



Always On.®

## AVOID CONTRACTOR FRAUD

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### Immediate Red Flags

Con-men contractors can be creative when trying to extract money from you. They may work alone or as part of an organized scheme, but they share a few characteristics. The following list outlines some common ways scammers try to get their hooks into you. Find out how to make it clear they're trying to scam the wrong person.

#### *Always avoid contractors who:*

1. ...seem to target you if you are a senior citizen, recent immigrant, or female. They may think you're naïve, desperate, or inexperienced.
2. ...come to your house uninvited and offer to do work or contractors who leave flyers or business cards in your mailbox, on your porch, or on your door. Established, bonded contractors rarely solicit door-to-door.
3. ...offer you a deal because they are "using materials left over from another job." That "other job" may be nonexistent. The materials may be stolen or of very poor quality.
4. ...want to review the property when no one is home. Scam contractors have been caught creating more damage to make the job larger/more urgent to override your instinct to review and weigh your options. Short-circuit this maneuver by taking photos of your damaged property (you will usually need them for the insurance claim anyway), during the repairs, and after the repairs are complete. Let the contractor candidate know you have photos of the existing damage and will be documenting the repair process.
5. ...ask you to sign a contract that looks too good. A classic example is a contract that implies the contractor will have your roof replaced and will handle everything for you, including your insurance deductible. These contracts often include fine print that states you must pay them either a flat amount or a percent of their estimate even if you DON'T use their services to repair your roof.
6. ...ask for a large down payment, payment in full, or up front. Quite a few never return to do the work. Some legitimate contractors do ask for a down payment; it should not be more than 20% of the total estimate.
7. ...ask you (instead of doing it themselves) to get a work permit or tell you that you don't need one. Why do they want you to get the permit? Because the party who requests a work permit is the one responsible for ensuring that the work is compliant with local codes. If you get the permit, you become responsible for the contractor's work. In any event, obtaining permits is part of what the contractor's fees cover.
8. ...tell you that you don't need a building inspection, or that permits and inspections are just a way for the state to make money. Scammers doing poor-quality work certainly don't want their work held up to scrutiny.
9. ...show you their business license and not a contractor's license. They are not the same thing – a state's professional contractor's license proves they are licensed to do the work and are held to professional standards. Please note that some types of work do not require a license. But don't take the contractor candidate's word for this. Always check your state's website for more information.
10. ...have only P.O. boxes and toll-free numbers on their business cards. Be very wary of contractors with out-of-state license plates, even if they have a local license. Fraudulent contractors often flock to states that have recently suffered damage, get a license, scam property owners, and then disappear before the authorities can catch up with them

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12. ...cannot discuss or gloss over local building ordinances. This is like your mechanic pointing to your engine and talking about “do-hickeys” and “thing-a-ma-bobs” instead of distributor caps and carburetors. It should not inspire confidence.
13. ...accept only cash. It’s amazing how fast scam contractors evaporate once the cash is in their hands.
14. ...say they provide unusually long warranties or guarantees. Many times, a fantastic deal is really a complete fantasy.
15. ...are too quick to tell you that your entire roof must be replaced. While that may be true for in cases of major damage, keep in mind that fraudulent contractors are very happy to create a need for their services. Always get an estimate from more than one contractor and see what the joint adjuster/contractor inspection reveals.
16. ...are pushy, condescending, or bullying. Never, never, never, accept rudeness. It’s often a ploy to distract you from key issues.

### He Looks Good So Far. Now What?

OK. So, you have one or more contractor candidates who have not raised any red flags. Good. Now you can proceed to the serious task of getting candidate reviews, bids, and contracts.

#### ***Don't skip these steps:***

- Check to see if your state requires contractors to hold a state contractor’s license – most do. You can check for a list of licensed contractors on your state’s website. *Hint:* Go the extra step and make sure the name on the contractor’s driver’s license matches the name on the contractor’s license. You’d be surprised how often this step saves the homeowner from contractor fraud.
- Make sure the contractor has business liability insurance. In some states, the contractor must also carry workers compensation insurance. Get the name of the insurer and call to check that the policy is current and not due to expire during the period he or she will be working on your property. If it is due to expire, check to see if the policy is being renewed.
- Make sure the contractor is bonded. Get the name of the contractor’s bonding company and call to check that the bond is current.
- Make sure you get the contractor’s business address and validate it too. A few savvy homeowners have copied the contractor’s license plate number. We admire this and suggest you do the same, especially if the contractor is from out of state.
- Check out the candidate contractor’s vehicle. A good contractor works hard, and so does his equipment. If the contractor’s truck is immaculate or covered in chrome and custom work, for example, ask a few questions.
- Get references and check them. Better yet, drive by the address where the work being used as a reference was done and check it out. You may find the references are bogus or were provided by a friend or relative. Check with your local Better Business Bureau to see if any complaints have been filed against the contractor. Do keep in mind that unreasonable behavior exists among customers too. If you run into a scenario where the customer is dissatisfied but all else seems fine in this process, try asking the contractor about the complaint.

## Contracting for Work

- Get bids from at least three different contractors. Make your bid information very specific. Include an exact description of the required work. A very detailed statement of work is a safeguard in the event of any problems later.
- Provide the same information to each contractor so they are bidding on the same effort and materials. The contractors should provide you with a detailed, itemized bid.
- The contract should include a detailed description of the work to be performed. Make sure it includes a beginning and completion date, total cost, payment schedule, and expected warranties or guarantees. It is prudent, especially on large jobs, to include product photos, samples, material model numbers, etc., that illustrate what you require when it comes to materials, colors, etc.
- If you can, outline exactly what materials you want used. Be aware of the cost of the materials, so that you are not a victim of the contractor using inexpensive materials and charging for a better grade than is actually used.
- Make copies of materials receipts; this allows you to be able to check that you received what you paid for.
- Get a guarantee of the work in writing. Do not accept verbal agreements. If you make changes to the contract, add them in writing. Both you and the contractor should initial and date the changes.
- Never allow a contractor to pressure or scare you into a contract. A favorite scammer tactic is to tell you that the repairs have to be made "RIGHT NOW!" or a major catastrophe will occur.
- Ensure the contract includes the contractor's name, business name, address, and phone number. Even if they have to write it by hand, make sure the contract, which gives you legal recourse, includes this information.
- Do not allow any work on your property until the contract is completed. If a contractor (or anyone else) works on your property without authorization and requests payment, contact the authorities.
- Never pay in full or sign off on work until the job is done, you have inspected it, and are satisfied.
- Avoid cash payments. Use a check or money order and always keep receipts. Always make out the check to the business name.
- Finally, here's another excellent reason to be careful you are dealing with a reputable contractor. If they have hired subcontractors to work on your property and do not pay them, the subcontractor can put a lien on your property in an effort to be paid. If this happens to you, hire a construction lawyer.

## Resources

Your state's website is a good source of information about contractor requirements, building codes, consumer fraud, and other important information. Here are a few more:

- Better Business Bureau: [www.bbb.org](http://www.bbb.org)
- Federal Trade Commission – Disaster Recovery: [www.ftc.gov](http://www.ftc.gov)
- Federal Emergency Management Agency (FEMA): [www.fema.gov](http://www.fema.gov)

