

IN THE MATTER OF

KAUFMAN AND BROAD, INC., ET AL.

CONSENT ORDER, ETC., IN REGARD TO ALLEGED VIOLATION OF
THE FEDERAL TRADE COMMISSION ACT*Docket C-2954, Complaint, Feb. 12, 1979 — Decision, Feb. 12, 1979*

This consent order, among other things, requires a Los Angeles, Calif. builder and seller of residential housing to cease misrepresentations of fact and using any other unfair or deceptive practices in the advertising, sale and construction of consumer housing. The firm is also required to furnish prospective customers with disclosures regarding construction materials and components; as well as information relating to the land, taxes and community facilities. Further, the company is required to provide home purchasers with warranties patterned on the housing industry's Home Owners Warranty program; and to employ the industry's standards in home construction and repair. Additionally, provisions in the order entitle original owners of company homes purchased from January 1, 1972, to have specified defects repaired, and requires the firm to repurchase the homes at the original price, should it fail to make proper repairs in a timely manner. The order also provides that disputes concerning repairs may be settled through third-party arbitration.

Appearances

For the Commission: *Blanche Stein, Richard A. Palewicz and Jerome S. Lamer.*

For the respondents: *Elroy Wolff, Sidley & Austin, Washington, D.C.*

COMPLAINT

The Federal Trade Commission, having reason to believe that respondents Kaufman and Broad, Inc., a corporation, Kaufman and Broad Homes, Inc., a corporation, and Kaufman and Broad Home Sales, Inc., a corporation, have violated Section 5 of the Federal Trade Commission Act, as amended, (15 U.S.C. 45), and believing that a proceeding by it in respect thereof is in the public interest, hereby issues its complaint as follows:

I

For purposes of this complaint, "on-site residential housing" shall mean housing structures, including lots, consisting of single family dwelling units or housing structures consisting of multi-family dwelling units (including condominiums) represented and sold by respondents as completely constructed or partially constructed units.

II

PARAGRAPH 1. Respondent Kaufman and Broad, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Maryland with its principal place of business located at 10801 National Boulevard, Los Angeles, California.

Respondent Kaufman and Broad, Inc. has numerous subsidiaries in various States of the United States.

Respondent Kaufman and Broad, Inc. uses the trade styles: Kaufman & Broad, Kaufman and Broad, and Kaufman and Broad homes in the course and conduct of its business.

Respondent Kaufman and Broad Homes, Inc. is a wholly-owned subsidiary of respondent Kaufman and Broad, Inc., and is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois with its principal office and place of business located at 900 Jorie Boulevard, Oak Brook, Illinois.

Respondent Kaufman and Broad Home Sales, Inc. is a wholly-owned subsidiary of respondent Kaufman and Broad Homes, Inc., an Illinois corporation, and is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois with its principal office and place of business located at 900 Jorie Boulevard, Oak Brook, Illinois.

PAR. 2. Respondents are now and for some time last past have been engaged in the production, advertising, offering for sale or sale of on-site residential housing to the public. Gross sales of on-site residential housing by respondent and its subsidiaries in 1973 was approximately \$306,763,000, in 1974 approximately \$256,567,000, in 1975 approximately \$250,482,000, and in 1976 approximately \$283,183,000.

III

PAR. 3. In the course and conduct of its business, as aforesaid, respondent Kaufman and Broad, Inc. has formulated and established uniform and standardized methods, practices and procedures for the regulation, supervision and monitoring by respondent of the book-keeping, accounting, financial, purchasing, sales, personnel, customer relations and management operations of its subsidiaries located in various States of the United States.

In the course and conduct of its business, as aforesaid, respondent Kaufman and Broad Homes, Inc., an Illinois corporation, has caused to be published in newspapers of interstate circulation advertisements which are designed and intended to induce the public to purchase respondent's on-site residential housing.

In the course and conduct of its business, as aforesaid, respondent

Kaufman and Broad Homes Sales, Inc., an Illinois corporation, has entered into contracts for the purchase of respondent's on-site residential housing with members of the public residing outside the State of Illinois.

Therefore, each of the corporate respondents is engaged in or affects "commerce," as "commerce" is defined in the Federal Trade Commission Act and has been continuously so engaged for several years.

IV

PAR. 4. In the course and conduct of their business, as aforesaid, and for the purpose of inducing the public to purchase respondents' on-site residential housing, respondents have made statements and representations in advertising brochures and in advertising inserted in newspapers of interstate circulation.

Typical and illustrative of such statements and advertising representations, but not all inclusive thereof, are the following:

We're America's largest publicly held company whose primary business is on-site housing. We know the housing business!

Because Kaufman and Broad is Chicago's largest home builder, we can build fine homes . . . our size enables us to use good workmen, quality materials and money-saving tools and techniques.

Ask your Kaufman and Broad salesman about our exclusive Buy Back Plan. It is an extra assurance to you made possible by Kaufman and Broad's full confidence in the value and quality construction of the homes they build. After one year, if you are not completely satisfied with your home, Kaufman and Broad will give you your money back . . .

Because of our size, we are able to give you a bigger better home for your money . . .

You can have confidence in Kaufman and Broad. Most homeowners do.

Kaufman and Broad's years of experience also insure sound planning and design in all community developments. The added value of this experience will be appreciated by the home owner in his day-to-day living as he realizes the thought and care that has gone into the development of his home and community.

EX A 2

Kaufman & Broad provides a kind of quality control that only can be offered because of its huge size.

... the best locations--there are Kaufman and Broad communities in many of the most popular Chicago suburbs. Because we're first, we get first choice of all the prime land that's available.

Immediate occupancy No closing costs

F.H.A. loans available.

... Homes with garages, basements, family rooms, patio kitchens, glamour vanity baths and much more--all the room your family needs

... with a garage and basement.

3 & 4 bedroom homes from \$20,990.

... 2, 3 and 4 bedroom homes from \$19,990... These low prices available for a limited time only.

You needn't stray far from your home in Appletree to reach all the things you need.

1. Rich Central High
2. Marion High (Parochial)
3. Southwood Jr. High
4. Willowview Elementary
5. Baker Avenue Kindergarten
6. Loreto Lane Kindergarten
7. St. Emeric's Elementary (Parochial)
8. St. John Lutheran School
9. Hillcrest High

PAR. 5. By and through the use of the above-quoted statements and representations and others of similar import and meaning not expressly set out herein, respondents have represented, and are now representing, directly or by implication that:

1. Housing sold by respondents is built in accordance with good construction practices in the housing industry.

2. Housing sold by respondents is of top quality workmanship.

3. Housing sold by respondents is constructed in accordance with the Minimum Property Standards for such housing as required by the U.S. Department of Housing and Urban Development.

4. Housing sold by respondents is constructed in accordance with plans and specifications approved by the U.S. Department of Housing and Urban Development.

5. By and through the use of the words "quality materials," "quality construction," "quality control," and other words of similar import and meaning not specifically set out herein, respondents' housing is free from structural or other defects that could impair such housing for ordinary use as homes or habitations.

6. Respondents have a unique quality control program that provides for the inspection of their housing at various stages in construction to insure that such housing is of quality workmanship and is free from structural and other defects.

7. By and through the use of the words "best locations" and "first choice of all the prime land that's available," and other words of similar import and meaning not specifically set out herein, land used by respondents for building sites is not subject to any severe limitations that may affect the use of such land for the construction of on-site residential housing sold by respondents.

8. Respondents' advertised homes are available for immediate occupancy.

9. All homes offered for sale by respondents include a family room and a garage or a basement and a garage in the advertised price.

10. All rooms advertised as bedrooms in respondents' 4-bedroom homes are suitable for sleeping purposes.

11. Respondents' advertised prices for homes are for a limited time only.

12. Respondents' housing is sold to purchasers free of all closing costs.

13. Schools listed in respondents' advertising are in school districts where respondents' housing is located.

PAR. 6. In truth and in fact:

1. All housing sold by respondents was not built in accordance with good construction practices in the housing industry. In some houses, fire walls were improperly anchored, foundation walls were not covered with membrane waterproofing to prevent water seepage

into habitable spaces, or weep holes were absent in brick veneer walls for the escape of water.

2. All housing sold by respondents was not top quality in workmanship. In some houses, siding was not properly anchored, roof sheathing did not meet with roof edges, spaces between foundation walls and sill plates were not sealed to prevent the entry of air and moisture, or piping and bathroom fixtures were not properly installed.

3. All housing sold by respondents was not constructed in accordance with the Minimum Property Standards for such housing as required by the U.S. Department of Housing and Urban Development. In some houses, front stoops were improperly supported and/or anchored to foundation walls, sill plates were not properly matched to foundation walls to prevent seepage of water and/or air into the interior of the house, or paint used on kitchen and bathroom walls was not washable as required by such standards.

4. All housing sold by respondents was not constructed in accordance with the plans and specifications approved by the Department of Housing and Urban Development. In some houses, there were deviations and omissions from such plans and specifications that affected the quality of a component part in the house.

5. All housing sold by respondents was not free from structural or other defects that could impair such housing for ordinary use as homes or habitations. In some houses, walls were not properly supported by foundations, floor girders were not properly supported to prevent sagging floors, or foundations contained cracks due to structural failures.

6. Respondents did not have a unique quality control program that provides for the inspection of their housing at various stages in construction to insure that such housing is of quality workmanship and is free from structural and other defects. In many cases, housing constructed and delivered by respondents to purchasers has been characterized by defects that could have been avoided through proper inspections by supervisory personnel.

7. All land used by respondents for building sites was not free from severe limitations that may affect the use of such land for the construction of on-site residential housing sold by respondents. In some cases, such land was subject to frequent or continuous water saturation, slow run-off of surface water, ponding of water in various places or poor drainage that could result in frost-heave and shrink-swell.

8. Homes advertised by respondents as available for "immediate occupancy" were in many cases unavailable for occupancy by

purchasers until many months after the purchase agreement had been signed.

9. Homes advertised by respondents as including a family room and a garage or a basement and a garage did not in many cases include such features in the advertised price. Such features were optional rather than standard and available only upon the payment of an additional charge. In some cases, certain optional features were unavailable even for the payment of an additional charge.

10. All rooms advertised as bedrooms in respondents' 4-bedroom homes were not suitable for sleeping purposes. Rooms represented as bedrooms were unsuitable for such use because they were constructed with insufficient insulation, inadequate waterproofing or other construction defects.

11. Sales prices of homes advertised as being for "a limited time only" were offered by respondents over a substantial period of time.

12. Respondents' housing was not sold to purchasers free of all closing costs. In many cases, charges and fees incident to the sale of respondents' housing were actually imposed upon purchasers.

13. Schools represented as being located in certain school districts were not located in such school districts and were, therefore, unavailable to the purchasers of respondents' homes located in such school districts.

Therefore, the statements and representations as set forth in Paragraph Five above were false, misleading and deceptive.

V

PAR. 7. In the course and conduct of their business, as aforesaid, and for the purpose of inducing the public to purchase respondents' on-site residential housing, respondents have made oral representations through their sales representatives and agents concerning the residential housing which respondents offer for sale.

Among the oral statements and representations made, but neither verbatim nor all-inclusive thereof, are the following:

1. That parks, playgrounds or schools will be built or developed in the near future in certain communities where respondents' residential housing is located.

2. That public transportation facilities will be available within certain communities where respondents' residential housing is located.

3. That landscaping in certain of respondents' housing developments would include four inches of topsoil in each purchaser's lot that would be suitable to support plant growth.

4. That the tax credit furnished at "closing" by respondents to certain purchasers of their on-site residential housing represented the estimated assessed valuation of the property for tax purposes.

PAR. 8. In truth and in fact:

1. No park, playground or school has been built or developed in certain designated communities, and have not been anticipated or authorized for such building and development in the near future, as represented by respondents to purchasers and prospective purchasers of respondents' residential housing.

2. No public transportation facilities have been made available within certain designated communities, and have not been anticipated or authorized for such availability in the near future, as represented by respondents, to purchasers and prospective purchasers of respondents' residential housing.

3. Landscaping in certain of respondents' housing developments where four inches of topsoil was to be included did not include four inches suitable for plant growth. The soil furnished was clay or a mixture of clay with gravel or debris.

4. The tax credit furnished at "closing" by respondents to certain purchasers of their on-site residential housing did not represent the actual assessed valuation of the property for tax purposes. At the time such tax credit was furnished by respondents, respondents knew or should have known that the actual assessed valuation of the property was significantly higher.

Therefore, the statements and representations as set forth in Paragraph Seven above were and are false, misleading and deceptive.

VI

PAR. 9. In the course and conduct of their business, as aforesaid, and for the purpose of inducing the public to purchase respondents' on-site residential housing, respondents have made representations through model home samples and other devices concerning certain features in connection with the sale and delivery of such housing. Illustrative of such model home representations, but not all inclusive thereof, are the following:

1. That a kitchen displayed in respondents' one-story model ranch home, Style R-24, would be identical to that delivered to purchasers of that particular style house.

2. That an open staircase with wrought iron railing displayed in respondents' Style S-2 McIntosh model home would be identical to that delivered to purchasers of that style house.

3. That mattresses displayed in bedrooms of certain of respondents' model homes were 74-1/2 inches in length.

PAR. 10. In truth and in fact:

1. Kitchens delivered to many purchasers of respondents' one-story ranch house, Style R-24, included a walled-off storage area that was not present in the model home displayed to purchasers and which had the effect of reducing the size of the kitchen by approximately four feet by eight feet.

2. An open staircase was not delivered to many purchasers of respondents' Style S-2 McIntosh house. Instead, such purchasers received a walled-in staircase.

3. Mattresses and beds used as display in bedrooms of certain of respondents' model homes were less than 74-1/2 inches in length thereby causing said rooms to appear larger than their actual dimensions.

Therefore, the representations as set forth in Paragraph Nine above were and are false, misleading and deceptive.

VII

PAR. 11. In the course and conduct of their business, as aforesaid, and for the purpose of inducing the public to purchase respondents' on-site residential housing, respondents have included written statements in their advertising brochures, sales documents, and advertising inserted in newspapers of interstate circulation and in oral representations made by their sales representatives and agents concerning warranties against defects in housing that respondents offer for sale.

Typical and illustrative of said statements and representations are the following:

Satisfaction Guaranteed by Kaufman and Broad

In addition to an unprecedented five-year new home warranty Kaufman and Broad provides 24-hour customer service

Kaufman and Broad explains why you should buy a home NOW. . . exclusive 5-year structural warranty.

every house built by Kaufman and Broad carries our exclusive New Home Structural Warranty. This unique assurance of quality, unheard of in the entire building industry, guarantees the lasting value of a Kaufman and Broad Home.

The Home . . . has been constructed with the greatest care and workmanship . . . in substantial conformity with the plans and specifications on file in its office.

Should any major structural defect exist which, at any time within five (5) years from the date hereof, would directly result in the loss or impairment of such Home as a single family residence, Kaufman and Broad Homes, Inc. hereby binds itself to remedy such defect at no cost or obligation to such Purchaser; provided that notice of such defect is delivered to Kaufman and Broad Homes, Inc. . . .

* * * * *
Everything guaranteed for one year

* * * * *
Covers everything

* * * * *
Anything wrong would be repaired or replaced

PAR. 12. By and through the use of the statements and representations quoted in Paragraph Eleven hereinabove, and others of similar import and meaning not expressly set out therein, respondents represent and imply and have represented and implied:

1. That respondents' five-year warranty represents an unqualified obligation on the part of respondents to remedy all structural defects in their on-site residential housing of the kind that would result in the loss or impairment of such housing as a residence.

2. That under their five-year warranty respondents will remedy any structural defects provided that proper notice is given to respondents.

3. That respondents will repair all structural defects in on-site residential housing sold under their five-year warranty.

4. That all of respondents' on-site housing sold under five-year warranties is in substantial conformity with respondents' plans and specifications for such housing.

5. That the one-year warranty offered by respondents in connection with their on-site residential housing is an unqualified obligation on the part of respondents to repair any and all defects and to repair or replace any and all defective materials used in construction arising within one year from date of conveyance of such housing by respondents to the purchaser.

6. That purchasers of respondents' on-site residential housing who invoke respondents' one-year warranty may reasonably expect that respondents will repair any and all defects and will repair or replace any and all defective materials used in construction.

PAR. 13. In truth and in fact:

1. The five-year warranty was not an unqualified obligation on the part of respondents to remedy structural defects in the on-site residential housing sold by respondents.

2. In many cases even after proper notice was given to respondents of structural defects under the five-year warranty, respondents neglected, refused, or ignored making repairs under the warranty.

3. Respondents did not, in all cases, repair structural defects in on-site residential housing sold under their five-year warranty.

4. Not all on-site residential housing sold by respondents under their five-year warranty was in substantial conformity with respondents' plans and specifications for such housing.

5. The one-year warranty offered by respondents in connection with their on-site residential housing did not represent an unqualified obligation on the part of respondents to repair any and all defects and to repair or replace any and all defective materials used in construction arising within one year from the conveyance of such housing to the purchaser.

6. When purchasers of respondents on-site residential housing invoked respondents' one-year warranty, respondents did not, in all cases, repair any and all defects or repair or replace any and all defective materials used in construction. When requests for repairs or replacements were made by purchasers under such warranties, respondents, in many cases, failed to make such requested repairs or replacements.

Therefore, the statements and representations as set forth in Paragraphs Eleven and Twelve above were and are false, misleading and deceptive.

VIII

PAR. 14. In the course and conduct of their business, as aforesaid, and for the purpose of inducing the public to purchase respondents' on-site residential housing, respondents made statements and representations in advertising brochures and in advertising inserted into newspapers of interstate circulation concerning warranties and guarantees.

In connection with such advertised warranties and guarantees, respondents failed to adequately disclose material terms and conditions of such warranties and guarantees such as (1) the nature and extent of such warranties and guarantees, (2) the conditions and limitations of such warranties and guarantees, and (3) the manner in which respondents will perform under such warranties and guarantees.

Thus, respondents failed to disclose such material facts concerning

warranties and guarantees which, if known to certain prospective purchasers, would be likely to affect their consideration of whether or not to purchase respondents' on-site residential housing.

Therefore, respondents' failure to disclose such material facts was unfair, false, misleading or deceptive acts or practices.

PAR. 15. In the ordinary course of their business, as aforesaid, respondents caused members of the public seeking to purchase homes from respondents to enter into written sales contracts with respondents which contracts contain a provision reserving to respondents the right to designate the mortgagee.

By and through the use of said written provisions contained in respondents' sales contracts as aforesaid, respondents have precluded purchasers from the opportunity of comparing various alternative credit terms that may be available to such purchasers on more favorable terms from other sources.

Therefore, the acts and practices as set forth above hereof were unfair, false, misleading or deceptive.

PAR. 16. In the course and conduct of their aforesaid business and at all times mentioned herein, respondents have been and are now in substantial competition, in or affecting commerce, with corporations, firms and individuals in the construction and sale of on-site residential housing.

PAR. 17. The use by respondents of the aforesaid unfair, misleading and deceptive statements, representations and practices has had the capacity and tendency to mislead members of the purchasing public into the purchase of substantial numbers of respondents' on-site residential housing.

PAR. 18. The aforesaid acts and practices of the respondents as herein alleged were all to the prejudice and injury of the public and of respondents' competitors and constituted and now constitute unfair methods of competition and unfair and deceptive acts and practices, in or affecting commerce, in violation of Section 5 of the Federal Trade Commission Act.

DECISION AND ORDER

The Federal Trade Commission having initiated an investigation of certain acts and practices of the respondents named in the caption hereof, and the respondents having been furnished thereafter with a copy of a draft of complaint which the Chicago Regional Office proposed to present to the Commission for its consideration and which, if issued by the Commission, would charge respondents with violation of the Federal Trade Commission Act; and
The respondents and counsel for the Commission having thereaf-

ter executed an agreement containing a consent order, an admission by the respondents of all the jurisdictional facts set forth in the aforesaid draft of complaint, a statement that the signing of said agreement is for settlement purposes only and does not constitute an admission by respondents that the law has been violated as alleged in such complaint, and waivers and other provisions as required by the Commission's Rules; and

The Commission having thereafter considered the matter and having determined that it had reason to believe that the respondents have violated the said Act, and the complaint should issue stating its charges in that respect, and having thereupon accepted the executed consent agreement and placed such agreement on the public record for a period of sixty (60) days, and having duly considered the comments filed thereafter by interested persons pursuant to Section 2.34 of its Rules, now in further conformity with the procedure prescribed in Section 2.34 of its Rules, the Commission hereby issues its complaint, makes the following jurisdictional findings, and enters the following order:

1. Respondent Kaufman and Broad, Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Maryland, with its principal office and place of business located at 10801 National Boulevard, Los Angeles, California.

Respondent Kaufman and Broad Homes, Inc. is a wholly-owned subsidiary of respondent Kaufman and Broad, Inc. and is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois with its principal office and place of business located at 900 Jorie Boulevard, Oak Brook, Illinois.

Respondent Kaufman and Broad Home Sales, Inc. is a wholly-owned subsidiary of respondent Kaufman and Broad Homes, Inc., and is a corporation organized, existing and doing business under and by virtue of the laws of the State of Illinois with its principal office and place of business located at 900 Jorie Boulevard, Oak Brook, Illinois.

2. The Federal Trade Commission has jurisdiction of the subject matter of this proceeding and of the respondents, and the proceeding is in the public interest.

ORDER

I

DEFINITIONS

"On-site residential housing" shall mean housing structures,

including lots, consisting of single family dwelling units or housing structures, consisting of multi-family dwelling units (including condominiums) represented and sold by respondents in the United States as completely constructed or partially constructed units.

An "express warranty" as used in this order shall mean any written affirmation of fact or written promise made or assigned by respondents to a purchaser as part of the transaction of the sale of a unit of on-site residential housing.

The "HOW warranty" as used in this order shall mean the warranty issued under the Home Owners Warranty Corporation's national home warranty program.

A "major construction defect" as used in this order shall mean a "major construction defect" as defined in the Home Owners Warranty Corporation Home Warranty Agreement attached hereto as Appendix A.

The term "approved standards" as used in this order shall mean "approved standards" as defined in the Home Owners Warranty Corporation Home Warranty Agreement attached hereto as Appendix A.

A "legal holiday" as used in this order shall mean any one of the following business holidays: New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, Christmas Day.

"Closing costs" as used in this order shall mean all the charges and fees imposed directly or indirectly upon a purchaser incident to the sale of real property. Specifically excluded herefrom are escrow deposits and impounds.

"Past purchaser" as used in this order shall mean "past purchaser" as that term is defined in Part VII and Part VIII of this order.

"Repurchase price" as used in this order shall mean the price at which the home was purchased by the original purchaser from respondents or from any of respondents' subsidiaries.

"Receipt" as used in this order in connection with the receipt by respondents of written requests for repairs from purchasers and past purchasers of respondents' housing shall mean three (3) days following the date post-marked on any letter sent through the United States mail; *provided*, that the actual date of receipt of any written request may be established by other means regardless of the method of delivery that was, in fact, used.

II

It is ordered, That respondents Kaufman and Broad, Inc., a corporation, Kaufman and Broad Homes, Inc., a corporation, and

Kaufman and Broad Home Sales, Inc., a corporation, their successors and assigns, and their officers, and respondents' agents, representatives and employees, directly or through any corporation, subsidiary, division or other device, in connection with the conduct and operation of their business in or affecting commerce as "commerce" is defined in the Federal Trade Commission Act in the production, advertising, offering for sale or sale of a unit of on-site residential housing, do cease and desist from:

1. Selling and delivering any housing unit for use as on-site residential housing which is not built in accordance with the approved standards or which contains a major construction defect without taking the necessary action to repair, replace, or to pay the cost of repairing or replacing the defect in such housing unit in accordance with the provisions of respondents' express warranty required under Part III B of this order.
2. Failing, in connection with the express warranty required under Part III B of this order to:

- (a) Make repairs in a workmanlike manner to a unit of on site residential housing where such repairs are required under respondents' warranty.
- (b) Make repairs with materials or components identical to, or of an equal or better grade or quality than, the materials or components used in the original construction of the particular unit of on-site residential housing where such repairs are required under respondents' warranty.
3. Failing to adhere to Minimum Property Standards for the construction of on-site residential housing as required by the U.S. Department of Housing and Urban Development or the U.S. Veterans Administration where such standards are applicable.
4. Making variances, substitutions or omissions in the construction of on-site residential housing from the schedule of specifications made available for inspection purposes in accordance with the requirements of Part V 8 of this order that are not subject to approval by the U.S. Department of Housing and Urban Development or by the U.S. Veterans Administration and which would significantly reduce the quality of the material or component in which the variance, substitution or omission was made.
5. Making variances, substitutions or omissions in the construction of on-site residential housing where such variance, substitution or omission deviates from approved plans and specifications filed with the U.S. Department of Housing and Urban Development or the U.S. Veterans Administration and which have not been ap-

proved by such agencies with respect to such housing and which would significantly reduce the quality of the material or component in which the variance, substitution or omission was made.

6. Failing to repair, replace or to pay the cost of repairing or replacing any major construction defect or any other defect in accordance with the provisions of respondents' express warranty required under Part III B of this order or in the performance of respondents' obligations under Part VIII of this order within a reasonable time after receipt of written notice of such defect from the purchaser or past purchaser of respondents' on-site residential housing; *provided, however*, that:

(a) Where respondents for any reason are unable to complete such requested repairs within thirty (30) calendar days after receipt of written notice of such defect from the purchaser or past purchaser of respondents' on-site residential housing, respondents shall furnish to such purchaser or past purchaser (as defined in Part VIII) a written statement setting forth the reason or reasons why such requested repairs cannot be undertaken or completed within such thirty day period and a scheduled date on which the requested repairs are, in fact, to be completed within the next sixty (60) day period.

(b) Where respondents are or were prevented from completing repairs by the scheduled date referred to in subparagraph 6(a) above due to intervening circumstances beyond their control, such as labor strike, supplier or subcontractor failure to deliver materials or perform work, or unsuitable weather conditions, such repairs will be completed within a reasonable period of time not to exceed sixty (60) days from the date of the termination of the intervening circumstance.

(c) Where respondents for any reason elect not to honor such request for repairs, respondents shall, within twenty-one (21) calendar days of receiving such request for repairs, notify the purchaser or past purchaser in writing why respondents will not honor the request.

7. Failing to take reasonable steps to insure that all inspections required to be made of each unit of respondents' on-site residential housing by appropriate local and other governmental authorities are, in fact, made at the stage of construction at which such inspections are normally required to be made and retaining copies of such inspection reports for each particular unit of such residential housing and, upon request, making such reports available for inspection by purchasers promptly and without charge.

8. Representing through any means, directly or by implication,

that the land upon which respondents' on-site residential housing is constructed is suitable for the construction of housing unless respondents have performed the necessary site preparation and construction techniques in a manner satisfactory to the U.S. Department of Housing and Urban Development or the U.S. Veterans Administration or to state and local planning and zoning authorities to render the land suitable for residential construction.

9. Representing through any means, directly or by implication, that any of respondents' housing is available for immediate use or occupancy by purchasers or prospective purchasers unless such residential housing units are, in fact, available for immediate use or occupancy.

10. Representing through advertising, advertising depictions or similar means, directly or by implication, that the advertised price for respondents' housing includes as standard items certain features, equipment, architectural design, construction or any other item or characteristic for which respondents in fact make an additional charge; *provided, however*, that nothing in this Paragraph 10 shall prohibit respondents from picturing or depicting a housing unit complete with optional items or characteristics so long as there is a clear and conspicuous disclosure in immediate conjunction therewith that such items or characteristics are available for an additional charge.

11. Representing through any means, directly or by implication, that any room in respondents' housing is suitable for use as a habitable area where such room has not been properly insulated or constructed for such purpose.

12. Representing through the use of the words "for a limited time only" or through any other means or device, directly or by implication, that any change in the price of any of respondents' housing is imminent unless, at the same time and in conjunction therewith, respondents clearly and conspicuously disclose the date such limited time offer expires.

13. Representing through any means, directly or by implication, that sales of respondents' housing to purchasers are free of "closing costs" when in fact such sales do include closing costs, as "closing costs" are hereinabove defined.

14. Representing through any means, directly or by implication, that public schools and housing offered for sale by respondents are or will be located in the same school district unless respondents advise purchasers of the title or office, address and telephone number of the responsible school district authority from whom respondents obtained such information.

15. Representing through any means, directly or by implication, that respondents' housing is planned, developed, constructed or located with regard to children's recreational needs without disclosing in immediate conjunction therewith the specific means provided or facilities which respondents have constructed to meet the recreational requirements of children.

16. Representing through any means, directly or by implication, the existence of or plans for any educational, recreational, transportation, medical or other facilities adjacent to or in the vicinity of communities in which respondents have built or propose to build their on-site residential housing unless such facility actually exists or, with regard to planned facilities, respondents advise purchasers of the title or office, address and telephone number of the appropriate authority or public official from whom respondents obtained such information.

17. Misrepresenting through any means, directly or by implication, the amount or quality of the topsoil to be furnished to the purchasers of respondents' on-site residential housing.

18. Representing through any means, directly or by implication, that the on-site residential housing purchased from respondents will be taxed at a rate that is lower than the most recent official tax estimate and rate obtained from the officially responsible tax assessing authority, or making any representation relating to the assessed valuation or tax rate of such housing without disclosing the identity or title, address and telephone number of the officially responsible tax assessing authority.

19. Misrepresenting through any means, directly or by implication, that any feature, item of equipment, architectural design, construction, appurtenance or characteristic present in model homes is a standard inclusion in such model or style that will be duplicated in residential housing sold and delivered by respondents to purchasers of such model or style at the advertised or offered price. *Provided, however*, the following will be deemed to be adequate notice to prospective purchasers that such items and features are not included as standard in respondents' on-site residential housing:

- (a) A conspicuous sign or signs in or adjacent to the model homes listing items which are optional or unavailable; or
- (b) Labels on specific optional and unavailable items; and
- (c) Lists available to each prospective purchaser at the entrance of each model home complex which disclose optional and unavailable items; or
- (d) Lists in the brochures which describe the particular model or

models of respondents' on-site housing which disclose optional and unavailable items.

20. Using beds or mattresses of less than 74-1/2 inches in length as display or decoration in rooms presented as bedrooms in respondents' model homes without conspicuously disclosing by means of a sign in such room (a) that the bed or mattress is shorter than standard size, or (b) the dimensions of the room.

III

A. *It is further ordered*, That respondents, in connection with the advertising, offering for sale or sale of on-site residential housing, shall cease and desist from representing through any means, directly or by implication, that respondents' residential housing is warranted by an express warranty without clearly and conspicuously disclosing:

- (a) That the warranty is the standard warranty issued pursuant to the Home Owners Warranty Corporation's national home warranty program, or a warranty substantially identical to such warranty including the specific duration of the warranty;
- (b) Or, the following:
 - (i) The nature and extent of the warranty including disclosure of the parts of said housing that are warranted;
 - (ii) The specific conditions and limitations of such warranty;
 - (iii) The specific duration of the warranty;
 - (iv) The steps that anyone claiming under the warranty must take before respondents fulfill their obligations under the warranty; and
 - (v) The manner and time in which respondents will perform their obligations under the warranty.

B. *It is further ordered*, That respondents shall furnish purchasers of each unit of respondents' on-site residential housing with a warranty that is substantially identical to the insurer's and the warrantor's undertaking in the Home Owners Warranty Corporation's Home Warranty Agreement (hereafter referred to as the "HOW warranty") currently in use and attached hereto as Appendix A and incorporated by reference in this order, including the procedures for the settlement of disputes; *provided*, that respondents' undertaking for major construction defects shall be for a term of at least four years from the commencement date of each such warranty furnished, and *provided further*, that nothing in this order shall relieve respondents from complying with the Magnuson-Moss Warranty Act, Section 101, *et seq.* (15 USC 2301, *et seq.*), the rules

promulgated thereunder, and interpretations issued by the Federal Trade Commission in respect thereto.

C. *It is further ordered*, That in the event disputes arise between respondents and purchasers relating to respondents' liability for defects under Part III B of this order, and such disputes cannot be settled on a mutually agreeable basis within a reasonable period of time not to exceed forty (40) days from the date such dispute arose, then respondents shall notify each such purchaser in writing and at the same time as respondents finally reject the purchaser's claim, that such dispute may be submitted to third-party dispute settlement under the procedures required in Part III B above; *provided*, that purchasers shall not be precluded from exercising rights under the warranty required in Part III B above in respect to making a warranty or insurance claim or filing a demand for dispute settlement at any time prior to the expiration of such forty (40) day period; and, *provided further*, that no later than ten (10) business days excluding Saturdays, Sundays and legal holidays from the receipt of a written request for dispute settlement from purchasers, respondents shall take action to initiate such dispute settlement proceedings.

D. *It is further ordered*, That respondents shall specifically perform in good faith and without unreasonable delay or make payments timely as determined under the dispute settlement procedures required in Part III B above in each instance where the use of such procedures results in a decision in favor of the purchaser subject, however, to such rights under law as either purchaser or respondents may have in connection with the dispute.

IV

It is further ordered, That respondents, directly or indirectly, in connection with the sale of any unit of on-site residential housing, shall not enter into any contracts or employ any other means which prohibit or prevent any purchaser from selecting, within a reasonable length of time, a lending institution of the purchaser's own choice, or that may otherwise have the effect of restricting where the purchaser may seek or secure credit; *provided, however*, nothing contained herein shall prohibit respondents, or any affiliate thereof, from entering into mortgage commitments, mortgages or other similar financing agreements with their purchasers.

V

It is further ordered, That in connection with the advertising,

offering for sale or sale of on-site residential housing, respondents shall make available to each and every prospective purchaser who visits respondents' sales offices or model homes a brochure or a written statement relating to such housing that will include the following disclosures in a clear, conspicuous and affirmative manner:

1. For on-site residential housing not covered by the National Flood Insurance Program administered by the U.S. Department of Housing and Urban Development, the identity, address and telephone number of the individual, business firm and government agency that conducted soil tests on land used in the construction of the residential housing offered for sale. In addition, respondents shall require their contractors to state in non-technical language to each prospective purchaser who contacts such contractors whether the land tested is suitable for residential use.
2. The identity or title, address and telephone number of the responsible public school district authority who will furnish information relating to the identity and location of schools for the particular housing unit.
3. Each room or area of the particular housing unit to be purchased that is not insulated to retain the same degree of warmth as rooms designed for use as principal living areas;
4. Each room or area of the particular housing unit to be purchased that is constructed without waterproofing adequate to render such room or area suitable for use as a habitable living area;
5. The most recent official tax rate and estimate obtained from the officially responsible tax assessing authority and the identity or title, address and telephone number of such tax assessing authority;
6. A list containing each and every architectural design, construction feature, appurtenance, optional item or equipment or other characteristic or feature exhibited to the particular purchaser in connection with a model home sample or style offered for sale to such purchaser which characteristic or feature is not included in the model or style of respondents' housing unit offered for sale to such purchaser at the offered or advertised price;
7. A list containing each and every construction feature, appurtenance, optional item or equipment or other characteristic or feature exhibited to the particular purchaser in connection with a model home sample or style offered for sale to such purchaser which characteristic or feature cannot be included or duplicated in the particular housing unit offered for sale to such purchaser even upon the payment of an additional charge because of the style, size, location or any other reason associated with the land or the design of the particular housing unit offered;

8. A notice that plans and specifications for each home being offered for sale are available for inspection by prospective purchasers at respondents' sales offices during normal business hours; *provided*, that such specifications shall include a full description of the materials and components used by respondents in the construction of their on-site residential housing; and, *provided further*, that such description will be satisfied if it substantially includes the type of information contained in the "Description of Materials" disclosure statements required by the United States Federal Housing Administration (FHA Form 2005, as revised from time to time) or the United States Veterans Administration (VA Form 26-1852, as revised from time to time);

9. A notice that purchasers of respondents' housing may select any lending institution of their choice for the purpose of securing a mortgage and are not limited to the lending institution provided by respondents;

10. A statement setting forth respondents' arrangement for repairs and the satisfaction of warranties or in lieu thereof, a copy of the warranty required by Part III B of this order that will be furnished with the housing being offered for sale and a statement of the procedure for the settlement of disputes under such warranty.

VII

It is further ordered, That respondents shall secure a written acknowledgement from each purchaser of respondents' on-site residential housing which shall state the following information:

1. That the disclosures referred to in Paragraph V of this order were received.
2. The date on which the disclosures referred to in Paragraph V of this order were received.

VII

For the purpose of this Part VII, "past purchaser" shall mean the original purchaser of the unit of respondents' on-site residential housing who purchased such unit as new from respondents or from any of respondents' subsidiaries during the period commencing January 1, 1972 and ending on the day immediately preceding the effective date of this order, and who has continued to retain title to such unit as of the effective date of this order.

A. *It is further ordered*, That respondents, in connection with on-site residential housing units sold to past purchasers shall repair, replace, or pay past purchasers the reasonable cost of repair or

replacement of defects pursuant to all of the terms, conditions, definitions, approved standards, and exclusions contained in the Home Owners Warranty Corporation Limited Home Warranty Agreement (HOW warranty), which is attached hereto as Appendix A and incorporated by reference herein, when the following conditions exist:

1. In units where respondents transferred title to past purchasers on or after January 1, 1972:
Major construction defects;
2. In units where respondents transferred title to past purchasers within two (2) years prior to the effective date of this order (including the day immediately preceding the effective date of this order):

Major construction defects, or
defects in the plumbing, electrical, heating, or cooling systems due to non-compliance with the approved standards, except defects in appliances, fixtures and items of equipment;

provided, that nothing in this Part VII A shall serve to limit or change respondents' undertaking for remedial action for on-site residential housing units sold and warranted by respondents prior to the effective date of this order with a Home Owners Warranty Corporation's Home Warranty Agreement.

B. *It is further ordered*, That respondents, in connection with the remedial action required by Part VII A of this order, shall:

1. Require all claims by past purchasers for remedial action to be made by affidavit and in the form attached hereto as Appendix C and Appendix D, as applicable and incorporated by reference in this order, and addressed to the office of respondents as designated in the letter of notification required by Part VII C;
2. Process all claims made by past purchasers in the priority in which received at respondents' designated office;

provided, that respondents shall not be required to honor any claim from a past purchaser for remedial action made pursuant to subparagraph 1 hereinabove that is postmarked later than fifty (50) days from the date the letter of notification required by Part VII C of this order is mailed by respondents.

C. *It is further ordered*, That respondents shall, within sixty (60) days from the effective date of this order, mail by United States first-class mail to the address of each unit of on-site residential housing sold by respondents during the period January 1, 1972 to the day

immediately preceding the effective date of this order, a notification informing past purchasers of respondents' obligations under Part VII of this order, and shall include with such notification affidavit forms for the use of past purchasers in submitting claims for repairs; *provided*, that respondents shall not be required to mail such notification to the address of any unit of on-site residential housing where respondents: 1) prior to the effective date of this order furnished the past purchaser a Home Owners Warranty Corporation's Home Warranty Agreement, or 2) within one year prior to the day immediately preceding the effective date of this order furnished the express warranty attached hereto as Appendix B. Such notification shall also include a clear and conspicuous statement that: Claims from past purchasers for repairs must be postmarked within fifty (50) days from the date of such notification; and disputes concerning respondents' liability for defects may be settled at the past purchaser's option through the procedures described under Part IX 4 of this order. Respondents' notification to past purchasers shall be substantially identical in form and content to the letters of notification attached herewith as Appendix E and Appendix F which are incorporated by reference in this order.

D. *It is further ordered*, That respondents, in connection with claims for repairs received from past purchasers under Part VII A of this order, shall:

1. Respond in writing within forty-five (45) days from the receipt of each past purchaser's affidavit which asserts a claim for repairs. Such response shall include a scheduled date for the completion of the repairs which date shall not be unreasonably distant in the future; or, if any repair is not to be made, a full and complete explanation, including a technical explanation as applicable, of the reason or reasons why respondents will not make the requested repair; and shall be signed by a responsible official of Kaufman and Broad, Inc.;

2. Complete all repairs which respondents agree to make no later than the scheduled date referred to in subparagraph D1 above; *provided, however*, that in the event respondents are prevented from completing repairs by such date due to intervening circumstances beyond their control such as labor strike, supplier failure to deliver materials or unsuitable weather conditions, such repairs will be completed within a reasonable period of time not to exceed sixty (60) days from the date of the termination of the intervening circumstance and respondents shall notify each such past purchaser, in writing, of the reason or reasons for the delay.

E. *It is further ordered*, That respondents shall:

1. Within sixty (60) days from the effective date of this order submit to the Chicago Regional Office of the Federal Trade Commission the affidavit of an officer of respondent Kaufman and Broad Inc. which sets forth the date, manner and form by which past purchasers were notified by respondents as required under Part VII C of this order.

2. At six month intervals for a period of two years following the effective date of this order, submit the certified statement of an independent contractor who is acceptable to the Commission showing the specific manner and form in which respondents are complying and have complied with each provision of Part VII of this order.

VIII

For the purpose of this Part VIII, "past purchaser" shall mean the purchaser of a unit of respondents' on-site residential housing who, as of the effective date of this order, holds title to a unit covered by an unexpired term of respondents' one year express warranty, a copy of which is attached hereto as Appendix B.

It is further ordered, That respondents, in connection with on-site residential housing units sold to past purchasers, shall repair, replace, or pay past purchasers the reasonable cost of repair or replacement of defects covered by respondents' express warranty or when the following conditions exist:

- [a] Major construction defects;
- [b] defects in the plumbing, electrical, heating or cooling systems due to non-compliance with the approved standards;
- [c] other defects due to non-compliance with the approved standards; or
- [d] defects in appliances, fixtures and items of equipment due to non-compliance with the approved standards or for the term of the manufacturer's written warranty, if respondents have assigned the manufacturer's warranty to past purchasers, but not to exceed one year.

IX

It is further ordered, That respondents, in connection with respondents' obligations under Part VII and Part VIII of this order to take remedial action for defects, shall:

1. Make repairs in accordance with the approved standards;

2. Make repairs in a workmanlike manner, and with materials or components identical to, or of an equal or better grade or quality than, the materials or components used in the original construction of the particular on-site residential housing unit;
3. Offer to purchase each past purchaser's unit at the repurchase price if the defects cannot be remedied within a reasonable time;
4. In each instance where a dispute arises between respondents and a past purchaser relating to respondents' obligations to take remedial action for defects, and such dispute cannot be settled on a mutually agreeable basis within a reasonable period of time not to exceed forty (40) days from the date such dispute arose, then respondents shall offer in writing to each such past purchaser and at the same time as respondents finally reject the past purchaser's claim, to submit such dispute to dispute settlement procedures which are substantially identical to the dispute settlement procedures described on page 6 of the "HOW warranty" attached hereto as Appendix A and shall include with such offer a form such as the "Demand for Dispute Settlement" which appears as page 9 of such "HOW warranty"; *provided*, that no later than ten (10) business days excluding Saturdays, Sundays and legal holidays from the receipt of such written request for dispute settlement from past purchasers, respondents shall take action to initiate such dispute settlement proceedings.
5. Specifically perform in good faith and without unreasonable delay or make payments timely in each instance where the use of the procedures described in subparagraph 4 hereinabove results in a decision in favor of the past purchaser, subject, however, to such rights under law as either purchaser or respondents may have in connection with the dispute;
6. Preserve, for a period of no less than three (3) years from the effective date of this order the original document, or copies thereof as appropriate, and upon reasonable notice provide access to the Commission or its representatives for the purpose of inspection and copying, all documents, reports and records including all requests for repairs and correspondence relating to compliance with Part VII and Part VIII of this order.

X

It is further ordered, That the respondents shall maintain and, upon reasonable notice, provide access to the Commission or its representatives for the purpose of inspection and copying, for a period of three (3) years from the date of transfer of title by respondents of each unit of on-site residential housing:

1. All inspection reports made by local and other governmental authorities during the construction of respondents on-site residential housing pursuant to Paragraph II 7 of this order.
2. All complaints and requests for repairs made to respondents by purchasers of such on-site residential housing under the provisions of respondents' express warranties.
3. All correspondence and documents regarding complaints and requests for repairs made to respondents by purchasers of such on-site residential housing under the provisions of respondents' express warranties.
4. All written acknowledgements received from purchasers of respondents' on-site residential housing pursuant to Paragraph VI of this order.

XI

It is further ordered, That no provision of this order shall be construed in any way to annul, invalidate, repeal, terminate, modify or exempt respondents from complying with agreements, orders, rules or building codes or directives of any kind issued or required by any governmental agency, or any federal, state or local laws, or act as a defense to actions instituted by municipal, state or federal regulatory agencies; *provided*, that if federal law hereafter enacted or federal regulation hereafter promulgated requires respondents to furnish a warranty for on-site residential housing and such warranty is less restrictive than the corresponding provisions of the warranty required under Part III B of this order, and respondent files a motion with the Federal Trade Commission to modify this order to correspond to such less restrictive other warranty, the Federal Trade Commission shall rule upon respondents' motion within 120 days after such motion is filed or, if respondents' motion to modify is filed at least 60 days prior to the effective date of such law or regulation, then the Federal Trade Commission shall rule upon respondents' motion within 60 days after the effective date of such law or regulation and; *provided further*, that should the Federal Trade Commission fail to rule upon respondents' motion to modify within such time periods, then such law or regulation shall automatically be deemed to modify and replace the corresponding provision(s) of this order.

XII

It is further ordered, That respondents shall within thirty (30) days of the effective date of this order distribute a copy of this order to:

1. Each of respondents' operating divisions and subsidiaries in the United States.
2. All officers and employees of the respondent corporations and of the operating divisions and subsidiaries of all of respondents' corporations in the United States who are engaged or who may hereafter become engaged in the production, advertising, offering for sale or sale of respondents' on-site residential housing.
3. Each of the advertising agencies, interior designers, consulting firms or other independent contractors in the United States who are engaged or who may hereafter become engaged in the decorating of respondents' model home samples, or in the creation or placement of advertising in connection with the offering for sale of respondents' on-site residential housing.

It is further ordered. That respondents notify the Commission at least thirty (30) days prior to any proposed change in the corporate respondents such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of subsidiaries or any other change in the corporations which may affect compliance obligations arising out of the order.

It is further ordered. That the respondents herein shall within sixty (60) days after service upon them of this order, file with the Commission a report, in writing, setting forth in detail the manner and form in which they have complied with this order.

LIMITED WARRANTY HOME WARRANTY AGREEMENT

Ex. A-15

1. Builder's Name and Address: _____
2. Purchaser's Name: _____
3. Address of Home: _____
4. Purchase Price of Home: \$ _____
5. Commencement Date (just occupancy or final settlement, whichever occurs first): _____
6. Common Elements Commencement Date (condominiums only, date the first unit in the structure was occupied or its title transferred, whichever occurred first): _____
7. Local HOW Council (name, address and phone number): _____
8. National HOW Council: Home Owners Warranty Corporation, 15th & M Streets, N.W., Washington, D.C. 20005, and its successors and assigns.
9. Insurer: American Bankers Insurance Company of Florida and its successors and assigns.
10. Check this box if an Addendum is attached to this Home Warranty Agreement listing items of material or work which are excluded from this Agreement because they were not provided by the Builder and they are not included in the purchase price of home.
 The Purchaser and Builder have signed this Agreement on this _____ day of _____, 19__.

BUYER: _____ PURCHASER(S): _____

(Insert Name of Builder)

By: _____

CONSEQUENTIAL DAMAGES

Consequential damages are excluded. (Some states do not allow the exclusion or limitation of consequential damages so the above limitation or exclusion may not apply to you.)

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IMPORTANT NOTICE - PLEASE READ

- The Builder has arranged for insurance coverage, described on page 5 of this agreement. The insurance coverage will be officially extended to you by a "Certificate of Participation" (or insurance policies) which will be sent to you after you sign this agreement. If you do not receive your Certificate of Participation or policies within 6 weeks, contact your Local HOW Council.
- You and the Builder should sign this agreement at final settlement. This agreement should be executed only after substantial completion of the home by the Builder and inspection of the home by the Purchaser.
- Neither this agreement nor the insurance coverage cover failure of the Builder to complete construction.
- At the time you receive this agreement the Builder will give you a set of the Approved Standards which are part of this warranty and which the Builder is obligated to meet under this agreement.

LIMITED WARRANTY

Identity of Warrantor. The Builder named on page 1 is the warrantor under this warranty.

To Whom Given. This warranty is extended to you as Purchaser (the first owner to occupy the home as a residence for yourself or your family) and automatically to any subsequent owners of the home and any mortgage lender who takes possession of the home (see exclusion during non-residential use, page 5).

Coverage During First Year. For one year, beginning on the commencement date filled in on page 1, the Builder warrants that the home will be free from defects due to noncompliance with the Approved Standards and from major construction defects.

A "major construction defect" is actual damage to the load-bearing portion of the home (including damage due to subsidence, expansion or lateral movement of soil from causes other than flood or earthquake) which affects its load-bearing function and which vitally affects (or is imminently likely to produce a vital effect on) the use of the home for residential purposes.

Coverage For Up to One Year. The Builder warrants that all appliances, fixtures and items of equipment will be free from defects due to noncompliance with the Approved Standards for one year or for the term of the manufacturer's written warranty (if a manufacturer's written warranty is assigned to you by the Builder), whichever is less.

Coverage During Second Year. During the second year after the commencement date, the Builder continues to warrant that the home will be free from major construction defects and that the plumbing, electrical, heating, and cooling systems will perform according to the Approved Standards, unless their failure is the result of a defect in an appliance, fixture, or item of equipment. (See the Approved Standards for definitions).

Coverage of Common Elements in Condominiums. Common elements serving condominium units are also covered by this warranty. "Common elements" mean any structural portion of a condominium structure (including, but not limited to, any passageways, rooms or other spaces) which are provided for the common use of the residents of the structure. It also means part of a mechanical, electrical, heating, cooling or plumbing system serving two or more condominium units and outbuildings containing parts of such a system.

Common elements are covered for the same length of time as similar items which are part of an individual unit, but the beginning date of the warranty period on common elements is determined by the common elements commencement date on page 1.

Builder's Performance. If a defect occurs in an item which is covered by this warranty, the Builder will repair, replace, or pay you the reasonable cost of repairing or replacing the defective item. The Builder's total liability under this warranty is limited to the purchase price of the home filled in on page 1. The choice among repair, replacement or payment is the Builder's. Steps taken by the Builder to correct defects shall not act to extend the terms of this warranty.

Other Insurance. In the event the Builder repairs or replaces, or pays the cost of repairing or replacing, any defect covered by this warranty for which you are covered by other insurance, you must, upon request by the Builder, assign the proceeds of such insurance to the Builder to the extent of the cost to the Builder of such repair or replacement.

Other Rights. This warranty gives you specific legal rights. You may also have other legal rights which vary from state to state. This agreement does not affect any rights of you or the Builder under any other express or implied warranty.

INSURANCE COVERAGE

Assignment of Insurance Coverage. The Builder hereby assigns the insurance coverage to you, but your insurance protection becomes effective only when you receive your Certificate of Participation or policies. Once you receive your Certificate or policies your insurance will cover any defects back to the time of the commencement date(s) filled in on page 1.

Scope of Insurance Coverage. The insurer, subject to a one time \$50,000 deductible, will meet all the Builder's obligations under this warranty as set forth in this agreement if, after completion of arbitration, the Builder for any reason fails to meet them. The insurer will directly insure against major construction defects for an additional eight years (beginning two years after, and ending ten years after, the appropriate commencement date). The total liability of the insurer during the ten years covered by this agreement is limited to the purchase price filled in on page 1.

Expenses. The insurance coverage includes actual, reasonable shelter expenses during repairs.

EXCLUSIONS

The following are not covered by either the warranty or the insurance coverage:

1. Defects in outbuildings (except that outbuildings which contain the plumbing, electrical, heating, or cooling systems serving the home are covered), swimming pools and other recreational facilities; driveways; walkways; patios; boundary walls; retaining walls which are not necessary for the home's structural stability; fences; landscaping (including sodding, seeding, shrubs, trees and plantings); off-site improvements; or any other improvements not a part of the home itself.
2. Bodily injury, damage to personal property, or damage to real property which is not part of the home which was included in the purchase price filled in on page 1.
3. Any damage to the extent it is caused or made worse by:
 - Negligence, improper maintenance or improper operation by anyone other than the Builder or his employees, agents or subcontractors; or
 - failure of anyone other than the Builder or his employees, agents or subcontractors to comply with the warranty requirements of manufacturers of appliances, equipment or fixtures; or
 - failure to give notice to the Builder of any defect within a reasonable time; or
 - changes of the grading of the ground by anyone other than the Builder, or his employees, agents or subcontractors.
4. Any defect in, or caused by, materials or work (including, but not limited to, items shown on any attached "Addendum to Home Warranty Agreement") supplied by anyone other than the Builder, or his employees, agents or subcontractors.
5. Normal wear and tear or normal deterioration.
6. Accidental loss or damage from causes such as, but not limited to: fire, explosion, smoke, water escape, changes which are not reasonably foreseeable in the level of the underground water table, glass breakage, wind storm, hail, lightning, falling trees, aircraft, vehicles, flood and earthquake. However, soil movement (from causes other than flood or earthquake) is not excluded.
7. Insect damage.
8. Any loss or damage which arises while the home is being used primarily for non-residential purposes.
9. Any defect which does not result in actual loss or damage.

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HOW TO MAKE A WARRANTY CLAIM

Submission of Claims to Builder. If you have a complaint, you should first send a clear and specific written complaint to the Builder. You may also wish to provide the Local HOW Council with a copy of any such complaint for its information.

Time of Notice of Claim. Written notice of a defect in any item under the warranty must be received by the Builder (or, at your option, the Local HOW Council) within 30 days after the warranty on that item expires.

Demand for Dispute Settlement. If you and the Builder disagree concerning the warranty obligations under this agreement (or he does not respond to your complaint), you may request informal dispute settlement concerning your claim by mailing the "Demand for Dispute Settlement" form (see back page) to the Local HOW Council. You may also request informal dispute settlement by submitting a letter specifically requesting dispute settlement and identifying yourself, the Builder, the home, the defects claimed and the remedies sought.

Conciliation and Arbitration. HOW provides for conciliation and for nonbinding arbitration conducted by the American Arbitration Association under its Expedited Home Construction Arbitration Rules (or by another approved organization). No fee or deposit is required. No arbitration decision may call for performance beyond the scope of the warranty provided in this agreement.

After it receives your "Demand for Dispute Settlement" form, the Local HOW Council will assign a conciliator, who will attempt to work out a voluntary conciliation agreement between you and the Builder as to the settlement of your claim. After you have attempted conciliation, you may demand arbitration of any unresolved warranty dispute between you and the Builder.

You are not required to submit your claim to dispute settlement unless you wish to do so. However, under Public Law 93-637 you may not file suit against the Builder until you have submitted your claim and a decision has been reached. Suit may be permitted under other state or federal laws and you are only required to wait for a decision for 40 days (47 if you do not contact the Builder before filing a claim) after which time you may sue. In addition, the insurer is not required to pay you under the insurance coverage unless you complete arbitration.

Acceptance of Decision. If you decide to accept the decision you must sign and return to the Local HOW Council, within 45 days after the date of the decision, an "Acceptance of Decision" form by which you agree to accept the arbitrator's decision in full satisfaction of your claim. The Builder will then be bound to perform as required in the decision. The Builder is not responsible for damage caused or made worse by your delay in accepting the decision.

The time allowed for the decision for the Builder's performance will be measured from the date the Local HOW Council receives your "Acceptance of Decision" form and will be extended automatically if weather, strikes, or other matters not within the Builder's control interfere with his performance.

Rejection of Decision. After you receive the decision, you must decide whether or not to accept it. You may reject the decision in which case it has no legal effect on you.

If you do not accept the decision, the Builder is under no obligation to perform in accordance with the decision.

Condominium Claims. If the claim involves a common element in a condominium, it may be made only by an authorized representative of the condominium association.

Other Claimants. Any other person to whom the warranty is extended should submit and pursue any claims that he may have by the same procedures.

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HOW TO MAKE AN INSURANCE CLAIM

If a claim arises under the warranty and the Builder cannot or will not cooperate in HOW dispute settlement procedures, the Local HOW Council will contact the insurer and the insurer will (if it disputes the claim) take the place of the Builder in the dispute settlement procedures and perform as directed by the decision.

If the Builder cooperates in HOW dispute settlement procedures, but fails to perform as directed within the time specified, you should notify your Local HOW Council, which will arrange with the insurer for performance of the warranty obligations under the decision.

If a claim arises with respect to the direct insurance against major construction defects during the third through tenth years after the commencement date(s) of this agreement, you should notify your Local HOW Council, which will arrange with the insurer to investigate the claim. If the insurer disputes the claim, you may request arbitration. The insurer has agreed to be bound by the arbitrator's decision, subject to the following paragraph.

Prerequisite to Payment by Insurer. The insurer will not pay a claim until you have completed arbitration and accepted the decision (unless the insurer chooses not to dispute the claim), and have signed and delivered a release of all rights you may have against the insurer arising out of the specific claim, and, in the case of a claim arising under the first two years' coverage, until you have signed and delivered to your Local HOW Council an assignment to the insurer of your claim against the Builder. HOW Not a Warranty or an Insurer. The National HOW Council and the Local HOW Council are not warrantors or insurers. Only the insurer named on page 1 is responsible for paying claims under the insurance coverage.

MISCELLANEOUS

Representations by Builder. The Builder hereby represents to you that he is registered with the Local HOW Council and the home has been initially enrolled with the Local HOW Council; that he is the person, corporation, partnership or other entity which conveys title to the home to you or by contract builds the home on your land or land owned by a third party, and he is, therefore, entitled to sign this agreement; that the home qualifies for the insurance coverage; and that he knows of no reason why the Certificate of Participation (or insurance policies) should not be issued to you.

Assignment of Manufacturers' Warranties. The Builder hereby assigns to you all manufacturers' warranties on items he has provided as part of the home.

Independence from Purchase Contract. This agreement is independent of the contract between you and the Builder for the construction of the home and/or its sale to you. Contract disputes which are not warranty disputes are not eligible for HOW arbitration, for the insurance coverage or for other settlement under this agreement. Nothing contained in that contract or any other contract between you and the Builder can restrict or override the provisions of this agreement. You and the Builder may contract for additional standards or requirements, but only the Approved Standards are applicable under this agreement and the Certificate of Participation (or insurance policies).

Notices. All notices to the Builder, to you, to your Local HOW Council or to the National HOW Council must be sent by mail, postage prepaid, to the recipient at the address shown for the recipient on page 1, or to whatever other address the recipient may designate in writing.

General Provisions. Should any provision of this agreement be deemed by a court of competent jurisdiction to be unenforceable, that determination will not affect the enforceability of the remaining provisions. This agreement is to be binding upon the parties, their heirs, executors, administrators, successors and assigns. Use of one gender in this agreement includes all other genders; and use of the plural includes the singular, all as may be appropriate. This agreement is to be covered by and construed in accordance with the laws of the state in which the home is located. Amendments. This agreement cannot be changed or altered in any way.

DEMAND FOR DISPUTE SETTLEMENT

TO THE OWNER: Complete the following and mail to the Local HOW Council at the address shown on the front page of your Home Warranty Agreement. If some of the requested information is unknown to you, please indicate.

- 1. Name of Owner(s):
2. Address:
3. Home Warranty Agreement Number:
4. Date of Home Warranty Agreement:
5. Name of Builder:
6. Describe Defects:

Ex. A-18

(Use additional sheets, if necessary)

7. Remedy Sought:

(Use additional sheets, if necessary)

The undersigned owner(s) of the home covered by the Home Warranty Agreement noted above hereby demands that the Local HOW Council undertake to arrange for conciliation of his (their) dispute with the above named Builder. The owner(s) understands that at any time after conciliation has been attempted, he (they) can end conciliation and demand that arbitration be initiated.

Signature

Date

Signature

Date

Do Not Write Below This Line

TO THE BUILDER: You are hereby notified that the above Demand for Dispute Settlement has been filed with Home Owners Warranty Council of the Local HOW Council. The time and location of the hearing will be arranged by the conciliator appointed by the Local HOW Council.

Approved Standards

ATTACH TO EVERY HOME WARRANTY AGREEMENT



Introduction

The approved standards are the required standards for construction of all Homes built under the Home Owners Warranty Program. Compliance with these standards is the basis for acceptance of the Home under the Warranty Program and issuance of the Certificate of Participation in the Home Warranty Insurance Policy.

These standards consist of two parts:

- (a) Those standards regulating the structural, mechanical-plumbing, and electrical systems which apply during the applicable Initial Warranty Period, and
- (b) Quality Standards which establish minimum performance standards relating to specific deficiencies which apply during the applicable Initial Warranty Period.

If there is any conflict between (a) and (b) above, the higher standard shall govern.

Builder responsibility under these standards does not extend to items which have been subject to owner neglect, modification or abnormal use.

Structural, Mechanical-Plumbing, and Electrical Standards

I. The structural, mechanical-plumbing, and electrical standards shall be those contained in the Building Code, Mechanical-Plumbing Code and Electrical Code regulating that respective construction in the area. Inspection by the governmental jurisdiction will provide evidence of compliance.

II. In the case where no Codes exist or where the existing codes are found not completely acceptable, one of the following will apply:

(A) The Minimum Property Standards of the U.S. Department of Housing and Urban Development with inspection by HUD, VA, or FHA personnel.

(B) A combination of the following Model Codes to cover building, mechanical-plumbing, and electrical:

BUILDING CODES

- Boca Basic Building Code
- Building Official & Code Administrators International, Inc.
- National Building Code
- American Insurance Association
- Southern Standard Building Code
- Southern Building Code Congress

Uniform Building Code International Conference of Building Officials

One And Two Family Dwelling Code Under the National Recognized Model Codes

MECHANICAL CODES

- Uniform Building Code, Volume II, Mechanical
- International Conference of Building Officials

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Boca Basic Mechanical Code Building Official & Code Administrators International, Inc.

Southern Standard Mechanical Code Southern Building Code Congress

PLUMBING CODES

- Southern Standard Plumbing Code Southern Building Code Congress
- Uniform Plumbing Code International Association of Plumbing & Mechanical Officials
- Boca Plumbing Code Building Official & Code Administrators International, Inc.

ELECTRICAL CODES

- Electrical Code For One And Two Family Dwellings National Fire Protection Association
- National Electrical Code National Fire Protection Association
- Inspection will be provided by inspectors under the control of the Local Council.

(C) The codes of a nearby jurisdiction. Inspection will be made either by persons under the control of the Local Council or by arrangement with the nearby jurisdiction.

SYSTEMS AND APPLIANCES, FIXTURES AND EQUIPMENT

For the purpose of the Home Warranty Agreement, the Certificate of Participation and these Approved Standards, the items below have the following meaning:

1. Appliances, Fixtures and Equipment.

Appliances, Fixtures and Equipment (including their fittings, attachments, controls and appurtenances) shall include, but not be limited to, furnaces, humidifiers, air purifiers, air handling

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Quality Standards

equipment, ventilating fans, air conditioning condensers and compressors, water heaters, pumps, stoves, refrigerators, garbage disposals, compactors, dishwashers, automatic garage door openers, washers and dryers, bathtubs, sinks, commodes, faucets and fittings, light fixtures, light switches, convenience outlets, circuit breakers, thermostats and controls.

The Initial Warranty Period for Appliances, Attachments and Fixtures (including their fittings, attachments, controls and appurtenances) for which there is no written manufacturer's warranty, shall be one year.

II. Systems.

Systems (exclusive of Appliances, Fixtures and Equipment) mean the following:

(A) Plumbing System—all pipes and their fittings, including septic tanks and their pipe fields.

(B) Electrical System—all wiring and connections, including electrical boxes.

(C) Heating and Cooling Systems—all duct work, steam and water pipes, refrigerant lines, registers, convectors and dampers.

The Quality Standards are intended to specify the minimum performance standards for construction of Homes and to set forth the basis for determining the validity of all home buyer complaints related to defective materials and workmanship during the applicable Initial Warranty Period under the Home Owners Warranty Program.

Only the most frequent defects of concern to the home buyer have been enumerated in the Quality Standards set forth in the pages that follow. If a specific defect has not been enumerated, this indicates only that a performance standard for such defect has not yet been adopted by the Local Council and approved by the National Council.

To the extent that minimum performance standards for construction have not been enumerated in these Quality Standards, Builders shall construct Homes in accordance with good industry practice which assures quality of materials and workmanship. Likewise, the validity of any home buyer complaints for defects for which a standard has not been enumerated herein shall be determined on the basis of good industry practice which assures quality of materials and workmanship, and any conciliation or arbitration of such complaints shall be conducted accordingly.

The following Quality Standards are expressed in terms of performance standards. Non-compliance with the performance standard calls for corrective action by the Builder. The format is designed for easy comprehension by both layman and Builder as follows:

1. Possible Deficiency—a brief statement in simple terms of the problems to be considered.

2. Performance Standard—a performance standard relating to a specific deficiency.

3. Builder Responsibility—a statement of the corrective action required of the Builder to repair the deficiency or any other damage resulting from making the required repair.

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2. SITE WORK

02220 EXCAVATING AND BACKFILLING

Possible Deficiency: Settling of ground around foundation, utility trenches or other filled areas.

Performance Standard: Settling of ground around utility trenches or other filled areas, maximum allowable 6 inches. Settling of backfill around foundation shall not interfere with water drainage away from the house.

Builder Responsibility: Upon request by the buyer, the builder shall fill excessively settled areas one time only during the first year of warranty. The owner shall be responsible for any grass, shrubs or other landscaping affected by placement of such fill.

02500 SITE DRAINAGE

Possible Deficiency: Improper drainage of the site.

Performance Standard: The necessary grades and swales should be established to insure proper drainage away from the house. No standing water should remain in the yard 24 hours after a rain, except swales which may drain as long as 48 hours after a rain, or sump pump discharge. No grading determination shall be made while there is frost in the ground.

Builder Responsibility: The builder is responsible only for establishing the proper grades and swales. The owner is responsible for maintaining such grades, and swales once they have been properly established by the builder.

3. CONCRETE

03300 CAST-IN-PLACE CONCRETE

(Non-Structural)
Possible Deficiency: Basement or foundation wall cracks.

Performance Standard: Non-Structural cracks are not unusual in concrete foundation walls. Such cracks greater than 1/4 inch in width are considered excessive.

Builder Responsibility: The builder shall repair non-structural cracks in excess of 1/4 inch by surface patching. These repairs should be made toward the end of the first year of ownership to permit normal settling of the home to stabilize.

Possible Deficiency: Excessive powdering or chalking of concrete surface.

Performance Standard: Powdering or chalking of concrete surfaces is not permissible, but should not be confused with surface dust.

Builder Responsibility: The builder shall take whatever corrective action is necessary to repair or resurface defective areas.

Possible Deficiency: Standing water on stoops, outdoor stoops and steps.

Builder Responsibility: The builder shall take corrective action to assure proper drainage of stoops and steps.

Possible Deficiency: Cracks in concrete slab-on-grade floors.

Performance Standard: Cracks which significantly impair the appearance or performance of the finish flooring material shall not be acceptable.

Builder Responsibility: The builder shall repair cracks as necessary so as not to be readily apparent when the finish flooring material is in place.

4. MASONRY

04200 UNIT MASONRY (Non-Structural)

Possible Deficiency: Basement or foundations wall cracks.

Performance Standard: Small non-structural cracks are not unusual in mortar joints of masonry foundation walls. Such cracks greater than 1/4 inch in width are considered excessive.

Builder Responsibility: The builder shall repair non-structural cracks in excess of 1/4 inch by surface patching. These repairs should be made toward the end of the first year of ownership to permit normal settling of the home to stabilize.

Possible Deficiency: Cracks in masonry walls or veneer.

Performance Standard: Small cracks are common in mortar joints of masonry construction. Cracks greater than 1/4 inch in width are considered excessive.

Builder Responsibility: Repair cracks in excess of 1/4 inch by surface pointing. These repairs

should be made toward the end of the warranty period to permit normal settling of the home to stabilize.

6. WOOD AND PLASTICS

05100 ROUGH CARPENTRY

Possible Deficiency: Floors squeak.

Performance Standard: Should not be objectionable to the owner within reasonable repair capability.

Builder Responsibility: Local problem and correct.

Possible Deficiency: Uneven floors.

Performance Standard: Floors should not be more than 1/4 inch out of level within any 32 inch measurement. Floor slope within any room shall not exceed 1/240 of the room width.

Builder Responsibility: Builder to correct or repair to meet the above standard.

05200 FINISH CARPENTRY--INTERIOR

Possible Deficiency: Quality of interior trim workmanship.

Performance Standard: Joints in moldings or joints between moldings and adjacent surfaces should not result in cracks exceeding 1/4 inch in width.

Builder Responsibility: Repair defective joints.

FINISH CARPENTRY--EXTERIOR

Possible Deficiency: Quality of exterior trim workmanship.

Performance Standard: Joints between exterior trim elements, including siding, should not result in open cracks in excess of 1/4 inch. In all cases the exterior trim and siding shall be capable of performing its function to exclude the elements.

Builder Responsibility: Builder to repair open cracks.

7. THERMAL AND MOISTURE PROTECTION

07100 WATERPROOFING

Possible Deficiency: Leaks in basement or foundation.

Performance Standard: No leaks resulting in actual trickling of water are acceptable. However,

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leaks caused by improper landscaping installed by owner, or failure of owner to maintain proper grades are not covered by the warranty. Dampness of the walls is often common to new construction and is not considered a deficiency.

Builder Responsibility: The builder shall take such action as necessary to correct base-leaks except where the cause is determined to result from owner negligence.

07300 SHINGLES AND ROOFING TILES

Performance Standard: Roofs or flashing leaks.

Possible Deficiency: Floor or flashing should not leak under normally anticipated conditions.

Builder Responsibility: The builder shall correct or repair any verified roof leaks.

07460 CLADDING/SIDING

See 05200.

07500 MEMBRANE ROOFING

See 07300.

07600 FLASHING AND SHEET METAL

See 07300.

07900 SEALANTS

Possible Deficiency: Leaks in exterior walls due to inadequate caulking.

Performance Standard: Joints and cracks in exterior wall surfaces and around openings should be properly caulked to exclude the entry of water. Properly installed caulking will shrink and must be maintained by the homeowner within the life of the home after the first year of warranty.

Builder Responsibility: Builder shall repair and/or caulk joints or cracks in exterior wall surfaces as required to correct deficiency.

8. DOORS AND WINDOWS

08200 WOOD DOORS

Possible Deficiency: Warpage of interior passage and closet doors.

Performance Standard: Interior doors (full opening) should not warp to exceed National Woodwork Manufacturers Association standards (1/4 inch).

Builder Responsibility: Correct or replace and refinish defective doors to match existing doors as nearly as possible.

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Possible Deficiency: Warpage of exterior doors.

Performance Standard: Exterior wood doors should not warp to exceed National Woodwork Manufacturers Association Standards (1/2 inch).

Builder Responsibility: Correct or replace and refinish inoperable or poorly fitting doors.

08300 GARAGE DOORS

Possible Deficiency: Garage door fails to operate properly.

Performance Standard: Garage doors should operate properly under normal conditions of use.

Builder Responsibility: The builder shall correct or adjust garage doors as required.

08500 METAL WINDOWS

Possible Deficiency: Malfunction of windows.

Performance Standard: Windows should operate with reasonable ease as intended.

Builder Responsibility: Builder to correct or repair as required.

08600 WOOD AND PLASTIC WINDOWS

See 08500.

98730 WEATHER STRIPPING AND SEALS

Possible Deficiency: Drafts around doors and windows.

Performance Standard: Some infiltration is normally noticeable around doors and windows, especially during high winds. Excessive infiltration resulting from open cracks, poorly fitted doors or windows, or poorly fitted weather stripping is not permissible.

Builder Responsibility: The builder shall adjust or correct open cracks, poorly fitted windows or doors, or poorly fitted weather stripping.

9. FINISHES

09100 LATH AND PLASTER

Possible Deficiency: Cracks in stucco wall surfaces.

Performance Standard: Hairline cracks are not unusual in stucco walls surfaces. Cracks greater than 1/8 inch in width are considered excessive.

Builder Responsibility: The builder shall repair cracks exceeding 1/8 inch as required.

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Decision and Order

09100 LATH AND PLASTER and

09250 GYPSUM WALLBOARD

Possible Deficiency: Defects caused by poor workmanship such as blisters in tape, excess compound in joints, cracked corner beads, or trowel marks.

Performance Standard: Slight defects such as nail pops, seam lines and cracks are common in plaster and gypsum wallboard installations. However, obvious defects of poor workmanship resulting in blisters in tape or excess compound in joints, trowel marks and cracked corner beads are not acceptable.

Builder Responsibility: Correct such defects to acceptable tolerance.

09310 CERAMIC TILE

Possible Deficiency: Ceramic tile cracks or becomes loose.

Performance Standard: Ceramic tile should not crack or become loose.

Builder Responsibility: The builder shall replace any cracked tiles and resecure any loose tiles unless the defects were caused by the owner's negligence.

Possible Deficiency: Cracks appear in grouting of ceramic tile joints or at junctions with other material such as a bathtub.

Performance Standard: Cracks in grouting of ceramic tile joints are commonly due to normal shrinkage conditions. Regrouting of these cracks are a maintenance responsibility of the homeowner within the life of the home after the first year of warranty.

Builder Responsibility: Will repair grouting as necessary one time within the first year of warranty.

09650 RESILIENT FLOORING

Possible Deficiency: Nail pops appear on the surface of resilient flooring.

Performance Standard: Readily apparent nail pops should be repaired.

Builder Responsibility: The builder shall repair or replace resilient floor covering with similar material.

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erial. Builder is not responsible for discoloring patterns or color variation in the floor covering.

Possible Deficiency: Depressions or ridges appear in the resilient flooring due to subfloor irregularities.

Performance Standard: Readily apparent depressions or ridges exceeding 1/8 inch should be repaired. The ridge or depression measurement is taken as the gap created at one end of a six-inch straight edge placed over the depression or ridge with three inches on one side of the defect held tightly to the floor.

Builder Responsibility: The builder shall take corrective action, as necessary to bring the defect within acceptable tolerances so that it is not readily visible. Builder is not responsible for discontinued patterns or color variations in floor covering.

Possible Deficiency: Resilient flooring loses adhesion.

Performance Standard: Resilient flooring should not lift, bubble, or become unglued.

Builder Responsibility: The builder shall repair or replace resilient flooring as required. The builder shall not be responsible for discontinued patterns or color variation of floor covering.

Possible Deficiency: Seams or shrinkage gaps show at resilient flooring joints.

Performance Standard: Gaps shall not exceed 1/8 inch in width in resilient floor covering joints. Where dissimilar materials abut, a gap not to exceed 1/4 inch is permissible.

Builder Responsibility: The builder shall take action as necessary to correct the problem.

09900 PAINTING

Possible Deficiency: Exterior paint or stain peels or deteriorates.

Performance Standard: Exterior paints or stains should not fall during the first year of ownership.

Builder Responsibility: Builder shall properly prepare and refinish affected areas, matching color as closely as possible. Where finish deterioration affects the majority of the wall or area, the whole area should be refinished. The warranty on the

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newly repainted surfaces will not extend beyond the original warranty period.

Possible Deficiency: Painting required as corollary repair because of other work.

Performance Standard: Necessary repairs required under this warranty should be refinshed to match surrounding areas as closely as possible.

Builder Responsibility: Refinish repaired areas as indicated.

Possible Deficiency: Deterioration of varnish or lacquer finishes.

Performance Standard: Natural finishes on interior woodwork should not deteriorate during the first year of ownership. However, varnish type finishes used on the exterior will deteriorate rapidly and are not covered by the warranty.

Builder Responsibility: Retouch affected areas of natural finished interior woodwork, matching the color as closely as possible.

Possible Deficiency: Interior paint quality.

Performance Standard: Interior paint shall be applied in a manner sufficient to visually cover wall, ceiling and trim surfaces where specified.

Builder Responsibility: The builder shall retouch wall, ceiling or trim surfaces where inadequate paint has been applied to cover original surfaces.

10. SPECIALTIES

10200 LOUVERS AND VENTS

Possible Deficiency: Inadequate ventilation of attics and crawl spaces.

Performance Standard: Attic spaces shall have a natural ventilation area equal to (a) 1/150 of floor area or (b) 1/300 of floor area when an accepted vapor barrier is installed on the warm side of the ceiling, or when at least 50" of the required ventilation is provided at least 3 feet above the ceiling. Crawl spaces shall have a natural ventilation area equal to (a) 1/150 of floor area or (b) 1/1500 of the floor area when the surface is covered with an accepted vapor barrier.

Builder Responsibility: The builder shall provide for adequate ventilation.

10300 FIREPLACES

Possible Deficiency: Fireplace or chimney does not draw properly.

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Performance Standard: A properly designed and constructed fireplace and chimney structure can cause temporary negative draft situations. Similar negative draft situations can also be caused by obstructions such as large branches of trees too close to the chimney.

Builder Responsibility: Determine the cause of malfunction, and correct as required if the problem is one of design and construction.

11. EQUIPMENT

11500 RESIDENTIAL EQUIPMENT

Possible Deficiency: Kitchen cabinet malfunctions.

Acceptable Tolerance: Kitchen cabinet doors, drawers and other operating parts should function properly.

Builder Responsibility: Repair or replace operating parts as required.

Possible Deficiency: Surface cracks, delaminations and chips in high pressure laminates—Vanity and Kitchen cabinet countertops.

Performance Standard: Countertops fabricated with high pressure laminate coverings should not delaminate or have chips or surface cracks.

Builder Responsibility: Repair or replace as the condition requires.

15. MECHANICAL

15180 INSULATION (Pipe Covering)

Possible Deficiency: Plumbing pipes freeze.

Performance Standard: Drain, waste and vent or water pipes should be adequately insulated to prevent freezing during normally anticipated cold weather.

Builder Responsibility: The builder shall correct the condition responsible for pipes freezing, and repair piping damaged by freezing.

15360 SEPTIC TANK SYSTEMS

Possible Deficiency: Septic system fails to operate properly.

Performance Standard: Septic system should be capable of properly handling normal flow of household effluent.

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Builder Responsibility: Builder shall take corrective action as required. Builder shall not be responsible for malfunctions which occur through owner negligence or abuse.

15400 PLUMBING

Possible Deficiency: Leakage from any piping. **Performance Standard:** No leaks of any kind should exist in any soil, waste, vent or water pipe. Condensation on piping does not constitute leakage, and is not covered.

Builder Responsibility: Builder shall make necessary repairs to eliminate leakage.

Possible Deficiency: Faucet or valve leak.

Performance Standard: No valve or faucet should leak due to defects in material or workmanship. However, leakage caused by worn or defective washers are considered a homeowner maintenance item.

Builder Responsibility: Builder shall repair or replace the leaking faucet or valve unless leakage is due to a defective washer.

Possible Deficiency: Defective plumbing fixtures, appliances or trim fittings.

Performance Standard: Fixtures, appliances or fittings should be judged according to their manufacturing standards.

Builder Responsibility: The builder shall replace any fixture or fitting which is outside of acceptable standards as defined by the manufacturer.

Possible Deficiency: Stopped up sewers, fixtures, and drains.

Performance Standard: Sewers, fixtures and drains should operate properly.

Builder Responsibility: The builder is not responsible for sewers, fixtures and drains which are clogged through the owner's negligence. If a problem occurs, the owner should consult the builder for a proper course of action. Where defective construction is shown to be the cause, the builder shall assume the cost of the repair; where owner negligence is shown to be the cause, the owner shall assume all repair costs.

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15500 POWER OR HEAT GENERATION

Possible Deficiency: Inadequate heat.

Performance Standard: Heating system should be capable of producing an inside temperature of 70° F as measured in the center of each room at a height of 5 feet above the floor, under local outdoor winter design conditions as specified in ASHRAE handbook.

Builder Responsibility: Builder shall correct the heating system as required to provide the required temperatures. However, the owner shall be responsible for balancing dampers, registers and other minor adjustments.

15550 REFRIGERATION

Possible Deficiency: Inadequate cooling.

Performance Standard: Where air-conditioning is provided, the cooling system shall be capable of maintaining a temperature of 78° F as measured in the center of each room at a height of 5 feet above the floor, under local outdoor summer design conditions as specified in ASHRAE handbook.

Builder Responsibility: Correct cooling system to meet the above temperature conditions.

15700 LIQUID HEAT TRANSFER

See 15600.

15800 AIR DISTRIBUTION

See 15600 and 15650.

15900 CONTROLS AND INSTRUMENTATION

See 15600 and 15650.

16. ELECTRICAL

16120 CONDUCTORS

Possible Deficiency: Malfunction of electrical switches, fixtures or outlets.

Performance Standard: All switches, fixtures and outlets should operate as intended.

Builder Responsibility: Repair or replace defective wiring, switches, fixtures and outlets.

16140 SWITCHES AND RECEPTACLES

See 16120.

16500 LIGHTING

See 16120.

YOUR NEW HOME WARRANTY

TO: _____
COMMUNITY: _____
STREET ADDRESS: _____

LOT NUMBER: _____

We want to have satisfied customers. It's not only in your best interests but ours, as well. This Home Warranty is your assurance.

Like any warranty, this one specifies limits for responsibility and conditions under which it is valid or applicable. WE STRONGLY URGES YOU

GENERAL ONE-YEAR WARRANTY AND LIMITATIONS

KAUFMAN AND BROAD, INC. hereby guarantees THE HOME against defects described below, provided that such defects are brought to KAUFMAN AND BROAD's attention within the one-year warranty period starting with the date of possession or closing of title of the original purchaser, whenever occurs first, or when the defect is discovered. Defects specified herein (all warranty periods in the paragraphs below shall commence as indicated above.)

These guarantees, designed to protect THE HOMEOWNER from the possibility of heavy construction or defects caused by normal wear and tear or by acts or natural disasters beyond the control of KAUFMAN AND BROAD, shall not apply to any damage caused by any water-related defect. Nothing contained in this warranty shall be determined to make KAUFMAN AND BROAD an insurer of the personal property of THE HOMEOWNER or of any third party.

The period covered by this warranty can be extended only by a statement in writing signed by an authorized em-

ployee of Kaufman and Broad. No other action on the part of Kaufman and Broad or its employees or agents, including any steps taken to correct defects, shall be deemed an extension of such period.

KAUFMAN AND BROAD also reserves the right to choose materials and methods used to make repairs.

This warranty is applicable to all items mentioned herein — if the noted defects are reported in writing before the end of the one-year warranty period. KAUFMAN AND BROAD will not apply to any items covered in this warranty altered by any person or persons other than KAUFMAN AND BROAD's employees or agents. Any items so altered are excluded from warranty coverage, and KAUFMAN AND BROAD will not be liable or responsible for repairs performed by others nor for its cost.

SERVICE REQUEST ADDRESS:

[Redacted box for service request address]

PLEASE READ CAREFULLY THE SCOPE AND TERMS OF THE STRUCTURAL COMPONENTS

ROOFS
Keeping any gutters and downspouts free of leaves and debris which might cause excessive overflow and keeping all roof areas free of excessive accumulations of snow and ice are among the responsibilities of KAUFMAN AND BROAD. KAUFMAN AND BROAD guarantees the roof to be free from leaks for a period of one year, except where such defects are caused by acts or natural disasters beyond its control or except where the HOMEOWNER has failed to diligently discharge his maintenance responsibilities. However, this guarantee does not cover damage caused by THE HOMEOWNER's negligence in using the superstructure or appurtenance to it which results in damage to the roof.

HEATING
KAUFMAN AND BROAD guarantees proper installation and operation of the heating system for a period of one year as follows: That the heating system has been installed in accordance with good heating practice and has been designed in accordance with appropriate engineering heat-loss factors; to maintain a 70 degree temperature inside the home are at outside wind speeds and temperatures are 41 degrees and below; and that the American Society of Heating, Refrigerating and Air Conditioning Engineers for the location involved. Temperatures are to be measured by readings taken with a verified thermometer in the approximate middle of each room about three feet above the floor. This guarantee does not include the system or any its parts which become defective through failure or alteration by THE HOMEOWNER or his agents. Such routine maintenance as lubrication and the replacement of filters will be THE HOMEOWNER'S responsibility.

AIR CONDITIONING
KAUFMAN AND BROAD guarantees the air conditioning system, if included in the sale of the dwelling, for a period of one year as follows: That the air conditioning system has been installed in accordance

with good air conditioning practice and designed in accordance with appropriate engineering heat-loss factors to maintain 72 hours continuous operation, a thermostatically controlled environment 15 degrees cooler than the outside temperature, for example, a 78 degree temperature inside with a 93 degree temperature outside. Temperatures are to be read in the approximate middle of each room about three feet above the floor. This guarantee does not include the system or its parts operation, breakdown or routine maintenance or alteration by THE HOMEOWNER or his agents. Normal maintenance functions, such as lubrication and replacement of filters shall be THE HOMEOWNER'S responsibility.

PLUMBING
KAUFMAN AND BROAD guarantees the plumbing system against defective workmanship or materials for a period of one year, provided, however, that normal maintenance items such as toilet adjustments and replacement of faucet washers are limited to a 90-day guarantee. Blockage of bathroom fixtures or sewerage lines will be corrected only if it occurs within the first 30 days of the warranty period.

ELECTRICAL SYSTEM
KAUFMAN AND BROAD guarantees the electrical system, excluding light bulbs, against defective workmanship or materials for a period of one year, except where a defect in the system is caused by THE HOMEOWNER or his agent.

MASONRY
KAUFMAN AND BROAD guarantees all concrete, brick, stone and other masonry against substantial defects for a period of one year.
House slabs, basement floors and walls, garage slabs, walls and other masonry may develop cracks or flaking with the expansion and contraction of the material. KAUFMAN AND BROAD will repair only those cracks which substantially interrupt the plane of the surface or affect its structural value.

IS OF YOUR WARRANTY AS SET FORTH BELOW:

GRAZING AND LANDSCAPING

KAUFMAN AND BROAD guarantees for a period of one year... HOMEOWNER'S lot will drain away from his dwelling for an adequate distance (at least ten feet except in case of unusual terrain). These guarantees do not apply to damage resulting from alterations of grades by persons other than KAUFMAN AND BROAD or its agents, or resulting from failure of the HOMEOWNER to assume normal responsibility for the maintenance of his yard and grounds. The HOMEOWNER is responsible for the maintenance of his yard and grounds can be expected with a new home and is the responsibility of THE HOMEOWNER to correct.

Any trees, shrubs, sod or seeding provided are guaranteed to live for one growing season after occupancy, provided regular watering and maintenance during the period provided for by THE HOMEOWNER.

DRIVEWAYS

KAUFMAN AND BROAD guarantees for a period of one year the driveway against major settlement. Of course minor indentations, potholes, or spots or other surface imperfections, which are not included, are not included, and THE HOMEOWNER should remember that residential driveways are not designed to handle heavy trucks. Damage resulting from unusually heavy loads will not be corrected by KAUFMAN AND BROAD. THE HOMEOWNER should follow the HOMEOWNER'S MANUAL recommendation for proper maintenance of driveways. (See page 13.)

WATER INFILTRATION

HOUSE BUILT WITH SLAB ON GRADE KAUFMAN AND BROAD guarantees the under-slab air ducts (if any) against penetration by free water for a period of one year. This guarantee does not cover condensation, crawling up through cracks, or other water damage. Properly maintained or other events beyond the control of KAUFMAN AND BROAD. This guarantee shall not apply if a person other than KAUFMAN AND BROAD or its agent has altered or disturbed the air

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ducts, or the finished grade adjacent to the house, or elsewhere on the lot, if the HOMEOWNER is to change the drainage pattern of the ground adjacent to or near the house.

HOUSE WITH BASEMENT OR CRAWL SPACE

KAUFMAN AND BROAD guarantees for a period of one year basement and crawl spaces and other areas below the ground level, which are distinguished from the drainage characteristics of most home basements and crawl spaces. This guarantee does not cover condensation, backing up of sewers, flash floods, hurricanes, leaks through windows which are not properly maintained, or other events beyond the control of KAUFMAN AND BROAD. This guarantee shall not apply if a person other than KAUFMAN AND BROAD has altered the drainage pattern of the ground adjacent to the house, or elsewhere on the lot, if the result is to change the drainage pattern adjacent to or near the house. In areas where sump pumps are installed by KAUFMAN AND BROAD because of high water tables or other conditions which cause water infiltration to be inevitable, KAUFMAN AND BROAD's guarantee shall cover the proper functioning of the sump pump for a period of one year. It is necessary, however, that the homeowner keep sump pump and sump pump pit clean. Our warranty will not be effective in the event of defects due to dirt or debris.

EXCESSIVE WARPAGE

KAUFMAN AND BROAD guarantees against excessive warpage of structural members, doors, counter-tops, vanities, as well as determination of plywood for a period of one year. Excessive warpage shall mean more than 3/16 inch in the case of doors, more than 1/8 inch in the case of counter-tops, and more than 1/16 inch in the case of vanities and cabinets. New exterior doors may temporarily warp during periods of rapid temperature change and later return to shape. Therefore, such warpage is excluded under this guarantee.

Continued on page 4

GENERAL Structural components not specifically covered above are warranted by KAUFMAN AND BROAD for a period of one year as shown above against any defect in construction and/or defective materials.

ASSIGNMENT OF MANUFACTURERS' WARRANTIES

KAUFMAN AND BROAD assigns to THE HOMEOWNER its interest in any manufacturers' warranties for mechanical equipment, appliances and other manufactured items furnished with the house, and KAUFMAN AND BROAD does not itself warrant these items.

NON-WARRANTABLE ITEMS

KAUFMAN AND BROAD delivers your new home cleaned in accordance with normal construction standards. But, in fairness, we cannot take it upon ourselves to make good on move-in damage or other damage caused by persons other than KAUFMAN AND BROAD, its employees or agents.

And, we would like to clear up an issue that causes many new HOMEOWNERS needless alarm and confusion. A new home goes through a settling process, which results in small cracks developing. Small cracks, which develop, expansion or contraction of materials in walls, floors, ceilings, doors, windows and other locations which is to be expected. While we realize these items might cause momentary concern, they are easily remedied. The HOMEOWNER does his first repainting. KAUFMAN AND BROAD is not responsible for correcting normal settlement, deviations nor for making a perfect color match when touch-up repairs are made on painted surfaces.

Stained woods used in cabinets, paneling, sliding doors and wood

trim all have variations in wood grain and color. These are inherent characteristics which cannot be fully controlled and are therefore excluded from the guarantee.

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The following defects will be corrected by KAUFMAN AND BROAD only if they are significant defects of KAUFMAN AND BROAD or its agents, and (3) if they are noted in writing at the time of the Walk Through inspection.

- (a) Defects in the appearance of interior and exterior finished surfaces of porcelain, tile, vitreous china and counter and
- (b) Cracking of
- (c) Torque on defective screens and/or storm windows
- (d) Broken glass and mirrors
- (e) Defects in sliding, trim or lighting fixtures
- (f) Loose screws, nuts and bolts
- (g) Missing items

Any such defect not noted in writing at the time of the Walk Through inspection will be the responsibility of THE HOMEOWNER to correct.

WARRANTY TRANSFERABLE TO SUBSEQUENT PURCHASER

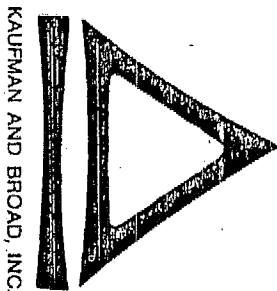
If the original HOMEOWNER sells the premises before the warranty period has expired, the subsequent purchaser shall succeed to the original HOMEOWNER's obligations under this warranty.

KAUFMAN AND BROAD, INC. makes the following statement regarding the obligations of KAUFMAN AND BROAD under this warranty. The obligations of KAUFMAN AND BROAD are limited solely to making the necessary repairs in a workmanlike manner.

Decision and Order

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YOUR NEW HOME WARRANTY FROM



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KAUFMAN AND BROAD, INC., ET AL.

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Decision and Order

ACKNOWLEDGMENT

The undersigned on this _____ day
 of _____, 19____, acknowledge
 receipt of the NEW HOME WARRANTY
 given by KAUFMAN AND BROAD,
 INC. in the community of _____

I acknowledge that I have read the
 attached warranty and understand
 its contents. I agree to notify
 KAUFMAN AND BROAD in writing
 when requesting service. I further
 understand that there will be no
 reimbursement from KAUFMAN AND
 BROAD for work privately contracted
 for by me without written permis-
 sion from KAUFMAN AND BROAD in
 advance. Finally, I understand that
 Kaufman and Broad does not extend
 to me any warranty, either express
 or implied, other than those con-
 tained in the attached NEW HOME
 WARRANTY and I acknowledge that
 except for the attached NEW HOME
 WARRANTY no employee or agent
 of Kaufman and Broad has made any
 representation or guarantee on
 which I am entitled to rely.

SIGNED

SIGNED

APPENDIX C

State of _____)
County/City of _____) SS.

AFFIDAVIT

(First Name(s)) _____ (Last Name) _____

being duly sworn, depose(s) and says:

1. I (we) am (are) the original purchaser(s) and purchased the home at the following address _____

(Street address) _____ (Town) _____

(State) _____ (Name of subdivision) _____

from Kaufman and Broad, Inc. or one of its companies, and the date of settlement/closing was _____ (enter date you took title) and have continuously held title to this home from that date to the date of this affidavit.

2. My (our) request is not for a repair that Kaufman and Broad, Inc. or any of its companies, agents, employees, or subcontractors previously fully completed.

3. I (we) have not signed a release or received payment or other remedial action or made any other settlement with Kaufman and Broad or any of its companies in connection with the request for repair now made.

4. I (we) hereby agree, in consideration of Kaufman and Broad's offer to make repairs under certain conditions; that I (we) shall assign to Kaufman and Broad the proceeds of any insurance I (we) may have that covers the defect described in paragraph 5 of this affidavit, to the extent of the cost to Kaufman and Broad of any repair or replacement it may make pursuant to this request.

5. I (we) request Kaufman and Broad to make the following repair(s) which I (we) believe to be a "major construction defect" under the terms of their letter of notification:

(Use additional sheets if necessary. Describe in detail the nature of the defect. Your description should include: (1) the nature of the damage; (2) the load-bearing part of the home affected; and (3) the manner in which the damage vitally affects or is imminent likely to produce a vital effect on the use of the home for residential purposes.)

All of the above information is true and correct to the best of my (our) knowledge.

Subscribed and sworn to me before this _____ day of _____, 197__.

Signature _____

Notary Public _____

Signature _____

APPENDIX D

State of _____)
County/City of _____) SS.

AFFIDAVIT

(First Name(s)) _____ (Last Name) _____

being duly sworn, depose(s) and says:

1. I (we) am (are) the original purchaser(s) and purchased the home at the following address _____

(Street address) _____ (Town) _____

(State) _____ (Name of subdivision) _____ from

Kaufman and Broad, Inc. or one of its companies, and the date of settlement/closing was _____ (enter date of you took title) and have continuously held title to this home from that date to the date of this affidavit.

2. My (our) request is not for a repair that Kaufman and Broad, Inc. or any of its companies, agents, employees or subcontractors previously fully completed.

3. I (we) have not signed a release or received payment or other remedial action or made any other settlement with Kaufman and Broad or any of its companies in connection with the request for repair now made.

4. I (we) hereby agree, in consideration of Kaufman and Broad's offer to make repairs under certain conditions that I (we) shall assign to Kaufman and Broad the proceeds of insurance I (we) may have that covers the defect(s) described in paragraph 5 of this affidavit, to the extent of the cost to Kaufman and Broad of any repair or replacement it may make pursuant to this request.

5. I (we) request Kaufman and Broad to make the following repair(s) under the terms of their letter of notification:

(Use additional sheets if necessary. Describe in detail the nature of the defect(s). If you are requesting repair to a major construction defect then, in addition your description should include: (1) the nature of the damage; (2) the load-bearing part of the home affected; and (3) the manner in which the damage vitally affects or is imminent likely to produce a vital effect on the use of the home for residential purposes.)

All of the above information is true and correct to the best of my (our) knowledge.

Subscribed and sworn to before me this _____ day of _____, 197__.

Signature _____

Notary Public _____

Signature _____

Decision and Order

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APPENDIX E

LETTER OF NOTIFICATION

Dear Kaufman and Broad Homeowner:

This letter is to notify you that you may be entitled to have certain repairs made to your home at no cost to you.

Kaufman and Broad recently agreed with the Federal Trade Commission to extend to its previous customers the same warranty protection K&B now gives to new customers. Therefore, if you bought a new home directly from us or any of our companies between January 1, 1972 and (ending two years prior to the day immediately preceding the effective date of the order) we will repair any "major construction defect" in your home without charge to you.

What is a "major construction defect"? You'll find the definition and the exclusions on the attached pages 3 and 4 of this letter. This definition and the exclusions were drawn up by the National Association of Home Builders for their nationwide "HOW" warranty program. We use this same definition and exclusions in the warranty we give our new customers. Study pages 3 and 4 of this letter carefully. Then check your home, inside and outside, for the major construction defects you think we should repair. Maybe get advice from someone who knows about such things.

Please notice that a "major construction defect" covers the major structural elements of your home, such as the foundation, load-bearing walls, and the roof structure. It does not cover minor items due to normal wear and tear, or cracking due to normal settlement and shrinkage, or such other similar matters.

To file a claim for repair to a "major construction defect," do this:

Fill in the blank spaces in the attached affidavit. Sign it before a notary public. Then mail it certified mail, return receipt requested, to (name and address of respondents' designated office).

Be sure to mail it by . IT MUST BE POSTMARKED 50 DAYS FROM THE DATE OF THIS LETTER. If you miss the deadline, we can refuse to do the free repairs.

If your request is on time and justified, we'll let you know within 45 days when we'll make the repairs. Or, if your request is not justified, we'll let you know why. If there's a dispute we can't settle within 40 days from the date the dispute arises, we can go to arbitration.

If the defect is a common element in a condominium, have the affidavit signed by the Board of Directors but not by any board members who represent the builder.

This is part of our continued effort to make you, the Kaufman and Broad home buyer, a comfortable and satisfied homeowner.

Sincerely,

KAUFMAN AND BROAD, INC

Decision and Order

DEFINITION OF "MAJOR CONSTRUCTION DEFECT"

A "major construction defect" is actual damage to the load-bearing portion of the home (including damage due to subsidence, expansion or lateral movement of soil from causes other than flood or earthquake) which affects its load-bearing function and which vitally affects (or is imminently likely to produce a vital effect on) the use of the home for residential purposes.

EXCLUSIONS

You are not entitled to make a claim for the following:

1. Defects in plumbing, electrical, heating and cooling systems.
2. Defects in appliances, fixtures, and items of equipment.
3. Defects in outbuildings (except that outbuildings which contain the plumbing, electrical, heating, or cooling systems serving the home are covered), swimming pools and other recreational facilities; driveways; walkways; patios; boundary walls; retaining walls which are not necessary for the home's structural stability; fences; landscaping (including sodding, seeding, shrubs, trees and plantings); onsite improvements; or any other improvements not a part of the home itself.
4. Bodily injury, damage to personal property, or real property which is not part of the home which was included in the purchase price.
5. Any damage to the extent it is caused or made worse by:
 - Negligence, improper maintenance or improper operation by anyone other than Kaufman and Broad or any of its companies, or its employees, agents or subcontractors; or
 - Failure of anyone other than Kaufman and Broad or any of its companies or its employees, agents or subcontractors to comply with the warranty requirements of manufacturers of appliances, equipment or fixtures; or
 - Changes of the grading of the ground by anyone other than Kaufman and Broad, Inc. or any of its companies, or its employees, agents or subcontractors.
6. Any defect in, or caused by, materials or work supplied by anyone other than Kaufman and Broad or any of its companies or its employees, agents, or subcontractors.

- 7. Normal wear and tear or normal deterioration.
- 8. Accidental loss or damage from causes such as, but not limited to: fire, explosion, smoke, water escape, changes which are not reasonably foreseeable in the level of the underground water table, glass breakage, wind storm, hail, lightning, falling trees, aircraft, vehicles, flood and earthquake. HOWEVER, SOIL MOVEMENT FROM CAUSES OTHER THAN FLOOD OR EARTHQUAKE IS NOT EXCLUDED.
- 9. Insect damage.
- 10. Any loss or damage which arises while the home is being used primarily for non-residential purposes.
- 11. Any defect which does not result in actual loss or damage.

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Decision and Order

APPENDIX F

LETTER OF NOTIFICATION

Dear Kaufman and Broad Homeowner:

This letter is to notify you that you may be entitled to have certain repairs made to your home at no cost to you.

Kaufman and Broad recently agreed with the Federal Trade Commission to extend to its previous customers the same warranty protection K&B now gives to new customers. Therefore, if you bought a new home directly from us or any of our companies since (2 years prior to and including the day immediately preceding the effective date of the order) we will repair major construction defects, and certain defects in the plumbing, electrical, heating and cooling systems in your home without charge to you.

You'll find the definitions of these types of defects, and the exclusions, on pages 3 and 4 of this letter and also in the attached "Approved Standards." This definition, the exclusions, and the "Approved Standards" were drawn up by the National Association of Home Builders for their nationwide "HOM" warranty program. We use the same definition, exclusions, and approved standards in the warranty we give our new customers.

Study pages 3 and 4 of this letter carefully, and also the attached "Approved Standards." Then check your home, inside and outside, for the defects you think we should repair. Maybe get advice from someone who knows about such things.

Please notice that a "major construction defect" covers the major structural elements of your home, such as the foundation, load-bearing walls, and the roof structure. It does not cover minor items due to normal wear and tear, or cracking due to normal settlement and shrinkage, or such other similar matters. Also, the "Approved Standards" explain in detail what a defect is, and also explains what the builder is required to do to correct the defect.

To file a claim for repairs, do this:

Fill in the blank spaces in the attached affidavit. Sign it before a notary public. Then mail it certified mail, return receipt requested, to (name and address of respondents' designated office).

Be sure to mail it by IT MUST BE POSTMARKED 50 DAYS FROM THE DATE OF THIS LETTER. If you miss the deadline, we can refuse to do the free repairs.

If your request is on time and justified, we'll let you know within 45 days when we'll make the repairs. Or, if your request is not justified, we'll let you know why. If there's a dispute we can't settle within 40 days from the date the dispute arises, we can go the arbitration.

Decision and Order

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If the defect is a common element in condominium, have the affidavit signed by the Board of Directors but not by any board members who represent the builder.

This is part of our continued effort to make you, the Kaufman and Broad home buyer, a comfortable and satisfied homeowner.

Sincerely,

KAUFMAN AND BROAD, INC

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Decision and Order

DEFINITIONS

MAJOR CONSTRUCTION DEFECT

A "major construction defect" is actual damage to the load-bearing portion of the home (including damage due to subsidence, expansion or lateral movement of soil from causes other than flood or earthquake) which affects its load-bearing function and which vitally affects (or is imminently likely to produce a vital effect on) the use of the home for residential purposes.

PLUMBING, ELECTRICAL, HEATING AND COOLING SYSTEMS
SEE ATTACHED APPROVED STANDARDS

also

SEE EXCLUSION #1 BELOW

EXCLUSIONS

You are not entitled to make a claim for the following:

1. Defects in appliances, fixtures, and items of equipment.
2. Defects in outbuildings (except that outbuildings which contain the plumbing, electrical, heating or cooling systems serving the home are covered); swimming pools and other recreational facilities; driveways; walkways; patios; boundary walls; retaining walls which are not necessary for the home's structural stability; fences; landscaping (including sodding, seeding, shrubs, trees and planting); offsite improvements; or any other improvements not a part of the home itself.
3. Bodily injury, damage to personal property, or real property which is not part of the home which was included in the purchase price.
4. Any damage to the extent it is caused or made worse by:
 - Negligence, improper maintenance or improper operation by anyone other than Kaufman and Broad or any of its companies, or its employees, agents or subcontractors; or
 - Failure of anyone other than Kaufman and Broad or any of its companies, or its employees, agents or subcontractors to comply with the warranty requirements of manufacturers of appliances, equipment or fixtures; or

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Changes of the grading of the ground by anyone other than Kautman and Broad, Inc. or any of its companies, or its employees, agents or subcontractors.

5. Any defect in, or caused by, materials or work supplied by anyone other than Kautman and Broad or any of its companies or its employees, agents, or subcontractors.
6. Normal wear and tear or normal deterioration.
7. Accidental loss or damage from causes such as, but not limited to: fire, explosion, smoke, water escape, changes which are not reasonably foreseeable in the level of the underground water table, glass breakage, wind storm, hail, lightning, falling trees, aircraft, vehicles, flood and earthquake. HOWEVER, SOIL MOVEMENT FROM CAUSES OTHER THAN EARTHQUAKE IS NOT EXCLUDED.
8. Insect damage.
9. Any loss or damage which arises while the home is being used primarily for non-residential purposes.
10. Any defect which does not result in actual loss or damage.

Final Letter to Current Home Owners

Modification Of Your Warranty Regarding Payment Of Arbitration Costs

December 17, 2004

Current KB Home Owner

<<ADDRESS>>

<<CITY>>, <<STATE>> <<ZIP>>

Dear KB Home Owner:

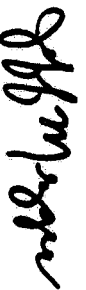
The KB Home New Home Limited Warranty provided to you as part of your home purchase calls for arbitration by a third party expert in the rare case that we cannot resolve a warranty claim to mutual satisfaction directly with our Home Owner. Such an arbitration is binding on KB Home, but not binding on the Home Owner (except as to Home Owners who have elected a 12-year warranty). Effective immediately, if a warranty claim dispute is not resolved and arbitration is initiated, KB Home will now pay all of the fees and expenses of the organization conducting the arbitration, including the fees to initiate the arbitration and the cost of the arbitrator. The language in the Warranty you were previously given allows for some sharing of these costs between you and KB Home. Home Owners will only be responsible for their own costs, such as the fees and expenses of an attorney or anyone else hired to help in the proceeding.

We are pleased that, in the vast majority of cases, we are able to promptly address any warranty requests so our Home Owners can be fully satisfied with their homes. When there is a disagreement about needed repairs, we make every effort to find a mutually agreeable resolution.

This letter changes the terms of your warranty in a way that benefits you. Please keep this letter with your other important home ownership documents.

Should you have any questions, please contact Michelle Morgan at KB Home by e-mail at mgmorgan@kbhome.com or telephone at 310-231-4053.

Very truly yours,



Jeff Mezger
Chief Operating Officer
KB Home

Ex. B

Final Letter to Buyers In Escrow

Modification Of Your Warranty Regarding Payment Of Arbitration Costs

December 17, 2004

<<NAME>>

<<ADDRESS>>

<<CITY>>, <<STATE>> <<ZIP>>

Dear KB Homebuyer:

Building homes for nearly half a century, KB Home is committed to quality construction and customer satisfaction in every home we build. Our commitment continues long after we give our new homeowners the keys to their new home. Each KB home is backed by our New Home Limited Warranty. Following is information about an update designed to enhance warranty protection for our Home Owners.

Your existing Warranty calls for the industry-standard practice of arbitration by a third party expert in the rare case that we cannot resolve a warranty claim to mutual satisfaction directly with our Home Owner. The current warranty language provides for some sharing of costs between you and KB Home. Effective immediately, KB Home will now pay all of the fees and expenses of the organization conducting the arbitration, including the fees to initiate the arbitration and the cost of the arbitrator. Home Owners will only be responsible for their own costs, such as the fees and expenses of an attorney or anyone else hired to help in the proceeding. Such an arbitration is binding on KB Home, but not binding on you, the Home Owner (except as to Home Owners who have elected a 12-year warranty).


We are pleased that, in the vast majority of cases, we are able to promptly address any warranty requests so our Home Owners can be fully satisfied with their homes. When there is a disagreement about needed repairs, we make every effort to find a mutually agreeable resolution.

We understand that a house is more than a purchase. It is a great personal and financial investment. This is just one more step in our commitment to a completely satisfying homeownership experience.

This letter changes the terms of your warranty in a way that benefits you. Please keep this letter with your other important home ownership documents.

Should you have any questions, please contact Michelle Morgan at KB Home by e-mail at mgmorgan@kbhome.com or telephone at 310-231-4053.

Very truly yours,



Jeff Mezger
Chief Operating Officer
KB Home

Ex. C

Buyers in escrow

January 17, 2005

EXTENSION OF YOUR MAJOR COMPONENTS WARRANTY

Dear KB Home Owner:

Building homes for nearly half a century, KB Home is committed to quality construction and customer satisfaction in every home we build. Your KB home is backed by our warranty, and we have information about an improvement in the warranty designed to give better protection for you.

As outlined in your New Home Limited Warranty, KB Home warrants Major Components for a period of two years from the purchase of a new home. Major Components are defined as plumbing, electrical, heating, and cooling systems. Effectively immediately, for your home the two-year warranty on the Major Components of your home will be **extended by one year**. If you have a problem with one of the Major Components any time during the three-year period after KB sold it to you (or its original buyer, if you did not purchase from KB Home), just follow the same procedures outlined in the warranty, and we will work to resolve the claim.

This extension applies to you even if more than two years have passed since KB Home sold your home. KB Home will reimburse you for expenses that would have been covered by the Major Component warranty in its third year, even if you already have incurred them. To qualify for the reimbursement, please send us a description of the repair and proof of purchase of the Major Components. Proof of purchase may include contractor estimates, invoices, receipts, cancelled checks, and credit card billing statements. *Please understand that only those expenses incurred prior to January 24, 2005 will be eligible for reimbursement.* For reimbursements on past repairs, we must receive your request and proof of purchase no later than **April 18, 2005**.

Should you have any questions, please contact Michelle Morgan at KB Home by e-mail at mgmorgan@kbhome.com or telephone at 310-231-4053. **This letter changes the terms of your warranty in a way that benefits you. Please keep this letter with your other important home ownership documents.**

Very truly yours,



Jeff Mezger
Executive Vice President and
Chief Operating Officer