

*State of New Jersey*  
*Commission of Investigation*



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**SCI FINDS 'PANORAMA OF WASTE, FRAUD and  
ABUSE' in NEW-HOME CONSTRUCTION**

**CALLS FOR SYSTEM-WIDE OVERHAUL  
TO PROTECT CONSUMERS**

TRENTON — The State Commission of Investigation (SCI) today issued the final report of an unprecedented investigation into abuses in new-home construction and inspections in New Jersey and recommended sweeping legislative and regulatory reforms to boost government oversight and to safeguard the interests of the home-buying public.

The reforms would create licensing and performance standards for builders, expand criminal statutes aimed at enforcing accountability for corruption of the construction inspection process, and empower home-buyers by revamping the state's Consumer Fraud Act and enacting a new-home "Lemon Law" similar to one that has been on the books for years to aid purchasers of defective new cars.

Exhibit I  
Submitted by: Joyce Faltus  
7 pages

Capping a statewide probe that included five days of public hearings over a period of nearly one year, the Commission reported that it had "found a system in which the public trust has been thoroughly shaken by graft, by greed and incompetence and by the failure of government to fulfill its fundamental duty to protect the safety and welfare of its citizens."

The Commission's 51-page report and appendix, *The Good, the Bad and the Ugly - New-Home Construction in New Jersey*, sets forth a systemic catalog of shoddy and deficient construction practices, lax regulatory oversight and poor remediation options that routinely plunge unsuspecting new-home purchasers across New Jersey into the worst sort of "buyer beware" consumer nightmare.

"In the worst individual cases," the report states, "homeowners discovered that the new homes they had purchased came equipped with structurally unsound ceilings and roofs; facades separated from support structures; wobbly, moving walls; walls fouled by sewage from cracked pipes; improperly installed heating systems venting poisonous exhaust, including carbon monoxide, directly into living spaces; flooded crawl spaces; and collapsed porches."

"The construction code inspection and enforcement process, in particular, is fraught with serious shortcomings," the Commission found. "Despite the presence of significant defects in newly built homes - including structural weaknesses that constitute potentially hazardous conditions - certificates of occupancy have been issued by local government authorities."

“In extreme situations, forged and fraudulent certificates of occupancy have been generated by builder representatives in order to speed the closing of sales with buyers who, for their part, have been led only to believe that everything is in proper order.”

The investigation also revealed instances in which local construction officials accepted gifts and other inducements from builders amid lax, deficient or non-existent inspections.

The Commission’s findings form the basis for detailed reform recommendations geared largely toward leveling the playing field for consumers, who all too often find themselves doubly victimized – in the first instance by negligent or unscrupulous builders, in the second by an un-navigable, unresponsive maze of governmental bureaucracy.

**Key recommendations include:**

- **Expand New Jersey’s Consumer Fraud Act** to include construction of new homes in addition to its currently limited application to “home improvements.” The law’s focus on false, misleading or deceptive information should also be extended to cover circumstances involving faulty workmanship.
- **Establish a New-Home “Lemon Law”** to require that, in instances where a reasonable number of repair attempts fails to cure defects posing serious safety hazards or substantially impairing the use or market value of a new home, the builder/developer – at the homeowner’s option – must purchase the structure and provide reimbursement to the homeowner for all relevant expenses.
- **Require Licensing and Certification** for individuals responsible for construction and for those who supervise workers in the various construction trades; impose penalties and sanctions for failure to perform; and require mandatory continuing education for construction superintendents and trade supervisors as a condition of licensure and certification.

- **Revamp and Expand the New-Home Warranty Program** to increase the effective period for basic coverage from one year to two; and extend coverage to three years for water damage caused by construction and for lot defects; to three years for deficiencies caused by defective materials, faulty design or installation of basis systems; and to 10 years for major construction and fire safety defects.
- **Enact a Homebuyers' "Bill of Rights"** to alert prospective purchasers – no later than at the time of the signing of a contract for a new home – of their rights and, conversely, to advise them of builders' responsibilities and obligations under the law.
- **Strengthen Criminal Statutes** by expanding the crime of official misconduct to include such actions as those of a code official/inspector who knowingly fails to perform inspections or performs them recklessly. Criminal penalties should also apply to builders/developers or their representatives who confer, or offer to confer, anything of value or benefit to any government official.
- **Establish a Public Information Database** accessible through the internet containing all material necessary for informed decision-making by prospective home-buyers. The database should include reference to any warranty-claim activity, violations of the Consumer Fraud Act, common-law fraud, judgments and bankruptcies involving builders and developers, and any criminal convictions of officers, directors and stockholders.
- **Augment the N.J. Department of Community Affairs**, the state agency charged by law with overseeing new-home construction, inspections and warranty programs. DCA should be provided – on an emergent basis, if necessary – with adequate resources and personnel to ensure that the system functions properly and effectively for everyone who relies upon it.

Forming a critical appendix to the report is the full record of the Commission's public hearings on new-home construction and inspection abuses held in three segments spanning five days between November 2003 and October 2004. Transcripts of sworn testimony delivered during each of these proceedings are contained on a computer laser disk inserted inside the back cover of the printed report.

The full report, appendix and transcript are also available on-line at the Commission's web site, [www.state.nj.us/sci](http://www.state.nj.us/sci).

***New Jersey  
State Commission of Investigation***



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Immediate Release**

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**SCI HEARINGS:**

**SYSTEMIC FAILURES IN  
NEW-HOME CONSTRUCTION**

TRENTON – The State Commission of Investigation will hold a final round of public hearings next week on wide-ranging problems and abuses in new-home construction in New Jersey.

The hearings will be held Tuesday, October 12, and Wednesday, October 13, beginning at 9:30 a.m. each day. Please note the split venue for these hearings: Tuesday's session will held in Committee Room 4 on

**the first floor of the Statehouse Annex. Wednesday's hearing will be in Committee Room 11 on the fourth floor of the Annex.**

Sworn testimony will be provided by a range of witnesses, including Commission investigators, corporate representatives of the residential building industry, construction code officials, and representatives of state and federal law enforcement and regulatory agencies.

The hearings are part of a comprehensive SCI investigation, which has garnered national attention, into flawed and deficient construction practices, inadequacies in home warranty programs, and gaps in New Jersey legislation which fail to protect home-buyers. The Commission's sweeping investigation has revealed numerous examples of the extent and impact of the lack of proper and appropriate state and local laws and regulations, and serious problems involving the failure of complaint-response mechanisms, primarily home-warranty programs and other remediation options relied upon by new-home buyers.

The investigation is statewide in scope. Ultimately, the Commission intends to issue a comprehensive public report incorporating recommendations for legislative and regulatory reforms.

A live audio feed of the hearings will be available through the SCI's Web site at [www.state.nj.us/sci](http://www.state.nj.us/sci).



*The State Commission of Investigation is an independent New Jersey watchdog agency established in 1968 to investigate organized crime and corruption, waste of tax money and other abuses of the public trust. In addition to the home construction and inspections investigation, a number of other significant probes are ongoing in all areas of the Commission's statutory purview. Copies of reports are available at the Commission's offices or via its Web site at [www.state.nj.us/sci](http://www.state.nj.us/sci).*