

"Federation Corner" column
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Wolf at the door? KB Home is coming to Montgomery County

by Wayne Goldstein, MCCF 1st VP

KB Home, the fifth largest builder in the country, started building houses in 1957 as Kaufman and Broad. It is now a Fortune 500 company. As of last December, KB Home earned \$719 million on annual sales of almost \$8.7 billion and it hopes to build more than 40,000 homes this year. Last November, KB Home announced that it had gotten a new unsecured line of credit worth up to \$2 billion. In 2004, Builders Magazine listed Bruce Karatz, Chairman and CEO of KB Home, as No. 6 of the top 50 most influential people in home building in the nation. This enormously profitable company, with access to billions of dollars of credit, is the lead partner to develop the Crown Farm, its first project in Montgomery County. I've previously discussed the claim that this project must be annexed into the City of Gaithersburg by June 1 or there will be unspecified negative financial consequences, as well as the desire of the builder to avoid financial responsibility for affordable housing, for historic buildings, and for buying farmer's development rights.

KB Home has had an "interesting" relationship with government regulators concerning other responsibilities it has sought to avoid. In January 1979, Elizabeth Dole, who was then with the Federal Trade Commission (FTC), gave a speech, including this: "In the Kaufman and Broad investigation, FTC staff have themselves alleged, on the basis of professional inspections, a gamut of poor construction practices; In some houses, * Fire walls were improperly anchored. * Siding was not properly anchored. * Walls were not properly supported by foundations. * Floor girders were not properly supported to prevent sagging floors. * Foundations containing cracks due to structural failures. To settle these allegations, Kaufman & Broad has offered the FTC a consent order which would. require it to provide a warranty with each new home it sells in the future, and repair major construction defects in homes purchased from it dating back to 1972. In addition, the order would prohibit Kaufman & Broad from selling or delivering housing that is not built in accordance with adequate standards of workmanship."

"June 27, 1991 - The Federal Trade Commission announced today that Kaufman and Broad Home Corporation. has agreed to settle charges that it violated a 1979 FTC order by failing to make warranty repairs in a timely manner. Under a proposed consent decree filed in federal court, the defendant would pay a civil penalty of \$595,000 and would be prohibited from violating the FTC order in the future."

"August 3, 2005 - KB Home to Pay \$2 Million Penalty for Alleged Violations of FTC Order. Under the terms of a stipulation and modified consent decree approved by the Federal Trade Commission and submitted in federal court by the U.S. Department of Justice (DOJ), KB Home. will pay a \$2 million civil penalty to settle charges that it violated the terms of a 1979 consent order with the Commission. The modified consent decree also bars KB Home from violating the terms of the original order in the future, and requires the company to modify existing home repair warranties to comply with the consent order."

"July 6, 2005. - The Department of Housing and Urban Development today announced it has reached a \$3.2 million settlement with KB Home Mortgage Company in connection with a series of alleged violations of HUD requirements. The \$3.2 million is the largest amount ever collected in the 30-year history of HUD's Mortgagee Review Board (MRB), which takes administrative actions against FHA-approved lenders. The 13 alleged violations by KB Mortgage Company involve a number of poor underwriting practices such as approving loans to borrowers who were not eligible; approving loans based on overstated or incorrect income; failing to include all of borrowers' debts; failing to properly verify sources of funds; and, failing to ensure gift letters met HUD requirements"

On its website, KB Home now claims: "Currently, the Customer Satisfaction Index is at the highest level in the company's history at 95 percent and outstanding warranty claims are at the lowest." There is also this: "February 2, 2006 - The NAHB Research Center today announced the National Housing Quality (NHQ) Certification of KB Home Inland Valley [which] earned the designation following a rigorous NAHB Research Center audit of the implementation of their quality assurance systems. Additional KB Home divisions in other states are participating in the program are working toward certification in 2006, signaling KB Home's corporate-wide commitment to the NHQ program."

However, there is this 3/24/06 article from California: "KB Home faces fight over large housing project in Scotts Valley: 'The whole concept is fine with me except when we get down to K-and-B,' says Councilman Barrett." Their reputation precedes them, and we are not real happy with their reputation. They built homes in Scotts Valley before, and we had a ton of problems with them.' " And there is this 3/29/06 article from Florida: "Neighbors at odds with builder. 'The eyesores come courtesy of KB Home, rated the most-admired home builder in America in Fortune magazine's March 6 edition. They just built what they wanted to, with no concern for our rules.' "

There is a national group of new home purchasers known as Homeowners Against Deficient Dwellings (HADD) which recently wrote this to the county and Gaithersburg governments: "Our organization sees many complaints on KB Home that involve shoddy construction, violations of local codes and ordinances, ignoring home owners association rules, abuse of arbitration, and breach of warranty. Repairs under warranty may be temporary patches, not proper repairs. These complaints seem to be happening regardless of the price of the home. Same shortcuts, same excuses. Your board will have to ask itself what will happen if you let a builder with a known bad reputation build in your county. Will you need to pay for increased oversight to ensure codes are met and enforced? How will the costs be paid later in terms of homes of lower value than they should be, increased foreclosures, stigmatized properties, and potential bankruptcies? You have the opportunity to set a standard that is higher than that."

For various reasons, including that KB Home is the only builder in the nation subject to a consent decree, for which it has twice been fined for violating, I will be asking the MCCF Executive Committee that for the June program we invite representative from the FTC, HUD, KB Home and HADD. Our county and city government would be wise to convene such a meeting much sooner to figure out what needs to be done. After all, Clarksburg was about a developer and builders who did not follow the rules. However, none of them had a track record of not doing so that dated back 27 years. We need to find out whether or not KB Home can show a white paw to prove that it is not a wolf at the door.