

Avoiding Contractor Fraud



Use this Guide if:

- + If you are a homeowner
- + Your home was damaged in a disaster event
- + You are looking to hire a contractor to do repairs on your home

Avoiding Contractor Fraud

Property owners must be mindful after a disaster hits, because they are at-risk of becoming victims of contractor fraud. Contractor fraud is abundant in areas recovering from a disaster. A homeowner's desire to get back to normal as soon as possible coupled with the chaos of recovery activities creates a perfect environment for those who are seeking to exploit others. Contractor fraud can include being charged for repairs that are incorrect, unnecessary, or poorly executed, being charged above market value, or performing work without the proper licensure or without gaining the proper permits. In some situations, homeowners pay a contractor for repair work that never even begins.

Construction Project Checklist

Phase 1 : Select a Contractor

- Get Estimates (Bids) From Multiple Contractors
- Obtain and Verify Contractor's Information

Phase 2 : Sign a Contract

- Verify the Scope and Timeline
- Confirm Material and Labor Costs
- Outline Payment Schedule

Phase 3 : Close Out the Project

- Permits Obtained
- Certificate of Occupancy Secured
- Punch List Finalized
- Final Payment Made

How to Select a Contractor

Selecting a quality, reputable contractor is the best way to avoid becoming a victim of contractor fraud after a disaster. Here are a few steps to follow when making that decision.

Ask for Recommendations from Trusted Sources

- + Friends and family, the Better Business Bureau, or your local Long Term Recovery Group are all good resources. You can create a list of recommended contractors before a disaster and keep it with your other important papers.
- + If you are insured, call your insurance adjuster.
- + Be careful when dealing with contractors who are from out of state or have out-of-state licenses.

Getting Bids

- + Get written estimates (or bids). [See Page 4 for more details]
- + Ask at least three contractors for bids.

Verify Licensure and Insurance

- + Their full name and the name of their business
- + A copy of their Certificate of Registration with the Texas Residential Construction Commission.
- + A copy of their identification card/driver's license
- + Proof of worker's compensation
- + References from past clients
- + Check for a criminal history and civil cases against the contractor. You can check the Better Business Bureau and/or your local courthouse.

Warning Signs...

- × *contractors that go door-to-door*
- × *contractors without a proper ID, licensure, or insurance*
- × *refusal to provide a written estimate or scope of work*
- × *they demand full payment before the work begins, payment in cash, or ask for a deposit to "hold your place in line"*
- × *they want you to sign a contract that has blanks*
- × *they offer discounts if you refer them for another job, or because they have materials left over from other jobs*

Getting Bids from Contractors

Once you have selected a few contractors, your next step is to get estimates for the work that needs to be done. Estimates are also called bids. You should get **at LEAST three bids.**

Getting multiple bids will allow you to compare different contractors. It will help you get a better sense of the repairs that are needed, the market price for labor and materials, how much labor is involved, and how long it should take. If you are insured, your insurance adjuster may be able to give you an estimate of the damage and probable repair cost. This will give you a benchmark estimate.

Be suspicious of bids that are way under or over the average. A contractor may intentionally charge less for the project and then increase the cost over the course of the project. On the other hand, if you think you are being overcharged for materials or labor, it's a good idea to reach out to a lumber or building supply store or call your local long-term recovery group to check.

Make sure a bid includes:

- Contractor's information
- A detailed description of the work that will be done, known as a "scope of work."
- Separate costs for labor and materials
- Itemized costs for any specific materials the contractor intends to use
- A timeline for the work
- References for recent jobs
 - + Ask for three references for recent work, and follow up with those references before moving forward with a contractor.

McMillan Home Repair

RC BUILDERS
1834 17th St. SW
Dallas, TX 75001
(469) 867-5309

Contractor Name RC Builders - Project Lead : Norville Rogers (nrogers@rbc.com)
Scope of Work Home repair - Demo damaged areas, repair damaged plumbing areas, refinish walls and floors, and install new cabinets
Date of Work Completed 3 Months Starting August 01 and ending November 01

ITEM	WORK TO BE COMPLETED	LABOR	MATERIALS	AMOUNT
	Demolition			
1				
2				
3				

ITEM	WORK TO BE COMPLETED	LABOR	MATERIALS	AMOUNT
	Demolition			
1				
2				
3				
SUBTOTAL				1,517.25
TAX RATE				4%
SALES TAX				6%
OTHER				-
TOTAL				1,668.98

Callout Boxes:

- Name or Name of Business, Contact Information
- The bid should include the length of time the project will take.
- A full description of all of the work you are hiring a contractor to do. The scope should also outline the phasing of the project, like what tasks will happen first, second, and so on.
- A line item for an extensive contractor walk through of your home
- Make sure subcontractors, like plumbers and electricians, and the work they are responsible for within the project are identified.
- A bid should list all the materials the contractor will use for the job and their cost, AND then list the cost of labor for each task.
- Make sure any specialty items, like fixtures, appliances, and flooring, are included in the bid.
- Do not accept a bid that only has a total cost.
- Depending on the size of the repairs the timeline may be separated into phases. This will help keep the contractor and you on schedule.

Signing a Construction Contract...

Before any work begins, you should always sign a contract. A detailed bid is a good start, but a signed contract is your strongest defense against contractor fraud. Before you sign any contract make sure you are comfortable with what you are agreeing to. **Don't sign anything you don't understand.**

Does your contract include...

The contractor's information

- + This should include licensing and insurance information.

Scope of work

- + Make sure the scope of work clearly identifies all subcontractors and the work they will be responsible for completing.

Cost and materials list

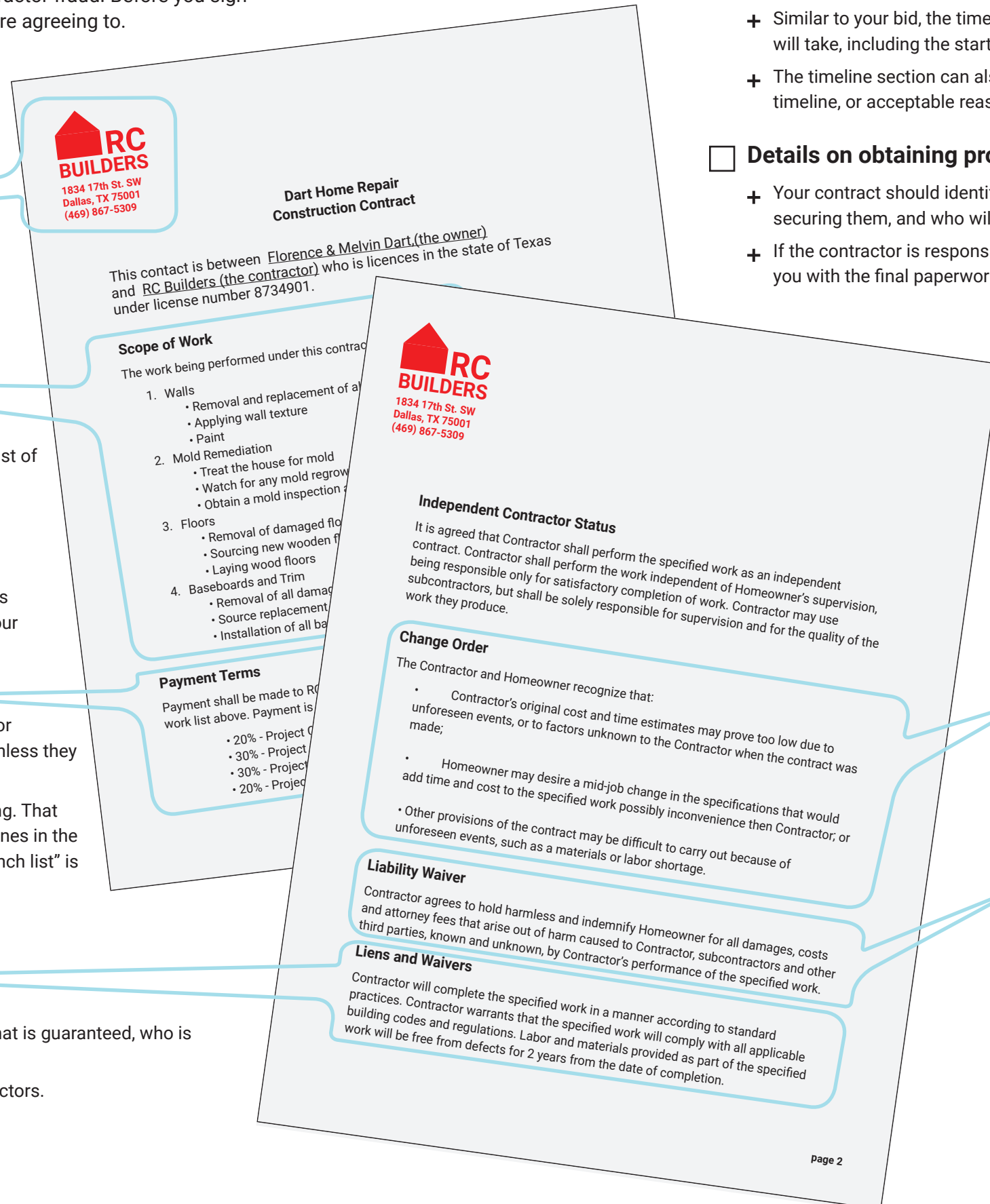
- + Similar to your bid, your contract should have an itemized list of all materials and labor costs broken down by task.
- + The contract should contain the cost of the job, as well as instructions for how you and the contractor agree on any additional costs during the course of the project.
- + Your contract should also identify who will pay for materials [appliances, fixtures, cabinetry]. Will it be you or will it be your contractor?

A payment structure

- + Do not pay for the entire job up front. It is against the law for contractors in disaster areas to take any money up front, unless they have had a local office for at least a year.
- + It is recommended that your contract requires phased billing. That just means that your contract will identify points or milestones in the project for payment. Make your final payment after the "punch list" is completed.
- + Always pay by check or credit card. NEVER pay cash.

A warranty for work

- + Ask for guarantees or warranties in writing.
- + If warranty is provided, the contract should clearly state what is guaranteed, who is responsible, and how long the guarantee is valid.
- + The contractor's warranty may not cover certain subcontractors.
- + 1- to 3-year warranties are common.



A project timeline

- + Similar to your bid, the timeline section of your contract outlines how long the project will take, including the start date.
- + The timeline section can also identify any penalty fees for going past the project timeline, or acceptable reasons for the project being delayed.

Details on obtaining proper permits

- + Your contract should identify what permits should be obtained, who is responsible for securing them, and who will pay the fees.
- + If the contractor is responsible for obtaining the proper permits, they should provide you with the final paperwork and receipts.

Termination clause

- + Outlines the grounds for terminating the contract with the contractor and a timeline for how the contractor may address any problems.

A home inspection requirement

- + Before you make your final payment, require that a third-party inspection be done. Make sure that repairs meet all relevant codes. You will be responsible for covering the cost of the inspection.

Change order process

- + Outlines a process for how changes to the contract's scope of work, materials, labor, or pricing will be handled. All change orders should be in writing.

A release of lien requirement

- + Find out in writing if a lien, security interest, or mortgage will be placed on your property by the contractor for the project.
- + Once you have paid your final installment, have the contractor sign a release of lien document. This will release you from any liability to subcontractor or vendors used by the contractor in repairing your home.

Closing Out the Project...

Once your project gets near the end there are a few things you should do to ensure all of the work is complete and is done well. Do **not make your final payment** until all work is complete and all of the requirements of your contract have been fulfilled.

Close Out Check List:

- Create a punch list**
 - + Work with your contractor to make a list of all of remaining work.
 - + Make sure you and your contractor each have a copy of the punch list.

- Verify all work**
 - + Make sure all work has passed the required inspections and that all permits have been properly closed.
 - + Review your contract and punch list to make sure all agreed upon work has been completed.

- Get your certificate of occupancy**
 - + If your repairs were extensive, make sure your contractor obtains a certificate of occupancy from your local building department.

- Arrange for an independent inspection**
 - + Have an independent inspector or agent (insurance adjuster or real estate inspector) do an inspection before you make your final payment.

- Get the home warranty information from your contractor**

- Have your contractor sign a release of lien document**
 - + This should happen after you make your final payment.



Additional Help...

Do you think you are a victim of contractor fraud?

- + Contact your local Legal Aid
- + Contact the Texas Attorney General at 1-800-621-0508 to file a complaint
- + Contact the Federal Emergency Management Agency (FEMA) by calling 800-621-3362

Would like more information on how to avoid contractor fraud?

- + Reach out to your local Long Term Recovery Group
- + Find additional resources and trainings on SBPUSA.org

Do you need additional disaster recovery support?

- + Call 211 to get connected to resources in your area
- + Visit recovery.texas.gov or call the General Land Office of Texas at 1.800.998.4GLO(4456)



Reference:

1. Disaster Recovery: Avoid Home Repair Fraud, Lone Star Legal Aid
2. Disaster Recovery, SBPUSA.org
3. Sample Construction Contracts, HomeAdvisor.com
4. When Disaster Strikes, Attorney General of Texas

About This Project:

buildingcommunityWORKSHOP has developed four recovery guides to help support those recovering from a disaster event. The content in this guide was developed with the support of Lone Star Legal Aid.

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Red Cross Disaster Recovery Guides

- 01 Avoiding Contractor Fraud
- 02 Renter's Rights After a Disaster
- 03 Flood Insurance Guide
- 04 Clearing Title After a Disaster