MONEY BOX

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LEWIS: Hello. In today's programme, the bank that likes to say no when we ask them for an interview, but a bit of a climb down by Halifax Bank of Scotland on its new overdraft charges. Who gets what if you die without making a will? New laws are proposed for couples. Ruth Alexander's been out, talking credit cards.

ALEXANDER: I've been looking at how your mind works when you look at your credit card bill.

FEMALE: I see the minimum payment and I think I like the idea of paying a little bit more because it gives me the idea that I might be paying it off a little bit.

LEWIS: And National Savings and Investments offers a chart topping savings product. Is the government that desperate for our cash?

But, first, Money Box has learnt that Halifax Bank of Scotland, faced with a storm of protest, has introduced a small concession into its proposed new charges for customers who go into the red on their current accounts. Last week, many listeners contacted us to complain about the bank after hearing our report that HBOS had decided to charge customers a fee of £1 a day for an agreed overdraft, £2 for a bigger overdraft, and £5 a day if it's unauthorised. Although that replaced high interest charges, the change would leave all customers with modest or small overdrafts paying more. Well the bank has now told us it'll introduce a £10 buffer zone, so customers won't be charged for going overdrawn by a small amount. Bob Howard's here. Bob, ten days after we started looking into it, this idea of a buffer zone seems to have come out of the blue.

HOWARD: Well that's right, Paul. When we quizzed HBOS last week about the new fees, the principle was certainly that even if you were just a penny overdrawn, you were liable for a fee of £1 a day. Then on Friday, we were suddenly told in a statement that there would be this buffer zone to allow customers to go £10 overdrawn without paying a penalty. HBOS insisted to me it always intended to offer this, although it said it's not something it's going to actively promote. But consumer groups I spoke to believe the bankers have come under such pressure from customers about this change, it's had to make some sort of concession.

LEWIS: But will this change make much difference?

HOWARD: Well I'm not sure it will. Many people who contacted Money Box are used to regularly using their overdraft facility. I spoke to one listener who certainly doesn't think the new £10 buffer zone will make any difference. She's on a low income and up to her current overdraft limit. I arranged to meet her in a Suffolk café along with somebody I thought could help her.

BAKER: I'm Victoria Baker from Colchester, a former student of Exeter University. I took out a student account with Halifax in 2003. With that, I was given an arranged overdraft which stands at £1,250. I finished university, and since then have been unable to find employment.

HOWARD: How did you react when you got the letter?

BAKER: I received the letter and five minutes later Money Box was on and mentioned it. I was just shocked. I sat there and was close to tears pretty much.

HOWARD: How is it actually going to impact on your finances?

BAKER: My interest tends to vary between £10 and £15 a month, which I'm just about coping to keep my overdraft within its arranged limit. With the new fees, it will be £31 a month, to begin with anyway, but I won't be able to keep up with that. That will then take it into the £5 a day, which will be £150 a month, and well that will just spiral out of control.

HOWARD: Okay, well it's a good thing we have Cathy Haddow with us who has written a book, 'In Debt, Out of Debt' all about helping with these sorts of situations. She's also a former employee of Citizens Advice and is used to giving advice to people in Vikki's situation.

HADDOW: This is a very difficult situation because most people when they find themselves in this situation, if they're on benefits, that will be paid automatically into the bank. So they don't actually have control of their finances because the banks will take their charges straightaway when the money comes in. And so, therefore, the person has less each month to pay priority bills like rent and electricity and food. So obviously you owe the money, so there's no question of you saying, you know, "I don't want to pay it back", but you're not in a position to pay it back. I would say in the first instance consider opening up a simple new bank account whereby your benefits then, you can organise, or your income can be paid directly into the new account. That then actually puts you back in control because the bank can't take the money that they want to, their new charges, because they're not getting any money coming into them. But then obviously you need to approach the bank and you have to say that these are your outgoings, these are your priority bills, and whatever amounts are left over - it may only be £1 a month that you can afford - and if that is the situation, the banks will have to accept that.

HOWARD: Vikki, a lot of our listeners have been sympathetic to customers who are going to struggle with this new structure, but some have said it's your own fault - if you have an overdraft, you've borrowed money from the bank that isn't yours and you've only yourself to blame.

BAKER: They make an overdraft a very attractive option when you open a student account and it is something you come to rely on as we don't get grants these days. I worked throughout university. I have been trying my absolute hardest to become employed.

HOWARD: You've heard the advice. Are you going to stick with your account as it is or are you going to open a new one?

BAKER: I'm definitely going to try and open a new one. Hopefully with my current income, I will be able to. I may well also contact Citizens Advice.

HOWARD: Victoria Baker, one of many unhappy HBOS customers.

LEWIS: Now, Bob, you've been trying all week again to get someone from Halifax Bank of Scotland to come onto Money Box to explain these changes. Why won't they?

HOWARD: Well, Paul, I spent all week emailing and phoning HBOS press officers saying many customers were angry. They kept insisting that Mike Regnier, their Director of Current Accounts who signed those letters, wasn't available again. This week, the press officers said he was on holiday. With just one day to go before the programme, on Friday, I called again. By that time, I was getting a little exasperated. I recorded my side of the conversation, so listeners could hear just how hard I've been trying.

TELEPHONE CONVERSATION: And who else is in the frame apart from Mike? I know he's the ideal candidate, but if he's not available for a second week running, there must be somebody else who can stand in. There are presumably several candidates who could speak if nothing else on the phone, even if they can't come into a studio. Can you give me a clear reason why somebody on the second week isn't available? I mean is this something you really don't want to talk about? I mean is that the bottom line? It seems hard if this is a positive step forward as you're saying in that letter, it just seems extraordinary that nobody wants to come on and talk about it. Could you make one last ditch attempt? Okay, alright, I'll speak to you … *(fades)*

HOWARD: And Paul, believe it or not, for a second week running HBOS couldn't provide anybody to give an interview.

LEWIS: No. Well we can't say you didn't try, Bob. Some listeners have been telling us though, haven't they, that they've been told by Halifax Bank of Scotland staff that there's no point in switching bank accounts to another bank because all the other banks are going to follow suit. Are they?

HOWARD: Well, Paul, the Lloyds TSB, which is now part of the same banking group as HBOS, told me such a change was not being considered for its customers. Barclays and Nationwide said the same. RBS NatWest simply said borrowing fees remain under a process of ongoing review.

LEWIS: Thanks, Bob. More phone bashing next week, I expect.

Now major changes in the law are planned for people whose partner dies without making a will. The Law Commission for England and Wales is proposing new rights for all couples when one of them dies. Professor Elizabeth Cooke is the Law Commissioner who's been leading on the proposals. I asked her first what married couples and civil partners thought now would happen to their property when one of them did die.

COOKE: People do think that everything goes automatically to their spouse, but that's not the case. The intestacy rules are actually quite complicated and they depend whether or not you have other close relatives surviving. So if you die with children and a surviving spouse, surviving spouse takes everything unless the estate exceeds £250,000 - in which case quite a complex sharing mechanism kicks in, involving a life interest.

LEWIS: And the children get something as well.

COOKE: The children get a bit of a share.

LEWIS: And of course £250,000 sounds a lot, but many people live in a house worth that much, don't they?

COOKE: Well they do. But the other complication is that many people of course own their house jointly, and so often the house will pass by the survivorship rules to the other owner. So actually it appears from the statistics we have that 90% of estates fall below that £250,000 limit.

LEWIS: So what are you proposing to make this easier?

COOKE: What we're proposing is that if someone dies without having made a will and without children, their surviving spouse should take the whole estate even if there are parents and siblings. Where there is a surviving spouse *and* children, we ask a series of open questions. We ask whether people feel that the surviving spouse should take everything - as happens for 90% of intestate estates - or whether there should still be a sharing mechanism. If there is still a sharing mechanism, could we simplify things by getting rid of the life interest and could we also do more to ensure that the surviving spouse is always able to stay in the family home?

LEWIS: And a life interest, just to be clear, is where property can be used by the surviving spouse but actually belongs to the children?

COOKE: That's absolutely right. So if it's a house, of course you live in it, and at the end of the surviving spouse's life it passes to the children. If it's investments, then you take the interest and the capital passes to the children at the end of the surviving spouse's lifetime. This is a trust structure and of course trusts can be quite expensive to administer and may go on for many years.

LEWIS: Now the other group of recommendations, which have attracted a lot of interest this week, has been the recommendations on couples that are not married or in civil partnerships; they're simply living together without any legal arrangement. At the moment, they have few, almost no rights. What are you proposing for them?

COOKE: Many people feel that if they live together with a cohabitant perhaps for many years, perhaps having children together, many people feel that that cohabitant is in the same position as a wife and will be provided for by the intestacy rules if they die without a will. That's not the case. The intestacy rules give nothing to cohabitants. Cohabitants are often placed in the position where they have to apply to the court for provision, particularly of course if they are left looking after the couple's young children.

LEWIS: And what are you proposing for them?

COOKE: We are proposing that where cohabitants have children together or have been together for at least 5 years, we suggest that they should be treated in the same way as a surviving spouse. We also explore what a shorter cohabitation might merit under the intestacy rules - so we also ask supposing they live together between 2 and 5 years, should they receive a proportion, perhaps a half of what a spouse gets. Many common-law jurisdictions have treated cohabitants of 2 years standing like spouses for many years now. We make much more cautious proposals and obviously we'd like to hear what people think about that.

LEWIS: Professor Elizabeth Cooke at the Law Commission for England and Wales, which uses the term 'spouse' to include civil partners. The rules are different in Scotland and Northern Ireland, and of course you can avoid many of these problems by making a will. November is Will Aid month and lawyers will make a will for you free, but you have to give a donation to charity. And you can have your say on what happens to your stuff if you die without a will on our website, bbc.co.uk/moneybox. Many of you already are, so join in the debate there.

The government came out with some radical proposals this week to reform the way credit card providers charge us. One big idea was that the minimum amount we're asked to pay each month should be doubled to perhaps 5%. But tucked inside the consultation paper was a reference to the work of a psychologist whose research shows that when we see that minimum payment on our credit card statement something strange happens in our brain. Ruth Alexander's been to the high street to investigate.

FEMALE: I have three with a substantial balance on. One of them's quite high, about £6,000.

MALE 1: I have one credit card at the moment. The balance is at £1200.

MALE 2: I've got about six credit cards. Three of them are about £4,000 each, and the other three about £1,000.

ALEXANDER: There are 63 million credit cards in the UK and borrowing on them just lately has gone up. The minimum repayment required on these cards tends to be between just 2 and 3%, which means that if that's all you're paying your borrowing will be expensive and your debt will last a long time. But in proposing that these levels are raised, the government's not just thinking about the people scraping by paying just the minimum. People who pay off more than that but less than the full balance each month are also affected by the minimum payment levels. This is according to findings by researchers at Warwick University. They gave about 400 people a mock credit card bill and asked them how much they could afford to pay. Half of the bill said on them that at least 2% of the balance owed had to be repaid. The other half had no minimum payment requirement. Professor of Psychology, Neil Stewart, led the study.

STEWART: The credit card statement had a balance of £435, and what we found is that when we included minimum payments on the statement people were tending to repay only £99; but when we left off the minimum payment from the statement people were choosing to repay £175 on average. So that's quite a big difference. Mean repayments rose by 70% when we left minimum payments off the credit card statements.

ALEXANDER: What was going on here, he says, is a phenomenon known as 'the anchoring effect'.

STEWART: Minimum payments on credit card statements are acting as psychological anchors for those people who've decided not to pay the whole amount and not just to pay the minimum. And so a minimum payment is a small number and it drags down the amount they finally choose to repay.

ALEXANDER: On the high street, this strikes a chord with some people.

FEMALE: The minimum payment is usually about £35 and I pay about £50 a month. I see the minimum payment and I think that's about how much this is costing me. I need to make sure that I cover it. And I like the idea of paying a little bit more because it gives me the idea that I might be paying it off a little bit.

ALEXANDER: And Citizens Advice Bureau staff say sometimes partial repayers are surprised to find themselves in financial trouble. Jay Lowe is a manager at the Stoke on Trent branch.

LOWE: We will often see when they bring their statements in that what they've really done is look at the bottom line figure in terms of what's owing in terms of the minimum payment, and they very rarely will actually look at the statement in more detail to actually see each month, you know, this is the payment that's going in but this is the interest that's being charged. We saw somebody recently that owed £8,000 on a credit card. I think the minimum payment was something like about £400. He decided to pay £600 a month and, you know, thought well he's paying an extra £200, that really should be working to clear the debt, and then was quite surprised a year later to find that he still owed about £7,000.

ALEXANDER: But why can't we just get it together and do the maths? Because compound interest confounds the best of us. Interest is applied to the cost of your purchases in the first month and then you're charged interest on that interest as well as your purchases the next month and so on. Meanwhile you're making payments which partly pay off interest and partly pay off your purchases, and of course you could also still be spending on your card.

STEWART: Unfortunately our brains just aren't set up to deal with those kinds of calculations. If one thinks back a few thousand years, nobody was even really worrying about money, and so evolutionarily we're stuck with, I guess, Stone Age brains that simply aren't equipped to deal with modern finance.

ALEXANDER: So if you had £1,000 on your credit card …

MALE 1: Sure.

ALEXANDER: and 16.75% APR, which is kind of typical …

MALE 1: Yeah.

ALEXANDER: … do you know how long it would take to pay it off if you kept to minimum payments? Do you have any kind of like, you know, ball park figure sums?

MALE 1: Would you be looking at 10 years, something like that?

FEMALE 1: About two and a half years, I would think.

MALE 2: Definitely over a year, I think.

ALEXANDER: Too difficult to do in your head, but online calculators can do the workings out for you. One of them here in front of me from the UK Cards Association shows that on a credit card with interest charged at 16.75% APR, where the minimum payment on the balance each month is 2.25%, a £1,000 debt would be paid off in a little over 18 years.

MALE 1: Really?

FEMALE: No! Really, £1,000?

MALE 2: 18 years? That's a lot of money.

LEWIS: Well Ruth is back from surprising local people in the studio now. Ruth, you used that online calculator and I've got my own spreadsheet here. Nothing I like better actually than settling down with a good spreadsheet. Now before the programme, we were running some ideas through it. What effect does doubling the minimum payment have?

ALEXANDER: Well it certainly does reduce the time taken to clear the debt. In that example I gave, a minimum payment of 5% would cut the time taken to repay the debt from 18 years to 7.

LEWIS: But the problem is that would mean a much higher payment from the start, wouldn't it, and many people couldn't afford that. But the spreadsheet showed us another way, didn't it?

ALEXANDER: Yes. If you kept the minimum payment at 2.25%, the first actual payment you'd need to make is £22.79. Now if you can afford it that month, perhaps you could afford it every month. So if you cut the card up, stopped using it and paid that fixed amount every month, the debt would take just five and a half years to clear.

LEWIS: Thanks, Ruth. A very useful tip for clearing your debt. Not least cutting that card up.

Now National Savings is taking on the high street banks and building societies by offering a chart topping savings bond. From this week, the 1 year Guaranteed Growth Bond will pay 3.95% compared with just 1% before the rise. Until these changes, National Savings bonds were not that competitive, and four and a half billion pounds was taken out by savers looking for a better deal. Dax Harkins is Senior Savings Strategist at National Savings. I asked him to list the deals the new bonds offer.

HARKINS: On the 1 year, we have 3.95%; the 2 year, it's 4.25%; on the 3 year, 4.4%; and on the longer term 5 year, it's 4.6%. So there's a reward there for investors if they actually tie up their money for a longer period.

LEWIS: Is this move just because the government is billions of pounds in debt and desperately needs our spare cash?

HARKINS: Not really. Our net finance target for the year remains unchanged. It's still zero, which means we're not planning to grow for the year, and so that's particularly stable.

LEWIS: So it's a reaction to the people who've taken their money out to try and get it back again?

HARKINS: Really it's more of a reaction to the change in the environment: the increasing competition, the increasing number of products with rates above base rate. We have to look at the alternatives rates savers can get and incorporate this into our rates.

LEWIS: And what about customers who bought one of your bonds a couple of weeks ago and they're stuck with 1% for a year, and now you're offering people a shade under 4%? They're going to be pretty annoyed, aren't they?

HARKINS: We could understand that. I mean it's a common element of all fixed rate products where there's a change of term and a change of issue - be that a mortgage or be that a sort of bond - and that's right across the industry.

LEWIS: Sure, but this is a pretty big hit to take, isn't it? They'll think well if I'd waited a week, I could be getting nearly four times as much income.

HARKINS: It's often the case. There'll be lots of scenarios where there's significant shifts in either mortgage rates or savings rates when we have these movements of fix.

LEWIS: And what happens if they decide to well just cash it in and buy one of the new ones? What penalty is there?

HARKINS: I mean one of the benefits of our guaranteed growth bond products is that, unlike many of them, where there's no access over the full duration of it, there's actually access subject to a 90 day penalty.

LEWIS: So you'll lose 90 days at 1%, but of course you'll gain a year at nearly 4%, so it may be worth doing.

HARKINS: Yes, that's true.

LEWIS: Dax Harkins of National Savings. Well live now to Norwich to talk to Andrew Haggar from the comparison site Moneynet. Andrew, this is the first time I can recall National Savings topping the best buy tables. How good is this 1 year deal?

HAGGAR: Yes, it really is a very good deal actually. It's .25% above anything else that's out there for 1 year. And I guess you've got that guarantee of safety you know backed by HM Treasury, which you know may well appeal to people who've got some £50,000 or more.

LEWIS: Yes, 100%. And I think you can put up to a million in it, can't you?

HAGGAR: That's right, you can.

LEWIS: Now the other fixed rate bonds, fixed period bonds aren't chart topping but they're still pretty good. What are they offering over 2, 3 and 5, and what better deals can you get out there?

HAGGAR: I mean the 2 year deal is still very good at 4.25. I mean you can get slightly better. You can get 4.35 with the AA. The deals that are a bit longer term are not quite so competitive. If you're looking at 3 years, we're talking 4.40 where you can actually get 4.7 from ICICI Bank, for example.

LEWIS: So some slightly better deals out there. Now National Savings isn't so good for cash ISAs or indeed instant access accounts. Where are the best deals on those products to be found?

HAGGAR: For instant access, we've seen a sort of new breed of instant access accounts. Most of them are on the Internet and contain quite a large bonus element. So you've got the likes of Citibank, for example, paying 3.25%. But after 12 months the bonus element of 2.25% drops away, so you're going to need to re-evaluate where you keep your money after 12 months.

LEWIS: Yeah, more important than ever to keep your eye on it and move it every 6 or 12 months. And what about cash ISAs?

HAGGAR: It's pretty similar to the bond market in that, you know, the shorter term, you're getting a lower rate - so you can get 3.33% with Bank of Cyprus UK fixed for 1 year. If you go to the other extreme, 5 years - Leeds Building Society 4.6. But it's trying to really sort of work out what you think is best for you. You know the 5 year fix may be too long in this current climate.

LEWIS: Yeah, almost too much choice, isn't there?

HAGGAR: There is.

LEWIS: And, Andrew, where do you see savings rates going? I mean these are really big rates compared with a base rate, a bank rate of .5%, aren't they?

HAGGAR: They are. I mean I think a lot of it is driven by sort of competition from the building societies. You know, quite a few of them unfortunately had their investment ratings downgraded, so find it harder to borrow from the money market - so hence they're concentrating on the retail deposits more than they used to.

LEWIS: So we're going to see higher rates sticking around for a bit?

HAGGAR: I think so, yes.

LEWIS: Andrew Haggar of Moneynet, thanks very much.

And, Bob, news of some hefty finds handed out by the City regulator, the Financial Services Authority?

HOWARD: Yes, the FSA has fined mortgage lender GMAC RFC £2.8 million for treating mortgage customers who fell into arrears unfairly. Their regulator also ordered GMAC to repay a total of £7.7 million in unfair or excessive charges to 46,000 customers. And insurers Swinton will refund 350,000 customers. That's after the FSA found that Payment Protection Insurance was automatically included in insurance quotes by the firm from December 2006 to March 2008 even if it wasn't needed. The FSA has fined Swinton £770,000. The firm insists it acted in good faith, but has now set up a dedicated unit to deal with these cases.

LEWIS: Thanks very much, Bob. The FSA getting fairly tough there. 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 well all sorts of exciting things: watch videos, sign up to my weekly newsletter, download a podcast, listen again to the items on the programme, and of course have your say on how property is divided when a person dies without making a will. A number of you are already, and I must say there's some sad stories. And you can also tell us of course about Halifax Bank of Scotland if you really, really want to. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on mortgages. I'm back with Money Box next weekend. Today the reporters Bob Howard and Ruth Alexander, producer Lesley McAlpine, and I'm Paul Lewis.