

Beware of unlicensed contractors!

A fact sheet provided by your local government

Dear Resident or Permit Applicant:

If you are planning a home improvement project like a deck, a new bathroom, or a garage, you will probably need to hire a building contractor.

Not an easy task

There is no shortage of building contractor horror stories. Almost everyone has heard tales of damage, scams, shoddy workmanship, and builders who disappear in the middle of a project. In fact, except for auto repair shops and car dealerships, no other industry has generated as many complaints, according to the Council of Better Business Bureaus. It would seem that finding a reliable and qualified contractor is not an easy task.

You can put the odds on your side, however, by making sure you hire only licensed contractors.

Hazards of hiring the unlicensed

While licensing isn't necessarily a measure of competence, it does imply a certain level of professionalism and suggests that the contractor is committed to his or her job. More significantly, licensing can protect you from a number of potential problems, such as the following:

- *Unlicensed usually means uninsured.* If you use a contractor who is uninsured, it means the contractor has no way of reimbursing you for any property damage he or she causes. This means you end up paying the price. Likewise, if contractor carelessness leads to injury or damage to someone else's

property, the problem is likely to become yours.

- *No coverage under homeowner's policy.* Some homeowners believe it is safe to use an uninsured contractor, assuming that any damages incurred would be covered under their own insurance policies. However, this isn't the

case. Most homeowner policies require that any work to the property be done by *licensed contractors*; coverage is often specifically excluded for damages caused by "bootleg" contractors.

- *Noncompliance with building codes.* Most building projects, even minor ones, usually require permits and inspections.

Unlicensed contractors are often unfamiliar with the applicable building codes and are unable to obtain permits. If your project isn't permitted or doesn't comply with building and zoning codes, you may -- and probably will -- be ordered to remove or repair the job. Even if a building inspector doesn't "catch" your code violation right away, you will almost certainly have to correct it if and when you try to sell your house.

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- *Poor quality work.* Not all unlicensed contractors do poor quality work. And not all poor quality work is done by unlicensed contractors. However, as a rule, if there's shoddy work to be done, it's usually done by unlicensed contractors. Because unlicensed contractors aren't subject to meeting specific standards, they are often untrained, less experienced, and unqualified to do certain types of work.

Sloppy work by an unlicensed contractor could have serious ramifications. "Basically, it's a safety hazard if your work isn't done properly," says Brett Martin, Communications Manager for the National Association of the Remodeling Industry. "If it's not structurally sound, if it's not wired properly, obviously you could face major consequences at some point."

- *Con artists.* Scams in the construction industry - especially in the home improvement business - have become almost legendary in the last few decades. Con artists posing as qualified contractors, and often targeting the elderly, have made national news any number of times. Even so, unwary homeowners continue to be taken in by these pseudo contractors, who often promise unrealistically low prices or use scare tactics to close the deal. In these cases, the homeowner typically ends up with either an incomplete or a low-quality improvement project -- and several hundred, or even thousands of dollars less.
- *Limited recourse for broken contracts.* If you have a dispute with a licensed contractor, you can call his or her licensing agency. Some licensing agencies offer mediation services or maintain a guaranty fund to help consumers recover their losses. At the very least, the licensing agency has the authority to suspend or revoke a dishonest contractor's license. While this doesn't necessarily ensure a contractor will play fair, it gives him or her considerably more incentive to do so.

These regulatory authorities, however, cannot take this sort of action against unlicensed contractors. Therefore, homeowners often find that their only recourse is a civil lawsuit. And because many unlicensed contractors go in and out of business readily, such a lawsuit is frequently a waste

of time. Consumers in some states do not even have *this* option -- in areas where licensing is required, contracts with unlicensed contractors may be legally unenforceable.

WARNING SIGNS:

- Unsolicited phone calls or visits**
- High-pressure sales pitches or scare tactics**
- Large down payments**
- No verifiable address and phone number**
- Unwillingness to give you a price**
- Unwillingness to sign a written contract**
- Insurance or licensing information you cannot verify**

Warning signs

Even when a license is required, there is no guarantee that every contractor you encounter will actually *have* a license. While there are certainly honest and competent contractors out there, the industry is unfortunately plagued with incompetence and con artists. It is essentially up to you to protect yourself. Therefore, when evaluating potential contractors, you should be diligent in your screening process. There are a number of "red flags" you should watch for:

- *Unsolicited phone calls or visits.* Although some reputable contractors market their services in this way, it is a tactic more often used by remodeling con artists. Be especially wary of a contractor who offers you a bargain price, claiming that he or she is doing a job in the neighborhood and has leftover materials.
- *High-pressure sales pitches or scare tactics.* Don't be pushed into hiring a contractor by forceful sales techniques, special "today-only" deals, or the threat that some defect in your house is a safety hazard. Dishonest and disreputable contractors often prey on their victims' fears by warning them that their furnace is about to blow up, their roof is about to collapse, or some similar catastrophe is about to occur.
- *Large down payments.* State law may govern how much money contractors can ask for a deposit on a job. If a contractor asks for too much money up front -- or insists you pay in cash -- it can be a sign that he or she is going to take your money and run.
- *No verifiable address and phone number.* Be cautious of contractors who give you a post office box with no street address, or who seem to use only an answering service. According to Oriol Torres, the electrical code compliance officer for Dade County, Fla., most home improvement con artists operate without a traceable phone number. "They all use either beepers or cellular phones," he said. "They're very hard to track down that way."

- *Unwillingness to give you a price.* A reputable contractor should be able to provide you with a bid before beginning work on your project. If the contractor says he or she can't do so, or skirts the issue of cost, you are at great risk of being taken advantage of.
- *Unwillingness to sign a written contract.* Always get the terms of the construction agreement in writing. A complete contract should include: a description of the work done, materials used, labor cost, timetable, payment schedule, completion date, names of subcontractors, warranty agreements, clean up, and financing arrangements. It should also include the contractor's license number, and should address the issues of project cancellation and how overruns on time and cost will be handled.
- *Insurance or licensing information you cannot verify.* A qualified contractor should be able to provide you with proof of both licensing and insurance coverage. If the contractor can't give you a copy of his or her license and insurance policy, have him or her at least give you the license and policy numbers. It is a good idea, also, to ask for some other proof of identification at this time, so you can be sure you are actually dealing with the person whose name appears on the license. Checking the validity of licensing and insurance information is covered below.

Don't rely on a handshake

Familiarize yourself with the licensing requirements for contractors. If you have Interact access, you can find this information online. Two sites that maintain state-by-state contractor licensing information are <http://www.contractornet.com> and <http://www.nationalcontractor.com>. The National Association of the Remodeling Industry (NARI) also maintains information on state licensing requirements and a list of state agencies' phone numbers. You can also call your local building or planning department to inquire about licensing requirements.

When you're shopping for contractors, be sure to verify that both the license and insurance information you get is correct. Using the insurance policy number, call the contractor's carrier to make sure the policy is still in effect and that it covers projects such as yours. Also, call your state or local licensing board to verify the contractor's licensing information. The licensing agency should also be able to tell you if there have been any complaints registered against that contractor. You might also call your Consumer Affairs Bureau and Better Business Bureau to ask about any consumer complaints they may have received.

13 steps to hiring a contractor

- Seek a referral from someone you know who is happy with his or her contractor's work
- Solicit bids from at least three contractors
- Be wary of proposals that are much lower than any other proposals
- Contact the Better Business Bureau to check out any contractors that submit bids
- Insist on a written contract that outlines your entire agreement, including starting and completion dates
- Have an attorney review any documents before you sign them, including contracts, warranties, and plans
- Make sure there are no blank spaces on anything you sign
- Insist upon a written warranty on all materials and work
- Get all building permits and variances before starting the project -- and identify the contractor on the applications
- Inspect all work before signing a completion certificate
- Withhold final payment until the entire project is finished and inspected
- Get a contractor's affidavit that all subcontractors and material suppliers have been paid before making final payment
- Report any misrepresentations, shoddy work, failure to honor contracts, unlicensed contractors, or other problems to the appropriate licensing board

To better your chances of being satisfied with a contractor's work, you can also:

- Ask a recognized construction industry association to recommend a reputable contractor in your area, The National Association of the Remodeling Industry (703-575-1100), the National Association of Homebuilders (800-368-5242), Associated Builders and Contractors (888-422-2277), or the Associated General Contractors of America (703-548-3118) may all be able to help.
- Check with neighbors, friends, and relatives who have recently completed a home improvement project to see if they can recommend their contractor.
- Ask local suppliers of building materials, hardware, or appliances if they can recommend a contractor.
- Ask potential contractors for references from people they have worked for in your area. If possible, get photographs of some of their previous projects.
- Get several estimates -- at least three -- so you can comparison shop.

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- Get references on potential contractors from their banks, suppliers, and subcontractors. Any indication of being financially unsound or behind on bills or payments should be taken as a warning sign.

- Check the public records in your local courthouse to see if potential contractors have any liens against them.
- Determine who will actually perform your work. Ask to meet all employees or subcontractors who will be working on your property.
- Establish in advance an agreed-upon process for arbitrating disagreements.
- Request a warranty -- lasting at least one year from completion date.
- Have an attorney review all contracts or other paperwork before signing anything.

Even after you hire a contractor, your work is not complete. You will still need to remain in close contact with the contractor to ensure the work proceeds on schedule and according to contract. And you may encounter complications or disagreements that need to be ironed out as the project unfolds. However, if you select your contractor carefully in the beginning, you are less likely to have problems later. While screening contractors may seem like more work than the construction project itself, the effort can save enormously in money, annoyance, and time.