

For every good, reliable, honest and capable contractor, there are probably 9 others who are crooked, alcoholic or just plain incompetent. Before you give a contractor, ANY contractor any money, follow these basic rules!

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### 1. Get Recommendations

Start with your friends and family and then check in with the National Association of the Remodeling Industry for a list of members in your area. You can also talk with a building inspector, who'll know which home renovation contractors routinely meet code requirements,

### 2. General qualifications

Be sure your contractor has the necessary documents and skills to get the job done:

- Relevant experience
- Required permits
- Good reviews
- Personal liability insurance
- Worker's compensation
- Property damage coverage

### 3. Questions to ask

- How long has your company been in business?

- What experience do you have with this type of project?
- Do you have the necessary permits or licenses? Some states require licensing and some don't. You can [check out your state's requirements and more information on licensing here](#).
- Do they have a list of references you can contact? A good contractor should have plenty of satisfied customers as well as satisfied suppliers and subcontractors that you can call. And you need to call them.
- What is the cost estimate?
- What is the timeline for this project?
- Are you insured?
- How long has their company been in business?
- What is their permanent business address? Don't be alarmed if this is a residential address; a good number of contractors do work from home.
- Will your project require permits?
- How many projects like yours have they completed in the past year? This demonstrates their familiarity with your particular needs.
- Can they give you a list of previous clients? Call up former clients to find how their project went and ask to see the finished product.
- How many other projects would they have going at the same time?

#### 4. Contracts: Get Everything in Writing

Secure a comprehensive contract before work begins. Get everything in writing, and make sure the contract is clear and well written. Consider having a lawyer review the proposed contract for your protection before you sign it if the project involves substantial costs. The contract should include:

*A detailed description of the work to be completed and the price of each item.*

A payment schedule – for example: one-half down and one-third when work is partially completed, and the balance due upon completion of repairs.

*The estimated start date and completion date on larger projects.*

Any applicable guarantees, which should be written into the contract and clearly state what is guaranteed, who is responsible for the guarantee, and how long the guarantee is valid.

The contract should lay out in detail:

- **Contact information** of your contractor such as name, physical address (you cannot serve a subpoena without a physical address), phone number, insurance company, and account and license numbers.
- The **project's start date and end date**, or its start date and the length of time until completion.

- Your **payment schedule** (and financing plan if you need one)
- **A detailed schedule** of the stages of the project including any electrical, HVAC, plumbing and carpentry components.
- **A detailed list** of all required materials, who will choose them, and how much will be budgeted for them if they are chosen at a later date.
- **A guarantee** that the contractor will file for all necessary permits.
- **Potential time conflicts** from other projects the contractor may be working on.
- **Change order provisions.** Sometimes unforeseen circumstances crop up such as dry rot and this may change the project schedule and cost. Change order provisions lay out what additional work may be done, what it will cost, and how it will affect the date of completion. Some people also choose to include in this section what will happen if they change their mind about a portion of the project.
- **All the names** of the workers that will be on site and the start and end time of their work day.
- **Names of companies** your contractor will subcontract from.
- **Names of suppliers.**
- **All information about warranties** and who will be covering them.
- **A “broom clause”** that holds the contractor responsible for all clean-up including unforeseen messes.
- **A [termination clause](#).** A good termination clause needs to include detailed information as to what factors can play a role in ceasing the project altogether, and any costs or consequences of termination for the homeowner and contractor.

## **Signatures from both parties. You should never sign a contract containing blank sections.**

Changes to the contract should be acknowledged by all parties in writing. Ask the contractor for confirmation that he or she has obtained all applicable building permits. If you decide to cancel a signed contract, you should follow the contract’s cancellation clause. Written notification of the cancellation should be sent by registered mail to ensure you have proof of the cancellation.

## **5. Insurance and Bonding**

Make sure the contractor is properly insured and bonded. Ask the contractor for a certificate of insurance (COI), which should provide the name of the insurance company, policy number and policy limits the contractor carries. You can contact the insurance company directly to verify the coverage and make sure the policy is still in effect. Do not do business with a contractor who does not carry the

appropriate insurance coverage. If the contractor is not insured, you may be liable for accidents that occur on your property.

## 6. Quotes

There are no industry standards for specific amounts on payment plans; every contractor will be different. There are however two basic options for payment, each with their own attractions and drawbacks:

- **Cost plus flat fee:** The contractor will charge an agreed upon management and coordination fee (usually 13%-20%) plus actual cost of the project. The contract will lay out the estimated costs at each stage. This should closely match the total actual cost unless there are unforeseen circumstances, and it should be stated in your contract that your contractor will provide you with all receipts and accounting at regular intervals. This option allows for tons of flexibility, but it is much more difficult to estimate the final cost.
- **Bid basis:** You and your contractor draw up a budget for the entire project and agree upon a payment schedule, all of which will be in your contract. If you have a budget, this is the more attractive option.

## 7. Payments

Do not pay cash. Pay by check or credit card for smaller projects or arrange financing for larger ones. If your contractor asks for cash payments, it's likely a scam.

The FTC (Federal Trade Commission) says:

- Some state laws limit the amount of money a contractor can request as a down payment. Contact your state or local consumer agency area. to find out the law in your area.
- Try to make payments during the project contingent upon completion of defined amounts of work This way, if the work isn't going according to schedule, the payments to your contractor also are delayed.
- Smaller projects can be paid with a check or credit card. Paying with a credit card is recommended because you have more legal recourse options if things go bad with your contractor through your credit card company than you do through your bank.
- Larger projects can be financed. If you choose this option, be certain that your contract states that the contract is void unless and until financing is approved and obtained.
- Down payments, however, are typical. Some states have limits on the amount of money a contractor can request as a down payment. Contact your state to learn about the laws in your area.

## Don't Pay Up-Front

Don't pay for the entire project before it is completed. Make sure you make checks payable to a company, not an individual, and do not pay in cash. For larger projects, it is standard practice to pay one-third of the estimated costs as an initial payment. That way, you can retain your cashed check as a receipt.

## 8. Resolving issues

Get assistance from these agencies:

- [Your state attorney](#) or local consumer protection office
- Your local [home builders association](#).
- Alternative [dispute resolution programs](#).
- Contact the [Better Business Bureau](#).
- Your local media, as a last resort.

## References

1. Federal Trade Commission: <https://www.consumer.ftc.gov/articles/0242-hiring-contractor#Before>
2. Forbes <https://www.forbes.com/advisor/home-improvement/how-to-hire-a-general-contractor/>
3. Home Advisor: <https://www.homeadvisor.com/r/guide-to-hiring-a-contractor/>
4. Traveler's Insurance Company: <https://www.travelers.com/resources/home/renovation/checklist-for-hiring-the-right-contractor>
5. This Old House: <https://www.thisoldhouse.com/21017791/top-8-pro-tips-on-how-to-hire-a-contractor>

## Contract Checklist

Before you sign a contract, the FTC says, make sure it includes:

- the contractor's name, address, phone, and license number (if required)
- an estimated start and completion date the payment schedule for the contractor, subcontractors, and suppliers
- the contractor's obligation to get all necessary permits
- how change orders are handled. A change order is a written authorization to the contractor to make a change or addition to the work described in the original contract, and could affect the project's cost and schedule.
- a detailed list of all materials including each product's color, model, size, and brand. If some materials will be chosen later, the contract should say who's responsible for choosing each item and how much money is budgeted for it (this is also known as the "allowance").
- information about warranties covering materials and workmanship, with names and addresses of who is honoring them — the contractor, distributor, or manufacturer.
- The length of the warranty period and any limitations also should be spelled out.
- what the contractor will and won't do. For example, is site clean-up and trash hauling included in the price?
- Ask for a "broom clause" that makes the contractor responsible for all clean-up work, including spills and stains.
- any promises made during conversations or calls. If they don't remember, you may be out of luck — or charged extra.
- a written statement of your right to cancel the contract within three business days if you signed it in your home or at a location other than the seller's permanent place of business