but said "this money is not available to be refunded back to them."

LEWIS: And what's going to happen to Cartel now?

KIERNAN: Well clearly there's a big question mark hanging over the company's future; but if it does go into liquidation, the first creditor to be paid will be Carl Wright because he has the first charge on the company's assets. The Daily Mirror interview suggested that he might be entitled to the first million pounds of any assets. And it's worth remembering that Carl Wright has been through difficult times before - his mortgage company, Cartel Marketing, went bust in 2007. But his entrepreneurial spirit kept him going and even now he has several other companies that still have authorisation from the Ministry of Justice; and there has been a lot of speculation about another claims company, Grass Roots, which, according to its authorisation, is working out of the same offices as Cartel.

LEWIS: What does the Ministry of Justice say about that?

KIERNAN: Well they have confirmed to us that they are now also investigating Grass Roots, but they won't comment further on specific issues as to do so "would jeopardise the outcome of the investigation." They also advise that anyone who thinks they are entitled to a refund and who paid Cartel by credit card should approach their credit card company to see if they can get a refund. But that route is by no means guaranteed, and one bank told us it would look at each request on a case by case basis.

LEWIS: Money Box's Karen Kiernan. And there's further information on the Money Box

website: bbc.co.uk/moneybox.

Nationwide, Britain's biggest building society, is to stop letting some customers use their cash cards to withdraw money outside the UK. It was a popular service as Nationwide was one of the very few companies that allowed foreign cash withdrawals without a hefty fee. The service isn't being withdrawn for those with a FlexAccount and a normal debit card (they're still paying nothing in Europe and just 1% in the rest of the world) but it *is* removing it from those with a cash card. Gillian Lacey-Solymar's been looking into it.

LACEY-SOLYMAR: Let's be entirely clear on these two different sorts of account. They have the Nationwide FlexAccount with a debit card, which is their classic current account, and everything remains the same on that - so no need to worry. The second one is the Nationwide account with a cash card, which is their basic bank account without overdraft facilities, no bells and whistles whatsoever; and it's this second account where they're withdrawing the old cash card and introducing Cash Card Plus. But for those who are interested in withdrawing money at foreign ATMs, it's arguably more of a cash card minus actually, and one listener, Richard Lawrence, explained to me precisely why.

LAWRENCE: I'm upset because the main reason that I have the Nationwide account with a cash card is that I can withdraw money abroad and not have to pay commission and not have to pay withdrawal charges. And now I've had a letter from them that says they're taking that away. That's the main feature of the card, as far as I'm concerned, and they're taking it away.

LEWIS: So why has Nationwide done this, Gillian?

LACEY-SOLYMAR: Well they say that it's a business decision and that not that many of the holders were actually using the facility. They gave me the number of 90%. They said 90% of those with this card didn't use it in ATMs abroad. And what they emphasise is that they're making it better for the people who are focusing on everyday life in the UK because you can now use it in shops and on the Internet as well, which you weren't able to do previously, and actually you can use it in shops abroad as well. Let me give you one other argument that they gave me, which I thought was interesting. They said that people who were using it just to take

out foreign exchange, they thought that wasn't a very mutual way of behaving; and, as you know, Nationwide's always touting its credentials as a mutual rather than as a bank.

LEWIS: Which of course it is, though I think many people think it's more like a bank than a mutual sometimes. What are the options for people like Richard Lawrence?

LACEY-SOLYMAR: Well couple of things. I mean he could possibly upgrade to the FlexAccount, which, as we said, isn't changing. But that will depend on his credit history. If he has good credit history, he can do that. The other thing is they do like you to pay your salary into the FlexAccount, although they're not absolutely categorical on that one. Second thing, of course, is that he could look elsewhere. The Nationwide, as we said, used to be the top company - no transaction fees, no commission - but now they have a challenger: Santander has taken the number one slot. So I looked at Santander, and for that, for the debit card, it is somewhat onerous. You need either a mortgage or an investment product with Santander. The last thing you could do is consider the Santander's Zero Credit Card because for that you don't need any other linkage with Santander, but we do always say it's not terribly sensible to withdraw cash on a credit card.

LEWIS: Indeed not. Gillian Lacey-Solymar, thanks very much.

The political row over Lord Ashcroft, the Conservative Deputy Chairman, has continued this week, but no-one has really examined the tax rules about what is called domicile. For tax purposes, every human inherits their domicile from their father. So how did Conservative peer Lord Ashcroft - born in Chichester with parents from Lancashire (father from Bolton, mother from Burnley) get rid of his inherited British domicile status? And now he is apparently a long-term resident in the UK and says he has been for 10 years, how does he stop getting it back? Live now to John Whiting, Tax Policy Director at the Chartered Institute of Taxation. John, just explain domicile. Lord Ashcroft didn't start out as a non-dom, a non-domicile, did he?

WHITING: No he didn't - as far as I know, Paul. Domicile - it's something, as you said, everybody has one, or more correctly certainly every UK person has one. This isn't a

universal concept, but it's something you get at birth. You have a potentially UK domicile if you're born here of UK domicile parents. Although it's not necessarily where you're born. You do, as you said, you get it from your parents. You can then change your domicile to a domicile of choice.

LEWIS: How do you do that?

WHITING: Well it's a very sticky thing, domicile. It's a bit like superglue-ing your fingers: you can actually pull them apart, but it takes some doing.

LEWIS: And hurts.

WHITING: And probably hurts a bit. And that's not a bad analogy because what you've got to do is sever your links with the UK. Not everything - you could still pop back for a very occasional visit - but you're basically cutting your links with the UK; and just as importantly, really going and planting your flag in some other country. You're saying right, my centre of economic interest, my life is in Ruritania or wherever it is. That indeed is probably where I'm going to live my life and be buried.

LEWIS: And being buried obviously is the final act. But is there a danger that before you're buried, if you come back to the UK for anything, can that lose you that status?

WHITING: Yes it could, and naturally enough it might cause the Revenue to ask questions. I mean I've certainly seen over my years people change domicile and go off. Quite a regular one is of course people who retire, sever their links with the UK, and say right, I'm going to go and live in Spain. It can be perfectly valid to change their domicile to that; but then sadly one of the couple dies, the other one finds life isn't so good and after a lot of heart searching comes back. They could resume their domicile. The Revenue might well say *when* did you change? Did you really establish that change some years ago?

LEWIS: And what about people though who just visit the UK, maybe to see grandchildren or maybe more regularly than that? Can that lose the status?

WHITING: Well I think if you've gone and changed your domicile, you are now based in Ruritania or wherever, popping back occasionally, irregularly a couple of weeks a year perhaps to see the grandchildren - okay. Having a season ticket for your favourite football club and coming and visiting all the home games, I think the Revenue might say, hm, that you aren't playing a very good game there.

LEWIS: And perhaps sitting in the Houses of Parliament and voting from time to time?

WHITING: Well of course one thing that is likely to happen is that such things are going to be put beyond doubt with a proposal to actually make MPs and Lords domiciled automatically.

LEWIS: For the future. And, John, very briefly, there was talk this week in the papers about a newsreader who was trying to claim her costumes that she wore on air as a tax deductible expense. In ten seconds, can you do that?

WHITING: Highly unlikely. Has to be very specialised uniform. We've sort of been here before. So even Money Box presenters couldn't claim specialist clothing for being comfortable as they sit and broadcast.

LEWIS: Oh dear, that special jacket will have to be paid for by me. John Whiting, thanks very much.

Now a couple of hundred thousand older people on very low incomes will get a surprise rebate off their electricity bill. Gillian Lacey-Solymar's back with the details. Who'll get it, Gillian?

LACEY-SOLYMAR: Well it's quite a lot of people, a quarter of a million people. Four criteria apply. You need to be age 70 or more. Specifically you have to have been born before 26th March 1940. You need to be responsible for the electricity account where you live. Third thing is, and this is important, you have to be on the guaranteed element only of pension credit. And the last thing is you need to be with one of the six large energy providers. Now

details of this will be on the website because I know people don't necessarily know how big their energy provider is. The other thing is £80 you'll be given, and it will be given to you automatically as a rebate off your bill, which is great. And there's a helpline, which I ran, which is actually quite a helpful helpline. The number is 0845 600 0033. But do be careful because too many zeros and you get the Virgin One Account.

LEWIS: Gillian Lacey-Solymar, thanks very much. That's it for today. You can find out more from the BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. And you can email us this week directly, moneybox@bbc.co.uk, about any of the items on today's programme, Moneybox@bbc.co.uk. Next week is the Budget. I'm back on Budget Day, Wednesday, with Money Box Live, looking at mortgages. Vincent Duggleby and me will be back on Thursday at noon to take your questions on Budget Call. Vincent Duggleby and I, I should have said. And I'm back with Money Box next weekend. Today Gillian Lacey-Solymar was the reporter. The producer Karen Kiernan. I'm Paul Lewis.