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. Fradulent 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

Fradulent 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.
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 (1-866-223-0814).
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
- Get warranty information from contractor for work carried out
- Verify that all work has passed inspection and that any permits have been properly closed out
- Conduct a final review of punch list to ensure all items have been satisfactorily completed before issuing final payment
- Have contractor obtain a Certificate of Occupancy from the local building department if required
- 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 sbpusa.org/start-here