

## 10 Things Your Contractor Won't Tell You

### 1. "Anyone With a Hammer Can Call Himself a Contractor."

Home-remodeling contractors hate to admit that getting into their field can be no tougher than printing up a business card. In some states, that's all a moonlighter needs to get into the act. No wonder that as fixing up houses has grown into a multibillion-dollar business, it also has become one of the top 10 sources of consumer complaints nationwide.

Michigan requires that anyone doing residential construction or repair in which the combined labor and material costs exceed \$600.00 to be licensed. This applies regardless of who supplies the material. A license will afford some protection. The Michigan Department of Licensing and Regulatory Affairs, Bureau of Commercial Services, issues licenses to builders and maintenance and alteration contractors. Insist that your contractor have one regardless of the cost of the project, and note the number on your contract. Using an unlicensed contractor might invalidate your contract and prevent you from filing a consumer complaint. Also, if your contractor asks you to get the permit or says he doesn't need one, get another contractor.

An additional credential you might look for is a certification from a builders' association such as:  
THE NATIONAL ASSN. OF THE REMODELING IND.: (703 575-1100)  
THE NATIONAL HOME BUILDERS ASSN.: (202 822-0200)  
THE NATIONAL KITCHEN & BATH ASSN.: (908 852-0033)

Any of those outfits can refer you to certified contractors in your area. Ask the local Better Business Bureau to run your contractor's name across its complaint files. You may also want to check with the town or county courthouse to see if a contractor has any lawsuits pending against him.

And don't forget the neighborhood grapevine. Talk to the contractor's previous clients, preferably people in your neighborhood who've had jobs of comparable size completed in the past six months. Ask about work habits: Does the contractor show up on time? Does he have enough people on the job? Does he return phone calls quickly? And by all means, see examples of his work for yourself. If his projects look shoddy, take the hint.

### 2. "My Super-Low Bid Means Big Trouble."

While you should solicit at least three bids, don't get carried away with bargain-hunting. Lower doesn't always mean better. Large contracting firms with high insurance premiums and experienced full-time craftsmen have expensive overhead burdens -- usually about 25% of sales. Renegades running their business out of a P.O. Box are cheaper and riskier. A low bidder may have misinterpreted your plans. Or he may be desperate to land any job to keep his business afloat. Or he may be planning to pad his bill with change orders (addendums to the contract) once work gets started.

Real estate lawyers recommend asking prospective contractors for a bank reference, a business reference and a copy of their credit file along with their bid. For an extensive remodeling project,

you may want to consider getting a performance or completion bond. These are essentially insurance policies that guarantee the insurer will complete the job or pay damages if the contractor fails to do the work. The cost: 2% of the tab for the project. Ask your real estate lawyer for the name of a good bonding company. (A less expensive alternative is to simply ask the contractor if he's ever been bonded. A yes is a good sign.)

### **3. "I Require Adult Supervision."**

Most contractors tell clients they don't need an architect. The fact is, the contractor doesn't want an architect. Contractors hate working with architects because they're a step up the power ladder. They act as site supervisor, checking materials used and approving or disapproving work before the client releases the next payment to the contractor. That's precisely why you should consider hiring an architect for any large remodeling job. Besides providing aesthetic inspiration, architects cram their plans with specifics about materials and construction. Not surprisingly, bids prepared from architectural plans tend to be much closer to the actual final cost.

Architects charge anywhere from 8% to 15% of a project's budget. Some will critique a plan for about \$100 an hour, with a minimum of \$500 to \$1,500.

### **4. "Lawyers and Contracts Make Me Break Out In Hives."**

Most contractors will want you to sign their bid sheet, or a brief letter agreement they've typed up. That may be fine for smaller projects, but a standard AIA (American Institute of Architects) contract includes more built-in protections, including the right to stop work on all or part of the job if the contractor fails to do it on time. For a major project, it's a good idea to have a real estate lawyer draft a contract, or at least look yours over and make suggestions for insertions and deletions. "Be very wary about just filling in the blanks," warns Manhattan real estate lawyer Mitchell B. Stern. A contract review usually takes from two to five hours, at between \$150 to \$300 an hour, depending on where you live. Ask friends or contact your local bar association or the AIA to find a real estate lawyer in your area.

The three basic types of contracts are stipulated sum or flat fee, cost-plus, and time and materials:

A **FLAT FEE** is the best way to control costs, since the price, including all labor and materials, is agreed upon in advance.

**COST-PLUS** is a bit more risky. It involves a fixed fee plus the cost of labor and materials.

**TIME AND MATERIALS** is similar to cost-plus, except that the fee is calculated as a percentage of the number of hours worked. For that reason, it can lead to the biggest bills.

A standard contract should include the following: a detailed description of the job, a list of all materials and appliances to be used (including brand names, warranties and the like), a rescission clause allowing you 72 hours to cancel (required by law), a payment schedule, start and finish dates, and a method of resolving disputes (usually by arbitration). A lawyer might suggest that

you also include a list of possible change orders with agreed-on prices, a description of who's responsible for such tasks as obtaining permits, a proof-of-payment clause and a penalty clause for lateness.

## **5. "If I Don't Pay My Bills, You Pay Double."**

Long after writing the final check and wiping up the last bits of construction dust, homeowners may be shocked to discover that a subcontractor has placed a "mechanic's lien" on their home. "The fact that you may have already paid the general contractor is irrelevant," says Ann Marie Moriarty, senior editor of Remodeling magazine. "If he didn't pay the sub, you're liable." Financially troubled contractors have been known to resort to pyramid schemes, using payments for a current job to pay off the subs and suppliers from a prior job. Like all such schemes, the contractor's eventually comes crashing down.

To protect yourself, require that the subs -- before they start work -- waive any rights to place a lien against your home. Or insert a proof-of-payment clause in your contract. This requires your contractor to show you signed lien releases -- proof that he has paid the subs -- before you fork over his next progress payment.

## **6. "Keep Me on a Short Financial Leash."**

The most common payment schedule is one-third up front, one-third at some construction milestone midway through, and one-third at the end. However, unless your contractor is ordering expensive custom-built items such as kitchen cabinets, you should be able to write a contract that keeps your first payment to 10% or 15%. Most contracts also include standard language that allows you to hold back part of each progress payment until the entire job is completed to your satisfaction. "The basic premise is you're not financing the project for [the contractor]," says New York architect Peter Pennoyer. "He should never have more of your money than he's spent."

You have a right to know how your money is being spent. If a contractor asks for a down payment, the AIA suggests you ask why he needs it. If it's to get discounts from suppliers for paying cash or for paying early, you may be able to share in the savings.

## **7. "I'm Two-Timing You."**

Virtually everyone who has embarked on a remodeling odyssey has horror stories about how it cost twice as much and took twice as long as expected. Some delays -- weather, termites, acts of God -- are unavoidable. But you shouldn't have to put up with a skeleton work crew or an irregular work schedule. Those are warning signs that your contractor is being distracted by another job. Get a commitment from your contractor to work from about 7:30 a.m. to 4:30 p.m., five days a week. Ask to meet the foreman and get an idea of how many workers will be on the site daily.

Another common schedule-saver is to insert a lateness clause in your contract as well as an incentive for early completion. Some contractors will balk at a late fee of \$100 to \$1,000 a day,

arguing that no one knows what they'll find when they open up the walls. Most experienced contractors, though, consider a penalty clause standard.

## **8. "My Markup Is Your Business."**

Contractors hate to reveal exactly how much they mark up their costs, so we'll do it for them: The standard inflator is about 50%. And then there's the matter of how they calculate the markup. Some figure it into each item, others do it by category and still others add a percentage at the end. Reputable contractors do carry high overheads -- a 1990 Remodeling survey found that few end up with more than 5% net profit -- but it's always best to get a bid that's as detailed as possible. Contractors may like to work with a particular subcontractor who is more expensive than the rest. While the best sub may cost more, you've got the right to consider a cheaper alternative.

Not every contractor is always on the lookout for new ways to squeeze more money out of you. The best will suggest ways to save money, perhaps by not moving any fixtures or plumbing, or by refacing or refinishing kitchen cabinets or windows instead of replacing them, or by using laminates instead of expensive solid countertops. When a contractor orders an appliance such as a refrigerator, he should pass his trade discount on to you. Some contractors may try to charge you a service fee for arranging a discount. Inquire about this in advance. The more homework you've done about materials, the less likely your contractor will try to pull a fast one.

## **9. "My Shortcuts Could Land You In Court -- Or Worse."**

Contractors are normally responsible for getting all necessary permits on a remodeling job, but some start work without them. Why? Because the contractor may not be licensed or may not be able to prepare the required plans. Some homeowners choose to collude with their contractors to avoid expense and delays, but the owners are legally and financially responsible if the infraction is discovered. And run, don't walk, away from any contractor who asks you to get the permit. He may be trying to limit his responsibility.

Speaking of permits, there are regulations for environmental hazards such as lead, asbestos or radon. Make sure your contractor knows how to look for these substances and can dispose of them properly or find someone who can. Finally, make sure your contractor has at least two kinds of insurance: liability (for property damage) and workers' compensation (for his employees). Ask to see the original certificate or call his agent.

## **10. "Don't Be Too Nice to Me."**

It's crucial to have a good working relationship with a contractor. But remember: You've got a business relationship, not a friendship. Get all change orders in writing. That way you'll spare yourself unpleasant shocks with your final bill. And don't swill beers with your contractor at the end of each working day. Wait until the job is done to your satisfaction -- then toast him with champagne.