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Contact Dawn Page at (480) 619-9263, dpage@liuna.org or Jacob Hay at (202) 942-2285, jhay@liuna.org

Report Details How Corporate Homebuilders' California Mortgage Practices Pressured Buyers and Limited Choices, Contributing to Housing Crisis

New Research Shows Need for Assembly Bill Barring Homebuilders from Mortgage Business to Prevent Recurrence of Market Crash and to Give Buyers More Options

Riverside, California (April 24, 2009) – Corporate homebuilders in California systematically pressured homebuyers into financing their new homes through directly-owned or affiliated mortgage companies which pushed exotic and high-risk loans, limiting the choices of homebuyers and contributing to the current housing market crisis, according to a new report to be released Friday.

According to the report, "*Cruel Hope: The Abusive Practices of Corporate Homebuilders and Their Mortgage Lending*," the top corporate homebuilders pushed tens of thousands of new homes on buyers, pressuring them to use higher-cost and higher-risk loans. Corporate homebuilders profited from the loans and from the artificial inflation of the housing market bubble. Their practices contributed to the current housing and economic crisis and families and communities were devastated when the bubble burst.

The report underscores the need for Assembly Bill 1534, which would prohibit homebuilders from writing mortgages on the homes they build, protecting buyers from pressure tactics and allowing them more options and the ability to make more responsible choices. The bill is expected to be considered in committee on April 28.

According to the report, homebuilders dramatically escalated their use of subprime loans as the housing market expanded. In 2004, subprime loans made up just 6 percent of the loans made in Riverside and San Bernardino Counties by the mortgage subsidiary of DR Horton, the largest home builder in the country. By 2006, this figure had hit 36 percent.

The lending practices of homebuilders did not stop with subprime mortgages. When that market collapsed, builders began pushing FHA loans. When written by homebuilders, the FHA loans are also showing higher than average default rates.

Of the FHA loans originated by Lennar's mortgage subsidiary Universal American in 2007- 2008, 5.5 percent have already defaulted. In contrast, just 2.8 percent of the FHA loans Universal American originated in 2005 and 2006 defaulted within the first two years.

The report, prepared by the Alliance for Homebuyer Justice – a project of LIUNA – will be presented as part of a conference at the University of California-Riverside focusing on the foreclosure crisis.

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For copies of "*Cruel Hope: The Abusive Practices of Corporate Homebuilders and Their Mortgage Lending*," email dpage@liuna.org or jhay@liuna.org.

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