

KB Home, Countrywide Ran \$2.8B Fraud: Homebuyers

By Jessica Dye

Share us on:    

Law360, New York (May 08, 2009, 12:00 AM ET) -- A putative class of California, Arizona and Nevada homeowners has accused housing giant [KB Home](#) and Countrywide Financial Corp. of joining forces in a racketeering enterprise, using tainted appraisals on houses KB Home sold and loans Countrywide provided to inflate contract values by \$2.8 billion. The complaint, filed Thursday in the U.S. District Court for the District of Arizona, accuses KB Home, Countrywide and Countrywide appraisal subsidiary LandSafe Inc. of violating the Racketeer Influenced and Corrupt Organizations Act and California unfair competition law in an ongoing scheme to inflate KB Home property values in the Southwest and the amount in loans Countrywide was able to issue to purchasers.

According to the complaint, KB Home and Countrywide linked up to form an unincorporated alliance known as Countrywide KB Home Loans to field customer mortgage referrals from KB Home buyers after the developer sold its mortgage-banking assets to the home lender.

After the mortgage seekers were referred to Countrywide KB Home, the companies kicked appraisals to preapproved, "friendly" LandSafe appraisers, who were told to value properties at or above the mandated contract price, the complaint alleges.

The KB Home-Countrywide alliance permitted the companies to build, finance, appraise and control all aspects of the plaintiffs' real-estate transactions, putting the companies "in a position to rig and falsify the appraised value of the homes," according to the suit.

As a result, the defendants were able to conceal falling home values as the housing bubble burst, in a "Madoff-like Ponzi scheme that depended upon the initial use of false appraisals to prop up early sales in a KB subdivision, which were then used to continue to prop up the value and selling activity in entire KB Home subdivisions," the complaint said.

Plaintiffs uncovered the scheme when they enlisted the services of an independent appraiser to help sell their homes, the suit states.

The plaintiffs stake their \$2.8 billion claim on what they call a conservative estimate that the defendants overvalued by \$20,000 each of the 14,000 KB Homes sold in Arizona and Nevada since 2006, according to the suit.

However, preliminary findings point to an average inflation value in sampled properties closer to \$82,169, the complaint says, adding that the real fraud amount could be far greater than \$2.8 billion.

“Those profits come at the expense of the homeowner, who moves into a house already upside-down, and the secondary market, buying tainted investments,” said Rob Carey, an attorney with [Hagens Berman Sobol Shapiro LLP](#) representing the plaintiffs.

The six KB Home owners who brought the suit are seeking class certification on behalf of the owners of at least 10,000 KB Homes sold and Countrywide KB Home financed in the Southwest since 2006.

Steve Berman, a partner at Hagens Berman, said his firm had filed a similar suit earlier in 2009 that sought class-action status on similar charges, later recast as an individual action.

Since then, more details have emerged about Countrywide KB Home's loan practices, which “will help us illustrate what we see as a cynical scheme condoned and encouraged by the organization's leadership,” Berman said.

Countrywide and KB Home have each separately been the target of numerous complaints and investigations about their lending practices during the housing boom, according to the complaint.

[Bank of America Corp.](#), which acquired Countrywide in 2008, had not been served with the complaint as of Friday morning, a spokesman for the company said..

KB Home called the charges completely without merit, according to a spokesman.

The plaintiffs are represented by Hagens Berman Sobol Shapiro LLP.

Counsel information for the defendants was not immediately available.

The case is Johnson et al. v. KB Home et al., case number 09-00972, in the U.S. District Court for the District of Arizona.

Related Articles

- [KB Home Buyers Seek Class Status In Fraud Suit](#)
- [Countrywide Inflated Home Values: Whistleblower Suit](#)
- [Homeowners Accuse Wells Fargo Of Appraisal-Rigging](#)
- [Whistleblower Takes Home \\$14.5M In BofA Mortgage Deal](#)
- [Countrywide, First American, KB Escape Kickback Suit](#)