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TRANSCRIPT OF "FILE ON 4"- 'MORTGAGES'

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ROBINSON: The present financial turmoil has its roots in America, with sub-prime mortgages which were impossible to pay. But such mortgages aren't only found across the Atlantic.
How much do you take home each month?

PARSONS: On average probably round about £1,200 to probably £1,300 a month.

ROBINSON: But you're paying £1,233 a month for your mortgage?

PARSONS: Yeah, yeah.

ROBINSON: But that's insane. Almost all your money's going.

PARSONS: Yeah.

ROBINSON: In File on 4 this week, we lift the lid on a home-grown sub-prime mortgage scandal. We reveal the financial sleight of hand which has helped pump up the prices of buy to let property. And, after years of record mortgage lending, we ask what now for Britain's heavily borrowed homeowners. How close are they to the tipping point?

MCATEER: I think what you've seen is a large number of borrowers who are actually taking on more debt than they can afford and who will not be able to repay that debt. There is no doubt about it, we are facing a potentially substantial crisis in the UK. It's now a question of, how big does that crisis become?

SIGNATURE TUNE

MARK BOUNCER: Where's all this lot going to go?

DIANE BOUNCER: This is the problem we've got , we've had to store it at some of the family's, we can't afford to pay for storage.

ROBINSON: Diane Bouncer and her husband Mark are getting ready to move from their home on a Walsall estate.

DIANE BOUNCER: My dad and some of the family are willing to take some of it and keep it there, because obviously we can't pay to store it.

MARK BOUNCER: We've just too much stuff.

ROBINSON: They don't want to move, but they couldn't pay their mortgage, so their lender is repossessing their home. They're casualties of Britain's until now very secret sub-prime scandal.

DIANE BOUNCER: At the moment we're just waiting for the letter to come off the court now to say when the bailiffs are going to give us a date to move out.

ROBINSON: If it comes tomorrow, where are you going to go?

DIANE BOUNCER: I'd have to move in with my mother-in-law – she lives in a two bedroom flat, ground floor – move in with her until the council will offer me somewhere.

ROBINSON: Diane and Mark started out as council tenants in the home they're about to lose. In 2000, they exercised their right to buy, and got their house cheaply with a small and manageable mortgage. But family illness and periods off work meant by 2004, they were deep in debt and about to begin a journey to sub-prime disaster.

DIANE BOUNCER: A leaflet came through the door offering you a loan or if you wanted to re-mortgage your house, that they could get you a mortgage with anybody, and we'd rung them up and a gentleman came round to see me and my husband. So me and my husband signed the paperwork and they took it away and filled it in.

ROBINSON: Diane and Mark's mortgage was now far bigger. And because their credit record was poor, it charged a higher rate of interest.
Before long they were in debt again. But that was no problem - their friendly mortgage advisers offered to sort it out.

DIANE BOUNCER: They'd notified us they could get us a better deal. So of course we took them up on this deal. Christmas coming and we was paying the bills and we wanted to give the kids something for Christmas, so we decided to change the mortgage over again.

ROBINSON: And what were the payments on that mortgage like?

DIANE BOUNCER: They was a bit high but we managed it.

ROBINSON: Were they higher than before?

DIANE BOUNCER: Yeah, a lot higher. It was over £400 then.

ROBINSON: Re-mortgaging cost Diane and Mark thousands of pounds in penalties and fees, which were all added to their new mortgage. And, you guessed it, they couldn't keep up the payments on the new mortgage either. But by now they were caught on the sub-prime hook. With house prices rising, they were able to re-mortgage twice more until they ended up owing £89,000 to a sub-prime lender. But then the mortgage merry-go-round stopped. With no equity left in their house and mortgage payments far higher than they could afford on their £20,000 income, a local debt counsellor advised them to go bankrupt.

DIANE BOUNCER: I wouldn't like anybody else to go through what we went through. You don't sleep, you don't eat, you don't drink. I think Mark cried. I just hide it. You know, you sort of got to hide it from your kids. It's alright having a mortgage if you can afford to pay it at the beginning, but when you come along and you're offered a little bit extra, your kitchen goes, the roof goes, we all do it and there's loads out there do the same.

ROBINSON: It's a familiar enough story, but where's the scandal? It's simple when you know. Diane and Mark were always on the road to ruin, because their mortgages were bigger than their incomes should have justified.
They got their outsize loans because, on their application forms – filled in by their mortgage advisers – their income was entered in as being far bigger than it actually was.

DIANE BOUNCER: I didn't think anything at the time, you know. It has only been recently that it's been brought up.

ROBINSON: But it wasn't true.

DIANE BOUNCER: It wasn't, no, but because …

ROBINSON: Did it worry you?

DIANE BOUNCER: Well it did, because I was worried in case we ever missed a mortgage and the income was a lot higher. I mean, it's so easy when you're in debt and you need a mortgage that you do agree with what they tell you - and they get paid.

ROBINSON: The income exaggeration was possible because of the kind of mortgage Diane and Mark's advisers recommended. Self-certification mortgages – where borrowers state their incomes and lenders don't ask for proof – were originally designed for the self employed, who don't have regular wage slips.
But before long self-certs were available to anyone prepared to pay the slightly higher interest rates lenders charged. The potential for abuse is obvious. Robert Mclean used to work for a large firm of sub-prime mortgage brokers. So he knows all about how, in the high-pressure world of sub-prime selling, self-certs can get the business done and the commissions rolling in.

MCLEAN: If you can get them to go down the self-cert route, you can declare any income you like and it's easier to get the deal passed, and that's what they use it for, you know, they abuse it in that respect. You were kind of treated not really as a mortgage advisor, it was really just as a salesman to sign these deals up, no matter what, you know, and that's the sort of people they employed.

ROBINSON: Robert was regularly in trouble with his firm for not playing the self-cert game by their rules.

MCLEAN: I was getting picked up on the fact that I wasn't getting things filled in in pencil on the application form.

ROBINSON: In pencil?

MCLEAN: Yeah.

ROBINSON: Why?

MCLEAN: Well obviously so it could be changed if needed. If the income wasn't high enough, they would change that on the application form.

ROBINSON: Make it higher?

MCLEAN: Yeah, yeah. Anyone will tell you in financial services you shouldn't fill in any types of forms in pencil at all, it should all be in ink, so there's no question of fraud or wrongdoing, it should all be done in ink.

ROBINSON: But if the income is changed so that the income of the applicant looks higher than it really is, what does that mean for the mortgage?

MCLEAN: The person taking the mortgage out is over-extending themselves . They're borrowing more than they can afford.

ROBINSON: Robert parted company with his firm in 2005 and it closed last year. But a host of other mortgage advisers went on selling self-cert mortgages and some customers went on getting into serious money trouble. Paul Parsons is one of them.

ACTUALITY IN BATHROOM

PARSONS: We're trying to make the bathroom bigger. Because of the cancer what was in her leg, she can't move a lot. She's got adapted loo, she has a bath seat, can't stand up on her own so she needs help with that.

ROBINSON: I met Paul at home in London, where he was just finishing extending a bathroom for his now disabled daughter.

PARSONS: As you can see on the floor, there was a wall, so I decided to rip that out and just make them so she's got more mobility getting into the bathroom.

ROBINSON: Paul and his wife Maxine had also bought their home from the from the council. Their finances started falling apart in 2005 after their daughter developed a virulent form of cancer. Extensive treatment, radical surgery and a long convalescence meant time off work and additional expenses. By December 2005, Paul and Maxine's debts were getting out of hand. But then Paul saw an ad in his newspaper, which seemed to offer a simple solution.

PARSONS: I called them and explained the situation, they said yeah they should be able to help and then we got to find out they were going to send someone round, fill in the paperwork, which they did do, they said yeah you got the mortgage, I got the money in the bank.

ROBINSON: Paul and Maxine got an interest-only £205,000 mortgage on the basis of an application filled in by their adviser.
Okay, well you've actually got a copy of the mortgage application form. Let's go through it. I mean, here it is, yourself and your wife Maxine.

PARSONS: Yeah.

ROBINSON: Here's your job.

PARSONS: Merchant supervisor, and my wife was a nursery nurse.

ROBINSON: That's all correct, is it?

PARSONS: Yes, that's all correct.

ROBINSON: And here we're got self certified declaration of income, total gross income £43,500. Is that right?

PARSONS: Na.

ROBINSON: How wrong is it?

PARSONS: Probably by about £20,000.

ROBINSON: So what did you actually earn back then?

PARSONS: Back then I probably was earning I think round about £17,000 to £18,000 a year. The reason they bumped that up, I'm an ex builder and they said, 'Oh, do you do any private work or anything like that?' which I do a bit of work for friends and family. I don't charge anything.

ROBINSON: You don't get paid for it?

PARSONS: No, not for friends and family, so I just go round and do it as a as a favour, if you know what I mean. And they said, 'Oh well, you can say you earn x amount on the building work.'

ROBINSON: It says overtime £5,000. Is that true?

PARSONS: No.

ROBINSON: Bonus commission £2,000 per annum. Is that right?

PARSONS: No.

ROBINSON: Other self-employed income £9,000 per annum?

PARSONS: No.

ROBINSON: None of that's right?

PARSONS: No.

ROBINSON: And here Maxine, she has an income, applicant two, of £21,600?

PARSONS: Yeah.

ROBINSON: Is that right?

PARSONS: No.

ROBINSON: What is Maxine's income?

PARSONS: £6,000 to £8,000 a year.

ROBINSON: None of this is right at all?

PARSONS: No.

ROBINSON: How does it come to be on the form? Tell me about this discussion.

PARSONS: When we sort of went through and said this is what we earn and that, it was like, well, that's not going to be enough and you're going to need to elaborate on that, so he asked what we'd done and I said, I'm an ex builder and it sort of evolved from that, where you can say you earn extra money for this.

ROBINSON: When he was doing this, what did you think?

PARSONS: At the time we was in a position where we needed money, so it was well, if that's what we have to do, then we'll do that if we have to do that, so to speak.

ROBINSON: When I called Paul's mortgage adviser, he denied ever suggesting clients should declare false incomes. But he refused to be interviewed for this programme. The big American-owned sub-prime lender SPML, who gave Paul his mortgage told us:

READER IN STUDIO: Lenders are reliant on borrowers to give true and accurate facts about income.

ROBINSON: And, they added:

READER IN STUDIO: It is our policy to call applicants before making an offer, to confirm that the information provided within their applications for lending is accurate.

ROBINSON: Diane Bouncer also had her mortgage from SPML. She says her broker told her, 'If they ask if your income's right, just say yes!'
If Paul and Maxine Parsons really had the income claimed in their application, their payments should have been manageable. As it was, paying the mortgage took most of the family's income. But that's the deal Paul and Maxine signed.
A lot of people would say you actually brought all this on yourself, because you signed the form here, which is completely untrue.

PARSONS: Yeah.

ROBINSON: Are they right?

PARSONS: People probably will say it, but unless they're in that situation where you can lose everything, if that comes up as the golden idea that, yeah, this can solve all your problems, then you'll do it regardless.

ROBINSON: You and Maxine have signed this, the information on the form was wrong. That's unlawful. Are you worried about that?

PARSONS: Very worried.

ROBINSON: Fear of legal retribution is the reason most sub-prime borrowers in Paul's position keep quiet. Paul's unusual. He turned to his local Citizens' Advice Bureau for help and they're now considering bringing a case for mis-selling against his broker and they're trying to stop his home being repossessed. It's hard to tell how widespread this scandal is because, since lenders don't check incomes, on the surface the paperwork looks in order. Since October 2004, mortgages have been regulated by the Financial Services Authority. In July, the FSA published a major review of the sub-prime market, identifying widespread poor practice among intermediaries and lenders. Remarkably, they found that over half of all the sub-prime customers they looked at had been advised to take out self-cert mortgages. The FSA commented:

READER IN STUDIO: It was not clear in many cases why they had been advised to do this.

ROBINSON: We wanted to ask the FSA if they could think of another reason so many brokers were suggesting so many self-cert mortgages other than for the widespread exaggeration of clients' incomes. But the FSA declined our invitation to appear on this programme. Today they told the BBC they would "crack down on this abuse". The former head of policy for the Consumers' Association, Mick McAteer, now heads the Financial Inclusion think tank, which tries to improve poorer people's access to good financial services. He believes something is seriously wrong.

MCATEER: I've seen a few scandals in my time and, believe me, this has all the elements of a classic reckless selling scandal. All the ingredients are there. You're seeing a feeding frenzy in the market, you're seeing fierce competition because the lenders at the financial services companies are killing themselves to get market share. You're seeing the aggressive use of commission and other inducements to try and get intermediaries to grab market share in the market. And to cap it all really, you have very very weak regulation. Now the FSA normally trot out the old excuse that 'It wasn't me, gov, we don't regulate the market.' But this time they do regulate the market and it's up to them to sort it out.

ROBINSON: Have they done a good job so far?

MCATEER: At a time when possibly millions of people are vulnerable to interest rate rises and may have been mis-sold mortgages, I think it's about time the FSA actually took tough action and enforced action against these predatory lenders

ACTUALITY AT AUCTION

AUCTIONEER: [Inaudible]

ROBINSON: At this auction in London last week, there were plenty of repossessed homes on offer

AUCTIONEER: Third and final … sold.

ROBINSON: Repossessions are forecast to increase sharply, so there might be more business for this auctioneer soon. One reason for that is the low interest rate introductory offers many borrowers now have on their mortgages, they're due to start running out. And if credit is still tight when that happens, Mick McAteer calculates that payments could increase by 30% or more, and many more people could find themselves in the sub-prime category. Policymakers, he says, don't seem to have appreciated how near the edge many borrowers are.

MCATEER: I think we're being too complacent in the UK about the potential for a sub-prime crisis here. What we're seeing is what started off as a crisis in Wall Street is now heading for the UK high street.

ROBINSON: And how big could that problem be?

MCATEER: At the moment about 1.3 million people are classified as sub-prime mortgage customers. Now I think that's too narrow a definition. Because I think if you use a more realistic definition, then I would estimate that around 4 million individuals could be classified as a sub-prime borrower.

ROBINSON: Four million sounds a huge number. I mean, is that a significant number?

MCATEER: I think it is a very significant number, given that the total number of mortgages in the UK is around 12 million. If you think about it, we're actually facing almost like a perfect storm of events in the UK. We've had record levels of personal debt, which looks as if it was unsustainable anyway, but to add to that we've seen the sub-prime crisis in the US. That has had the effect of forcing lenders in the UK to tighten their own lending criteria and that could not have come at a worse time for people who're vulnerable to any kind of interest rate rise in the UK.

ROBINSON: So what's the prospect here?

MCATEER: I think now's a question really of scale. There's no doubt about it, we are facing a potentially substantial crisis in the UK, it's now a question of how big does that crisis become.

ROBINSON: In the present financial turmoil, many mortgage providers are trying to protect themselves by raising interest rates and tightening their lending criteria – turning what had been a lending feast into a famine. Roger Bootle, the founder of the consultancy, Capital Economics, says by putting the squeeze on borrowers, lenders may end up also damaging themselves.

BOOTLE: These lenders never cease to amaze me really. I mean, there so many of us were, analysts like myself, saying, 'Hold on a minute, this behaviour does seem to be a bit odd.' Now, of course, after the horse has bolted, we get lots of stable doors being closed.

ROBINSON: Lenders, we're seeing them all the time tightening their criteria. They've been doing it enormously in the last few weeks. If they do that now, does that solve the problem of the relaxed lending that we've seen in recent years?

BOOTLE: It will not solve the problem, if that's what they're doing. On the contrary, in many ways it will make it worse. It will exacerbate the difficulties in the housing market, make it more likely that house prices fall rather than rise and then you've got some people, unfortunate people who have bought recently might find themselves in negative equity. And of course lenders who'd lent aggressively to rather dodgy propositions might well find they've got some serious problems of bad debts on their books.

ROBINSON: As if the threat to homeowners and their lenders wasn't enough, yet another mortgage crisis is looming.

ACTUALITY IN LIVERPOOL

ROBINSON: Across Britain, the buy to let market has been booming, with the number of mortgages being taken out by investors more than quadrupling in the past five years. Here in Liverpool, as across the North West, the city centre has been transformed with gleaming blocks of new flats and apartments for investors to buy. Buy to let's been touted as a dependable alternative to uncertain pensions and savings. After all, doesn't property always rise in value?

ACTUALITY ENTERING FLAT

JONES: This is one of the large apartments in this block. Very large kitchen, dishwasher, washer-dryer, fridge-freezer. This is a large lounge with a Juliet style balcony.

ROBINSON: In spring this year, Paula Jones joined the growing throng of buy to let investors. She showed me round the two-bedroom flat she bought near the centre of Liverpool.

JONES: I just knew it would be a great investment, well I thought it'd be a great investment. It's got potential, you know. It's close to the motorway, close to the hospital, doesn't need no work, and it's done to a high spec.

JONES cont: Me and my fiancé decided that we wanted to get a tenant, they would pay the mortgage so we wouldn't have to worry about it.

ROBINSON: Paula wasn't looking for quick profits – just enough rent to cover her outgoings while the value of her flat increased. But her plan didn't work out as she'd hoped.

JONES: I was given a mortgage payment of £575, which seemed affordable, but a month on after that, the Bank of England base rate went up and it's now gone to £620 just for the mortgage.

ROBINSON: Just the mortgage?

JONES: Yes, I have service charge, which is £60 per calendar month and then I have ground rent.

ROBINSON: When you add all that together, what are your outgoings here?

JONES: It's about £670. It's a lot of money, especially for trying to regain it on rental capital.

ROBINSON: So that's what you had to get to cover your costs. Now when you tried to let it out, did you find a tenant who would pay that?

JONES: No, we couldn't find a tenant to cover obviously the payment that we pay out. We've got a tenant that is just sitting on a month to month rolling contract and they pay us £550.

ROBINSON: £550 coming in and how much going out?

JONES: £670.

ROBINSON: So you're losing £120 a month.

JONES: Yes.

ROBINSON: Why can't you get a tenant who will pay a bit more, a different tenant?

JONES: Because it's so difficult to gain the rental capital for what you're paying out on mortgage. It just doesn't value up to £670.

ROBINSON: Can you afford £120 a month down the drain?

JONES: No.

ROBINSON: Paula is well placed to work out what's happening to her investment because her day job is as manager of an estate agency branch near the centre of Liverpool. And the wall by her desk is covered with the details of buy to let properties that people are now trying to sell:

ACTUALITY IN ESTATE AGENCY

ROBINSON: Is there lots of interest in the properties up on the wall there?

JONES: It's quite biased coming from an estate agent, but I'm in the business and I'm in the business as an investor. I think prices are far too high and it's a struggle to sell. The market is flooded with what's available at the minute, there's so much competition – not just competition with agents, there's competition with how many properties are available. There is investors like me that have paid out on getting properties and they're not getting the rental capital, so everyone's putting them up back for sale, hoping that they'll get, they'll get a buyer, but a lot of people just tend to be losing on them.

ROBINSON: Well you're not covering your costs. Do you think most of these people are?

JONES: I doubt they will, no.

ROBINSON: Paula shares her office with a lettings specialist, Michelle Webb. To show me why it's getting harder for landlords to cover their rising costs, Michelle took me round the corner from the office to show me one of Liverpool's classiest apartment blocks:

ACTUALITY AT APARTMENT BLOCK

WEBB: This is Beeton Plaza, this is always a very popular rental development.

ROBINSON: Right by the Albert Dock.

WEBB: Right by the Albert Dock, right by the Liver Building, two seconds from the river. Very luxurious, underground parking, gym, everything that you could want. About eighteen months ago we could achieve £800 quite easily for a two-bed apartment with parking, with access to the gym etc,
The last one we let in here was a third floor apartment for £700.

ROBINSON: £100 less?

WEBB: £100 less, yeah.

ROBINSON: So what happened, what's the difference?

WEBB: If you go two minutes walk to the right, you come upon City Loft, which is a new huge development – two big towers. A lot of available property in there.

ROBINSON: When did that come on stream?

WEBB: About eight months ago the first were completed and with a new tower due to be finished in the next few months. Two minutes walk that way there's the Unity Buildings – all new, all luxurious properties and they're direct competition to this.

ROBINSON: So these apartment blocks are springing up like mushrooms here.

WEBB: Mushrooms, yes.

ROBINSON: But there was something decidedly odd about this buy-to let building boom: it was amazingly easy to borrow money to invest in it.
With buy to let mortgages, the maximum most lenders will advance is 85% of a property's value. So the amount of buy to let property anyone could buy should be limited by the amount of money they have to start with. But in this boom, it didn't work like that.
Budding buy to let tycoon Andy Peers chose Manchester as the ideal city to invest in.

PEERS: I just like the city, I like the people, the property, the architecture and I felt I could make a difference.

ROBINSON: Andy did make a difference. He helped stoke the boom by buying a string of buy to let flats – even though he'd arrived with not much money in his pocket.

PEERS: I bought in various different blocks dotted around the city centre.

ROBINSON: Were you buying single flats or more than one?

PEERS: The maximum I would buy is about four flats in one block.

ROBINSON: Four flats in a block?
PEERS: Yeah, but then some of the blocks were perhaps the size of two hundred or three hundred flats in those blocks.

ROBINSON: Did it actually cost you very much to buy them?

PEERS: No. Literally the amount of money I've had to put in was as little as about £60,000 or £70,000 to acquire about a £3 million portfolio.

ROBINSON: £60,000 or £70,000 …

PEERS: Yeah.

ROBINSON: … buys you £3 million worth?

PEERS: Yes.

ROBINSON: That sounds incredible.

PEERS: Yes, but there were a lot of people doing it, it wasn't just me.

ROBINSON: If he'd had to put up 15% of the investment himself, as on regular mortgages, Andy Peers would have had to come up with getting on for half a million pounds of his own money. Not the £60,000 or £70,000 it actually cost him. So how did he manage to borrow so much more than lenders' rules appear to allow? The secret is discounts developers were offering – typically 15% for bulk buyers of flats. What happened was this: investors like Andy would buy their flats at the discounted price, but then they'd apply for mortgages on the basis of the full list price. Andy Peers says this creative financing was widely used by buy to let investors, because it hugely increased the amount they could borrow.

PEERS: Say a property was valued at £100,000 and say a discount was given by the developer so that you're buying it for £85,000, about a 15% discount. This is quite typical in the industry. And the bank that are being used will often give an 85% mortgage, based on the valuation, assuming that the bank are also happy to work on a sort of a creative technique, if you like.

ROBINSON: But the truth is, in this example, that it's only cost £85,000. The mortgage is £85,000 so it's 100% mortgage, not an 85% mortgage.

PEERS: Yeah absolutely correct, I mean it's a 100% mortgage on what you're actually physically paying for the property.

ROBINSON: Funded by their 100% mortgages, investors like Andy Peers boosted the market with a flood of borrowed cash. In fact, Andy was unlucky – he bought so much property with so little equity that a modest business setback knocked him for six and he ended up bankrupt. The discount trick may have been a boon to investors, but it alarmed Matthew Wyles, the then head of operations at Portman Building Society, now taken over by Nationwide. Matthew Wyles says it meant the buy to let properties Portman had lent on were almost certainly worth far less than they'd thought. The deeper the discount a developer offered, the worse that problem would be.

WYLES: We had our ear to the ground and we started to hear during late 2005 the rumblings of these practices, and a number of trusted business partners that we have, intermediaries were starting to tell us that this sort of thing was going on, and it became clear to us very soon that in certain areas of the country it was endemic. And we took the view, back in 2005, that at least in the buy to let market we would probably be better off coming out of lending on brand new flats, and in fact we came out and we haven't been back since. The mortgage lender ends up with less security than he should have.

ROBINSON: There's another disturbing outcome of this creative financing. Because the price of a sale on the Land Registry – the official record of property transactions – can end up wrong. Because, though investors may buy at a discounted price, the much higher list price often ends up on the register. And unless an insider like Andy Peers tells you what's going on, it's impossible to tell. Higher prices on the Register obviously give the impression that property is changing hands for more than it really is, and that gives a false picture of the market.

ACTUALITY IN OFFICE

ROBINSON: Here in the office I've got the official Land Registry documents for Andy's flats. This one, for example, says "the price stated to have been paid was £163,500". But we know from Andy that that number's completely wrong, because he actually paid 15% less. And it's not just at the Land Registry where the numbers are wrong. I'm logged in to one of the main websites that buy to let investors use to check what prices are doing. And here's Andy's flat again, the same flat and the price is the same – £163,500. And again, of course, it's wrong. It's not surprising really, because all these sites get their information from the Land Registry.

BRYANT-PEARSON: The difficulty is for valuers, in looking at the Land Registry record, we tend to look on that as, as it were, concrete information, but it's flawed and so that is a problem.

ROBINSON: Robert Bryant-Pearson is Chief Executive of Allied Surveyors – a large independent firm of property valuers. In this business, he says, the prices people have previously paid is vital information.
Here we've got valuations of particular properties we've looked at in Manchester and it says the price stated to have been paid was £163,500 for this flat, but we know from the person who bought it that they paid 15% less than that.

BRYANT-PEARSON: That's happened, but that's absolutely right.

ROBINSON: How common is that?

BRYANT-PEARSON: On new build, quite common and therefore the competent valuer has to really investigate the incentives in the development to know what the true underlying value is., and this causes a considerable amount of consternation, because the developer on it will say, “But we’ve achieved £168,000 or whatever it may be, so how on earth can you only be valuing it at 140?”

ROBINSON: Does it matter that the Land Registry prices are wrong?

BRYANT-PEARSON: Yes it does. The Land registry prices should be the true price that properties have achieved, so therefore that can be seen as the basis of comparison for other properties.

ROBINSON: The Land Registry told us it had:

READER IN STUDIO: Become aware of the practice.

ROBINSON: But pointed out that on their Register:

READER IN STUDIO: The statement says only “The price STATED TO BE PAID is x”. Not “the price IS x”.

ROBINSON: They said they have no regulatory role, so told us:

READER IN STUDIO: It would not be appropriate for the Land Registry to take any action in this regard.

ROBINSON: Back in Liverpool, meanwhile, Paula Jones has been finding out the hard way that Land Registry prices aren’t quite what they seem. Alarmed by the money she was losing, Paula put her buy to let flat back on the market. With discount, it had cost her £115,000 - paid for entirely with a buy to let

ROBINSON cont: mortgage. But to break even now, she needs more than that to cover legal bills and an early redemption penalty on her mortgage. So, at the estate agency branch she manages, she's put it on the market for the price filed with the Land Registry: £125,000.

ACTUALITY IN ESTATE AGENCY

ROBINSON: Okay, so now I see on the screen it says £125,000. There it is, that's your apartment, is it?

JONES: It is, yes.

ROBINSON: Okay, so have you had any interest at £125,000?

JONES: We have had one viewing, a lady who came to view it obviously knew the price, but she decided that her maximum would be around £110,000.

ROBINSON: And how long has it been on the market just to get one viewing?

JONES: About four months.

ROBINSON: Four months?

JONES: Yes.

ROBINSON: So you're going to make a loss on this?

JONES: Yes. One of my biggest mistakes really. I thought going into the property game would benefit me in the long run, but obviously it's looking that, you know, this apartment is just not the way to go.

ROBINSON: Paula doubts repeated lender assurances that the buy to let market is healthy. She thinks it's overvalued, and one of the biggest operators in the business agrees with her. Andreas Panayiotou is a buy to let superstar. Fifteen years ago he started out developing the flats above his father's dry cleaning shop. Now he's a multi-millionaire with an empire of property to let and a £30 million yacht. But Andreas is now getting out of the business. He thinks too much money has been pumped into the buy to let market and that prices have been inflated so the numbers no longer make sense.

PANAYIOTOU: I took the view eighteen months ago to start offloading a lot of my portfolio and we sold at approximately £400 million in the last year and we have another £350 million which is being sold over the next one and a half years.

ROBINSON: Why are you selling now after not selling for so long?

PANAYIOTOU: Because there is no profit and there is no profit coming in.

ROBINSON: We met someone on Friday who's got one property, she is losing £120 a month. She can't afford it, she says. What can someone like that do?

PANAYIOTOU: The only answer is, in this scenario, is she'll carry on paying £120 a month and losing £120 a month for as long as she can. She will come to a stage where she'll have to give the keys back. And there is only one scenario, that prices have to drop to bring your returns higher than cost of funds, because if you're not in that position, there is no profit to be made.

ROBINSON: How much do you say prices have to drop for the maths to make sense?

PANAYIOTOU: This obviously, you know, up and down the country there's different valuations. I would say it'll have to drop in the region of 20%.

ROBINSON: 20%?

PANAYIOTOU: But that's just as a realistic level, not even to really say this would be a desirable business again.

ROBINSON: 20% fall?

PANAYIOTOU: Yes.

ROBINSON: Established buy to let investors with plenty of equity in their properties could ride out such dips in house prices, hoping they'd eventually recover. But if Andreas Panayiotou's forecast is even partly right, a lot of highly-borrowed newcomers to the buy to let business could be in trouble - adding to the potential casualties in the sub-prime market.

ACTUALITY OF BROWN SPEECH

BROWN: Thank you. I am privileged to speak to you for the first time at our conference as Prime Minister and leader of this party. [applause]

ROBINSON: At the Labour Party conference this week, the new Prime Minister set out his vision for the long term. But he has a pressing priority too – trying to deal with the crisis in the property market:

BROWN: In the last month a wave of financial turbulence that started in America and then Germany and has impacted on all countries, including the United Kingdom, and it's tested the stability of our financial system.
Yesterday Alistair Darling set out how we will continue to respond with the same calm vigilance that he has demonstrated over recent weeks.

ROBINSON: The danger is obvious – a reprise of the property crisis of the early nineties, when negative equity, record repossessions and economic slowdown triggered widespread public anger. Roger Bootle of Capital Economics is a longstanding student of the British housing market. He believes it's still far too early to know for sure which way it's going to go.

BOOTLE: The really important thing is the question, is the housing market itself genuinely overvalued in relation to fundamentals. That's the question, putting it starkly. Is it a bubble? And of course, as always, there are two views on this. The case for the prosecution is that this is just another example of classic financial behaviour in which people extrapolate the future from the past. Prices have been going up so therefore they expect then to go up. They've bent every effort to buy houses more than they need, bigger than they need, they've moved more often than they had to, they've fiddled their income figures, they've done all sorts of things because this is a no-brainer, making money in the housing market. And as and when financial conditions turn and of course confidence in the future of house prices changes, then the market turns on a sixpence.

ROBINSON: And what's your view of this right now?

BOOTLE: I've always thought there are substantial bubble elements in the UK housing market and I still do.

ROBINSON: If the present financial turmoil continues, Mick McAteer thinks the signs are ominous, because of the pressure borrowers are already under.

MCATEER: Do you know, I think we're close to a tipping point in the UK and I think the response of the lenders and the response of the policymakers such as the Treasury and the Financial Services Authority will very much determine whether or not we have a manageable crisis that we can work our way out of over the long term or whether or not we have a 1990s-style housing market crisis.

ROBINSON: That's a question Gordon Brown will be wrestling with at Number 10, because the new Prime Minister's political prospects may well hang on how this crisis plays out.

SIGNATURE TUNE