

Avoiding Contractor Scams

"If the contractor for your project tells you something that's too good to be true, it probably is."

Last year, an elderly woman hired my company because her floor was still sagging even after she had paid another contractor \$2,700 to fix the problem. It was no wonder it sagged. When we entered the crawl space, we found nothing more than a temporary post nailed under the floor, work that probably took the contractor two hours. We tried to contact the original contractor, but all we got was a disconnected pager. This was a classic scam: Charging a bundle for shoddy work the homeowner is unable to inspect.

Only a small percentage of contractors are bad apples. Those who are will hit you up for a lot of cash while providing little or inadequate work in return. Fortunately, scammers and con artists are pretty easy to spot-as long as your own desire to save money doesn't blind you to the telltale signs. Another category of contractor you can screen out at the same time is the guy who is basically honest but is not organized enough, solvent enough, hardworking enough or experienced enough to keep your job on track. Although these contractors are sincere, the consequences-broken promises, bad work and busted budgets-are often the same as when you hire someone truly unscrupulous.

Identifying Red Flags Before the Job Starts

Remember that scam rhymes with scam, and that's what bad contractors do. They don't stick around to finish the job because they are unwilling to make the investment of time and money required to run a legitimate contracting business.

Shabby Equipment

The first signs that a company is a fly-by-night outfit are poor personal appearance, shoddy tools, filthy or broken equipment and vehicles in poor repair. Not every good construction company will have uniforms, new trucks, cell phones and laptops. (Some super dependable subcontractors we work with don't even have fax machines.) But how a contractor presents himself and takes care of his truck, tools and equipment is a good indication of how well he will take care of you and your job.

The Low-ball Offer

When you are reviewing bids, if a contractor says he will give you a "special low price" that you must keep secret, move on to the next guy. The secret price is either dramatically lower than it should be and this guy plans to do only some of the work before skipping town, or the bid is dramatically higher than it should be and he wants to keep you from comparing it with others.

The same is true for a bid that comes in far below all others, such as when you get three bids and two of them are around \$5,000 and one is \$3,200. The low-bidding contractor either is clueless or he never intends to finish the work. Another scam is to bid low and then start charging you extra for materials you thought were included in the price once the job begins.

Finally, pay attention to how carefully the contractor looks at your job before bidding. If a bidding contractor just eyeballs the job and says, "Yeah, we did a job just like this and I'll charge you the same," or if he doesn't take notes and measurements you may be dealing with a contractor who isn't thorough enough to do a good job.

High Up-front Percentage

Some types of work require a large initial payment from the homeowner because the contractor will have to leave this as a deposit when ordering. This applies to products like cabinets and special-order ceramic tile. It doesn't apply to commodity materials like roofing and lumber, which are bought "on account" by any legitimate contractor with at least 30 days to pay. Be very cautious if a contractor asks for more than 20 percent of the total cost of the job up front. (Some states set the limit at just 10 percent.)

Payment in Cash

"I'll do the job cheaper if you pay me in cash" is another big red flag. A contractor who works on a cash-only basis is probably not paying taxes, and almost certainly not paying for insurance. The same goes for a contractor who wants to get paid each day. Drop him like a hot potato.

No Office

If your contractor has nothing more than a cellphone or pager and a post office box, call the Better Business Bureau and your state licensing bureau to see if there are any complaints lodged against him. Also, check all his references and visit some recent jobs. A contractor should have an office somewhere, even if it's a room in his home, and a reference at a local bank and accounts with local suppliers.

Limited Time Offers

If a pro pressures you to sign the contract as soon as it is presented and hand over a check right there, resist...and then find a different contractor. In fact, many states require a "cooling-off period" that gives homeowners three days to cancel a home improvement contract-without obligations-after signing it.

Red Flags Once the Job is Under Way

A contractor's dirty laundry becomes more evident once the job starts. But many homeowners are reluctant to act on their concerns early, thinking "I already signed the contract," and "Maybe it will get better." If you see some of the following signs, act immediately-it will only get worse.

Unexpected Price Hikes

If your contractor arrives claiming that materials cost more than he thought and he'll have to charge you more, stop him at the door. Unless the job is cost-plus, most contracts between you and your contractor are for firm labor and material prices. The contractor has to eat any mistakes he makes due to underbidding. The only time the price should change on a fixed bid is when you initiate and then sign off on a change order that alters the scope of the work.

Contract Changes

If the contractor violates the terms of the payment schedule by claiming he is running short of money and has to move up a progress payment to an earlier date, insist on sticking to the original terms. In this situation, the contractor probably isn't managing cash flow well and needs your payment to satisfy past material bills or debts to subcontractors. It's a common error even honest contractors make, because they touch lots of money, yet relatively little of it is actually theirs. But this is no way to run a construction business. Pay only as you agreed in the contract.

Subpar Materials

If during one of your walk-through inspections you notice that a different material than is called for in the contract is being used, call the contractor right away. Scam artist will use 3/8-in. plywood where the contract calls for 5/8-in. or a 2-in. layer of gravel instead of the specified 4-in. layer. (This "savings" on materials lines their pockets.) If this happens once, it can be an honest mistake or a sloppy subcontractor. But check a few other material specs against the contract or plans, just to make sure.

Payment

If subcontractors complain directly to you they haven't been paid, or if the contractor's material bills aren't getting paid and you are getting calls, confront your contractor. Your final payment to the contractor should be issued only when you're entirely satisfied with your punch list and final walkthrough. When you write that last check, even reputable contractors take it as a sign that the job is entirely finished. So, no matter what the sob story, don't give into the pressure to write this check until you're satisfied.

Document Everything

Suspect you are being scammed? Documentation is the best protection. Keep a job journal-just a few notes each day to show progress and problems. And take pictures of the job at various stages. That way, when walls are closed up, there's no argument about whether the insulation was added or the wiring updated.

If your contractor is clearly being dishonest, bar him from the job site, and report the matter to the Better Business Bureau, the local building inspector and the state attorney general's office. Contact your lawyer to find out about enforcing the contract, punishing the contractor and seeking redress.