

5 Critical Mistakes that have Cost Home Owners Millions (and how to avoid them)

After Hurricane Katrina, Alma Dixon returned to New Orleans and found her home devastated by the levee breach. When a family friend offered to do the repairs Alma didn't hesitate to hand over \$2,000 to get the work started—without a contract. “I asked him about a contract,” Dixon says. “He said, ‘oh, we don't need a contract, we're friends.’”¹ In total Alma gave her friend almost \$20,000 to repair her Gentilly home, but when she returned several months later the house was uninhabitable. The wiring, plumbing, cabinetry, flooring, and painting all remained unfinished and Alma's contractor refused to do any additional work and eventually stopped taking her calls.

Fact: In Illinois over 3,000 cases of home repair fraud are reported annually

In Virginia, they call them “woodchucks”; others call them gypsy contractors, scam artists, or less poetically—frauds. These contractors show up at your door with a broken down truck and a pile of tools. They ask for most (if not all) of the money up front and fail to do much, if anything, that they promised. Contractor fraud is not limited to disaster areas. It can happen anywhere, to anyone. It could happen to you.

Alma, and millions of other home owners just like her, made five critical mistakes when selecting a contractor.

¹ Qtd in Avoiding Home Repair Fraud: Lessons from Hurricane Katrina (4)

Mistake #1 – Hiring an Unlicensed or Unregistered Contractor

Laws vary from state to state, but at least thirty-eight states require some form of licensing to perform home repairs. In Texas any contractor involved in projects over \$10,000 are required to register with the Texas Residential Construction Commission (TRCC). A legitimate contractor will be able to provide the necessary proof needed to conduct business in your state, and may have various trade and building association memberships to provide further legitimacy. But don't be fooled by a piece of paper. Take down the license number and call to verify that the license has not been revoked or expired and that there are no claims or lawsuits pending. Many states offer protection for home owners who are ripped off by contractors—but only if they are ripped off by a *licensed* contractor.

Mistake #2 Failure to Ensure Your Contractor has General Liability Insurance

Making sure you have proper insurance coverage when work is being done on your home means checking (and possibly upgrading) your homeowner's policy and verifying your contractor has general liability insurance.

You want to be sure that your policy and those of anyone working on your home cover injuries to people,

materials, your house, and the new work. Seems easy right? But most people fail to verify the insurance coverage carried by their contractor and on their home. Tom Shaw, marketing manager for Madison, New Jersey-based Atlantic Mutual Insurance Company, recalls a minor roof repair that ended up costing \$1 million. "The roofer used a blowtorch," says Shaw, "igniting the house, which burned. Thousand-dollar job, million-dollar claim." Atlantic Mutual paid the claim and then sued the contractor and roofer as well as their insurers.²

Ask your contractor to provide proof of liability insurance and call to check that the policy is in good standing.

Fact: The Louisiana Attorney General receives 500 calls a month about fraudulent contractors. In Orleans Parish a police task force has been created to combat the problem.

² Quoted in "This Old House" Magazine Online

Mistake #3 Hiring a contractor without checking references

There are many ways to find a qualified contractor—online, your local yellow pages, the Better Business Bureau, the Chamber of Commerce, word-of-mouth, or through trade organizations like the National Association of the Remodeling Industry or the National Association of Home Builders. But no matter how you find your contractor—always check their references. The contractor you hire should have several years of experience and a proven record of success in the type of project you need completed in your home. Ask to see photos of similar work and a request a list of previous clients to call. Ask Questions like:

- Would you hire this contractor again?
- Were you satisfied with the quality of the work?
- How did the contractor handle cleanup each day?
- Was the contractor easy to work with
- How did the contractor handle changes to the project?
- Was the job completed on time and at the bid? If not, why not?

Mistake #4 Hiring a contractor who is not bonded

A bond is an extra piece of security provided to you by your contractor in the event they don't fulfill their contractual obligation or leave you with costly problems. While some states, including Texas, require bonding as a standard part of doing business, many do not. A good contractor will be bonded despite various state and city laws. A bond can be purchased by your contractor through their insurance providers for many reasons; coverage levels typically vary depending on job size.

A contractor must be sufficiently reputable and credit worthy for the insurance company to accept the risk for your project. For the contractor, the very act of providing you a bond is a

strong indication that the contractor means to perform his contractual obligations or risk being denied by his insurance provider in the future. For you, it means a way to recoup your losses if the project goes unfinished or the work is flawed in some way. For both, it sets the stage for performance and accountability.

Verify the contractor's bonding. Do not hesitate to contact the bond issuer and have them send you a verification certificate directly. Ask them any questions about your rights under the bond.

Mistake#5 Beginning a Project without a Contract

Signing a contract is the first thing a truly professional contractor will have you do. A well-written contract spells out all the terms of the work in detail, helping you and the contractor minimize misunderstandings and wasted effort caused by poor instructions. It should include the contractor's name and address, license number, a timetable for starting and finishing the job, a payment schedule, names of subcontractors, and detail the scope of work to be done.

Your contract should also include:

- Building Permits required (if any)
- Specification of materials and equipment needed
- Demolition and Cleanup provisions
- A provision detailing how changes to the contract will be handled (scope of the job, materials used, etc.)

Don't feel intimidated by negotiating a contract with your contractor. Watch out for clauses which keep you from taking legal action against the contractor. If the contract has a clause you do not agree with, question the contractor or have it removed. Don't be afraid to add provisions of your own. Remember, this is an agreement between you and your contractor, and it should be fair and equal to both of you. If handwritten changes are made to the contract, make sure you and your contractor initial each change to incorporate them into the agreement. Address any issues before you sign—once you both agree on price and terms, the signed contract legally binds both parties.

Conclusion

A successful home remodel begins with you. Do your research. Get to know your prospective contractors. Look at their websites, investigate ratings with the Better Business Bureau, and call a few former clients. Spending a few hours on research now will keep you from feeling stressed and disappointed later; picking the right contractor could potentially avert disaster.

Remember to check their license, bond, and liability insurance, and never begin a project without a detailed contract signed by you and your contractor.

To read the resources used in this report:

National Association of Home Builders- <http://www.nahb.org>

National Association of the Remodeling Industry-
<http://www.nari.org/homeowners/selecting/#contract>

“Is Your Pro a Con?” This Old House-
<http://www.thisoldhouse.com/toh/photos/0,,20184966,00.html>

“Avoiding Home Repair Fraud: Lessons Learned From Hurricane Katrina”- National Consumer Law Center

http://www.consumerlaw.org/issues/katrina/content/Katrina_Repair_Fraud_NCLC_11-08.pdf

“How do I Find the Right Contractor?” California Department of Consumer Affairs

<http://www.cslb.ca.gov/Consumers/HireAContractor/FindingTheRightContractor.asp>

“Home Remodeling and Repair” Texas Attorney General’s Office
http://www.oag.state.tx.us/consumer/home_improvement.shtml

*How does
Blue Ribbon Homes
Compare? Download
our Contractor
Comparison Form*