



Shrinking time
between disaster
and recovery.

Protect Against Contractor Fraud

To protect against fraud and obtain quality service at a fair price, homeowners must perform their due diligence when seeking and working with contractors. If your house was damaged by a natural disaster and you seek a reputable contractor to help with repairs and restoration, use these tips and checklist.

Learn more at sbpusa.org

WHAT IS CONTRACTOR FRAUD?

Contractor fraud is common after natural disasters when dishonest contractors seek to take advantage of unsuspecting or overwhelmed homeowners. This type of theft happens when contractors overcharge, do not provide promised services, use poor quality materials, or carry out unlicensed or substandard work.

WHY IS THERE CONTRACTOR FRAUD IN MY COMMUNITY?

The demand for contractors after a large-scale disaster can be great, often resulting in many qualified local contractors quickly getting booked for months. Fraudulent contractors know that homeowners are anxious to get their property back in shape as soon as possible and so may not take the necessary precautions when hiring contractors. As a result, fraudulent contractors flock to disaster-impacted communities to make a quick buck.

7 Tips to Avoiding Contractor Fraud

Fraudulent contractors can make a homeowner's road to recovery more difficult by stealing precious time and funds. Use the following tips and checklist to safeguard your household from contractor fraud. Your goal is to secure an in-state, properly licensed and insured contractor with a history of doing satisfactory work in your area.

1

Use your network to get referrals.

Seek recommendations for reputable local contractors from friends, relatives, neighbors, and other trusted sources. Local Chambers of Commerce, builders associations, and the Better Business Bureau (BBB) can be resources as well--check with these agencies to see if complaints have been lodged against any contractor you're considering.

2

Watch out for warning signs.

Look for common warning signs when searching for potential contractors. These are not typical practices of reputable contractors, so if you encounter any, stop and look for other contractors: solicits door-to-door; lacks proper ID, licensure or insurance; refuses to provide a written estimate or scope of work; demands full payment before work begins or payment in cash; asks for a deposit to "hold place in line"; offers discounts for materials left over from other jobs or for providing them referrals to get other jobs.

3**Get detailed, written estimates from at least three contractors.**

Fraudulent contractors, especially when they approach seniors, may offer a “free” estimate to assess “problems” with your roof, siding, driveway, etc. The scammer will always find something wrong. Avoid fraudulent contractors by obtaining and comparing at least three firm estimates for repairs. Estimates should be in writing, contain the same services, and include material and labor costs so you can compare them easily. Be wary of estimates that are significantly higher or lower than others.

4**Make sure contractor has proper licenses, insurance and references.**

Verify the credentials of any potential contractors. Obtain copies of ID, licenses, and insurance (workers compensation and liability). Check with your local building department on any required licensing or registration for your area and type of job. Verify licenses are valid by checking with your state and/or local licensing department. Call issuing insurance companies to verify insurance coverage. Ask for references from jobs completed in your area and call them to check on the contractor's work (*was the work done satisfactorily? how well did the contractor communicate with the property owner? were there any unexpected delays? was the project completed on budget? would they use the contractor again?*).

5**Get a written contract, sign only when you agree with everything.**

Verbal contracts are not legally binding. Once you select a contractor, you need a proper written contractor to protect you as the property owner. Your contract should include: contractor information with licensing and insurance, scope of work with material and labor costs, project and payment schedule, confirmation that contractor will obtain appropriate permits, waiver of any homeowner liability in case of injury, punch list, notation that a release of lien will be signed at project conclusion, home inspection, warranty for the work performed, a process for change orders, and a termination clause. Sign the contract only after all spaces have been filled in and you understand and agree with everything.

6**Never pay with cash, never pay in full upfront.**

Make all payments via check or credit card so there is a paper record. Clients who pay with cash are likely to never see the contractor again. Reputable contractors ask for down payments or deposits (1/3 or less of the total price is standard); they almost never request full payment upfront. In fact, most legitimate contractors bill at predetermined progress points in the project and when the work is completed to the client's satisfaction. If a contractor asks for or demands total payment upfront or in cash, do not use that contractor.

7**Manage the project closely and ensure proper closeout.**

Check on progress in person as frequently as you are able to ensure work is proceeding to your satisfaction. If you encounter any issues, halt activity right away and work with your contractor to resolve issues before allowing work to resume. As work nears completion, ensure the project is properly closed out: create a “punch list” with your contractor of items still to be completed, verify all work has passed inspection and permits are properly closed, have your contractor obtain a Certificate of Occupancy from the local building department if required, get warranty information for the work (1-3 years is typical), and double check the punch list to ensure all work is completed prior to final payment. Once final payment is issued, ensure your contractor signs a release of lien acknowledging receipt of full payment and waiving any lien rights on the property.

**What if I am a victim of contractor fraud?**

If you suspect or experience disaster-related fraud, report it to your local police department and call the consumer division of your state Attorney General's Office. You may also report disaster-related suspicious activity or fraud to the DHS Office of Inspector General (800-323-8603) or the National Center for Disaster Fraud Hotline (866-720-5721).

Contractor Checklist

PLEASE USE THE FOLLOWING STEPS AND CHECKLISTS TO PROTECT YOURSELF FROM CONTRACTOR FRAUD.

STEP 1

Licensure/ Insurance

Your contractor must be properly licensed and insured to perform the type of work your job requires. Ask the contractor to send you a photocopy of each document before your first meeting to speed up your vetting process (for any who are unable/unwilling to provide this information, you do not need to waste time meeting with them). **If you do not receive from the contractor and are unable to verify all of the following, DO NOT proceed with this contractor.**

- ☐ Contractor's business name
- ☐ Contractor's full name
- ☐ Copy of the contractor's identification
- ☐ Contractor License/Registration number(s) and exp. date(s) (*check with your local building department on what is required for your type of project; verify licenses are valid by checking numbers with state/local registries*)
- ☐ Copy of the contractor's business license
- ☐ Copy of workers' compensation documentation (*ensure contractor has workers' compensation coverage; [check registry](#) or call insurance carrier to verify*)
- ☐ Copy of contractor's proof of general liability insurance coverage? (*ensure contractor has insurance; call insurance carrier to verify*)
 - Insurance carriers name:
 - Policy number:
 - Phone Number:

Reminder

Do not rush this process!

It is important to have everything in order before proceeding. If you have answered NO to any of these questions, DO NOT use the contractor. Contractor fraud comes in many shapes and forms, so make asking questions a priority. Always verify a contractor's license and insurance. Never use a contractor who has expired licenses or insurance.

States that require contractors to have a state-issued license will have a publicly available database of licensed contractors. Visit your state government's website and search "licensed contractors" or call the consumer helpline for more information. To check local licensing requirements, call your local government's permitting office or information line/3-1-1.

STEP 2

Bids and Estimates

Ask the contractor many questions during this stage. If you feel at all uncomfortable with any of the answers to these questions, or **if any of your answers to any of the questions are NO, do NOT proceed with this contractor.**

- ☐ First, is the bid in writing?
- ☐ Is the estimate broken into labor and material costs?
- ☐ Does the scope of work include:
 - The contractor performing an extensive walk through of your home?
 - A list of the specified materials the contractor intends to use?
 - A timeline for how long the work will take?
- ☐ Did you obtain at least three bids? If so:
 - Have you compared pricing?
 - Have others looked at bids to see if pricing is accurate/average in regard to the market rate?
- ☐ Have you asked the contractor to provide you with three references from recent jobs?
- ☐ Have you contacted these three references, and do you feel comfortable with their endorsement?

STEP 3

Contract Details

Take your time during this step. If you feel at all uncomfortable with any of the answers to these questions, do not hire this contractor. Again, at the end of this step, **if you cannot check all of the boxes, do NOT proceed with this contractor.**

☐ **Have you read the entire contract?**

☐ **Are the following elements in the contract?**

- **Contractor's information** with licensing and insurance details
- **Detailed scope of work** with material and labor costs
- **Project schedule** and start date
- **Payment schedule**
- Confirmation contractor will **obtain all required permits**
- **Waiver of any homeowner liability** in case of contractor/subcontractor injury,
- **Punch list:** plan to walk through with contractor near the end of the project and create a list of work to be completed before final payment is issued
- **Home inspection:** build in a requirement of a home inspection by a third party before final installation of payment (10%). The building must meet all relevant codes and standards in order for the contractor to receive payment. The cost of this inspection falls to you, the homeowner; however, it is worth the investment. Only after successful completion of the entire punch list and home inspection will the final 10% be awarded to the contractor.

- **Release of Lien:** notation that contractor will sign a Release of Lien at project conclusion acknowledging receipt of full payment and releasing homeowner of liability to contractor, subcontractors and vendors
- **Warranty** for the work performed (typically 1-3 years)
- **Process for change orders**
- **Termination clause**

☐ **Is payment structured in installments?** We strongly recommend "progress billing" as the work is completed to your satisfaction, and never pay 100% upfront.

- Is the down payment less than 30%?
- Have you clearly identified progress points for payment/construction? We recommend no more than 30% up front for the first three stages, with a 10% installment after Punch List items are complete. **Make sure that payment is accepted by check or credit card (DO NOT PAY IN CASH!)**

☐ **Have all parts of the contract been filled in** (no blank spaces)?

☐ **Do you understand and agree with everything?**



Do not sign a contract until you can answer "YES" to all of the above.

STEP 4

Project Closeout

Once you've selected a contractor and signed a contract you agree with, manage the process carefully to ensure work is proceeding to your satisfaction. As the project is nearing completion, follow these steps to ensure a successful closeout:

☐ Walk through with contractor and create a punch list of all work to be completed prior to final payment

☐ Verify that all work has passed inspection and that any permits have been properly closed out

☐ Have contractor obtain a Certificate of Occupancy from the local building department if required

☐ Get warranty information from contractor for work carried out

☐ Conduct a final review of punch list to ensure all items have been satisfactorily completed before issuing final payment

☐ Once final payment has been issued, have contractor sign a Release of Lien acknowledging receipt of full payment and waiving right to place a lien on the property

For more information, including recovery videos and step-by-step guides, visit our [RESOURCE HUB](#)