

# KAREN'S CRASH COURSE IN AVOIDING CASH-POOR CONTRACTORS

I LEARNED THESE 12 LESSONS THE HARD WAY,  
BUT MAYBE YOU WON'T END UP  
WITH A LIEN ON **YOUR** HOME  
DURING YOUR NEXT REMODELING PROJECT!



**LESSON #1: DO SUBSTANTIAL RESEARCH ON THE CONTRACTOR BEFORE YOU HIRE HIM OR HER AND CERTAINLY BEFORE YOU SIGN OVER A CHECK. INVESTIGATE THE COUNTY OR STATE LIENS DATABASE TO SEE IF ANY LIENS HAVE BEEN PLACED ON THE CONTRACTOR'S RESIDENCE OR BUSINESS. YOU MAY NEED TO GO TO YOUR COUNTY COURTHOUSE TO PERFORM THIS VITAL RESEARCH. HOWEVER, THE GEORGIA STATE-WIDE LIENS DATABASE IS ACCESSIBLE ON-LINE THROUGH THE INTERNET.**

My husband Drew and I met our contractor at his booth at an Atlanta home show, and we saw his portfolio of work. We had good rapport with him. Most contractors we interviewed had no experience in building soundproof recording studios, but we were impressed to learn that he had worked on some previous studios. He was very interested in our project. He also brought a consultant with him on several trips to our house when gathering information needed for the estimate.

We were pleased that our contractor was a member of the National Association of the Remodeling Industry (NARI), which has excellent articles about selecting a contractor and a code of ethics its members should follow shown on its web site <http://www.nari.org/>. No complaints had been filed on him with the Better Business Bureau at the time we hired him. We drove by the address listed on the contractor's business card and saw that it was a house about 3 miles away from our own, with a for sale sign in the yard.

We also verified that his business license was still valid with the GA Secretary of State. Georgia has only created a state licensing board for contractors as of July, 2005, so it was not in effect when we started the project. Obviously, if the state has a licensing board, I would recommend a review of its records concerning the contractor under consideration.

We obtained a copy of his insurance certificate, but we did not call the company to confirm that it was still valid or that the coverage listed was correct. On any future projects, we would call the insurance company to verify those facts. Fortunately, we had no issues that required us to file insurance claims. We felt comfortable with the contractor's knowledge and experience, so we did not call any references from the contractor although he was willing to provide them.

On our next remodeling project, we would call references, and we would explore the liens database. We learned too late that this contractor had several liens on his house in both his name and his wife's name. They also had FIFA judgments against them, which I understand means that someone sued, won and could go with the sheriff to claim property in the amount of the judgment. Those liens and judgments were warning signs that the contractor had cash flow problems, and the references might have better prepared us to deal with him.



**LESSON #2: ONCE YOU SELECT THE CONTRACTOR, DON'T PAY A HUGE DEPOSIT UP-FRONT. IF THE CONTRACTOR NEEDS A LOT OF MONEY UP-FRONT, HE MAY HAVE CASH FLOW ISSUES, WHICH MAY PREVENT HIM FROM COMPLETING THE JOB OR CAUSE HIM TO EXPERIENCE UNUSUAL DELAYS DURING THE PROJECT BECAUSE HE DOESN'T HAVE THE FUNDS TO HIRE SUB-CONTRACTORS IN A TIMELY MANNER.**

We paid about 40% up-front, which we have since learned is entirely too large of a deposit. Our contractor told us that this deposit was needed so that he could obtain building permits and buy materials such as the concrete for the foundation. Nothing happened on our room for a MONTH. We believe that the contractor was using our money to finish construction on other jobs.



**LESSON #3: OBTAIN ALL APPROPRIATE BUILDING PERMITS FOR THE PROJECT, AND WITHHOLD THE FINAL PAYMENT UNTIL THE PROJECT PASSES FINAL INSPECTION.**

Some people don't want to go through the extra hassle of dealing with government officials on their renovation project. The inspectors must ensure that the project is being built to code. While the contractor obtained the permits on our behalf, we could have acquired them on our own. Our foundation footings failed its first two inspections, and the room failed the final inspection.

The contractor had to fix the problems noted by the inspector each time in order for the project to proceed. When we were considering firing our contractor, I was able to obtain a print-out of all our inspections from the county and discuss our options for the final inspection. I was glad that we could withhold final payment until we received the Certificate of Occupancy.

**LESSON #4: MAKE SURE THAT THE CONTRACT IS WRITTEN SO THAT YOU ARE KEEPING A LARGE PERCENTAGE, LIKE AT LEAST 25% AND IDEALLY 50%, AS THE FINAL PAYMENT. OTHERWISE, YOU WILL HAVE LITTLE OR NO LEVERAGE WITH THE CONTRACTOR TO FIX PROBLEMS AT THE END OF THE PROJECT. ALSO, YOU MAY NEED TO ADJUST THE FINAL PAYMENT TO THE CONTRACTOR IF HE HAS NOT PAID THE SUB-CONTRACTORS.**

In Georgia, anyone who works on your house, whether they work for you or as a sub-contractor for someone else, has a right to place a lien on the real property for non-payment. According to the law, it doesn't matter whether the homeowner or the contractor was supposed to provide payment. This type of lien is called a mechanics or materialman's lien. In our case, we paid our contractor, and he was paying his sub-contractors....or so we thought.

The sub-contractor for the concrete company did not receive payment and put a mechanic's lien on our house; the sub-contractor for the framing threatened to do the same. (Note that we gave a huge deposit up-front in part for funding the concrete!) We had countless discussions with all parties for over a month before the concrete company finally acted by placing a lien on our home.

As an interesting side note, the address typed on the lien document was incorrect. We had some question whether the lien was even valid. A county government worker told me that they record liens without regard to the legality of them. We aren't sure if this type of lien shows up in a credit report, but I believe tax liens stay on your record for at least 7 years. We were beyond livid that that a lien was filed against us and might affect our perfect credit rating.

We owed less than \$1000 to the contractor at that point, which was far less than the amount of the lien. While the contractor said the concrete company had not finished the job because they had left the gravel in my yard for months, the bottom line was that our contractor had spent our money on other things and didn't have it to pay the concrete company. We had no leverage to get the issue resolved, and we were considering legal options.

We regained our leverage in a **very creative way** when I learned by accident that the contractor was planning to attend a major yearly Atlanta home show. I **used the power of my voice** and threatened to show up at his booth all weekend and **tell every potential customer who walked in his booth** that I had a lien on my home because the contractor had not paid his sub-contractors! (Does that graphic make you think I can be a tiger? GROWL! ☺ ) His wife called me in tears, saying such a move would ruin his business and opportunities for new work for the coming year.



Somehow, the contractor magically came up with the money to pay the concrete company. We obtained a bank check from the contractor, and my husband met the concrete vendor at the county courthouse to obtain his lien release in exchange for the check and to ensure that the lien was removed from the county records.

Since we learned too late about the various liens on my contractor's own home, we believed that filing a lawsuit would have been a costly alternative that might not gain us anything. I had an alternate plan for gaining leverage without taking the contractor to court. I had contacted my local chapter of NARI and discussed the situation with a representative of that group. Had the lien not been quickly removed from my house, I would have sent the information to the executive director of NARI and requested that NARI conduct an ethics investigation into this contractor's financial problems. I believe that an investigation and pressure from the professional group could have yielded the same results as my threatened appearance at the home show.

**LESSON #5: OBTAIN LIEN RELEASES FROM EVERY SUB-CONTRACTOR WHO WORKS AT YOUR HOUSE DURING THE PROJECT LIFE CYCLE. DO NOT PAY YOUR CONTRACTOR UNTIL THOSE LIEN RELEASES ARE PROVIDED.**

We could have saved ourselves a lot of time and aggravation – not to mention some additional money – if only we had known about the **all-important lien release!** If your contractor is not paying your sub-contractors, you need to know it **immediately!** In retrospect, we think the best way to proceed is to act as our own contractor, where we or our bank would be the one in charge of paying the subs.



**LESSON #6: REFUSE TO PAY THE CONTRACTOR AHEAD OF THE SCHEDULE SPECIFIED IN THE CONTRACT, AND MAKE SURE S/HE PROVIDES ALL DOCUMENTATION AT TIME OF PAYMENT.**



At every milestone in the contract, our contractor wanted a partial payment based on the work that had been accomplished. I didn't like the fact that he asked for money ahead of schedule; I maintained that we had a schedule and should adhere to it. However, he was a master manipulator who played our feelings. He was a family man who lived just 3 miles away from us; his children went to school right down the street from us. Things had been difficult with all of the rain we had in the summer...but that's okay. He'll make it ... somehow. Boo-hoo; let's get out the hankies and help this man, or better still, get out the checkbook!

Once we fell into the trap of writing the first check for a partial payment, the contractor expected a partial payment at every milestone. In future remodeling situations, I will remember that I am an employer, not a friend.

While we did not notate our need for documentation in the contract, we had made it clear to our contractor that we expected to receive copies of every single piece of paper connected with our project, especially since I am creating an e-book about the studio construction for my web site. We wanted receipts, contracts with the sub-contractors, bills of lading, etc., and we requested these materials at every opportunity. He would always make some excuse about not having the documentation with him. In the future, if you want a piece of paper from us resembling a check, you're going to hand off some paper to us in the form of purchase receipts, contracts, lien releases, etc.

**LESSON #7: SPECIFY PENALTIES IN THE CONTRACT FOR DELAYS CAUSED BY THE CONTRACTOR.**



In order to attach the ventilation pipes from this room with those in the rest of the house, the pipes had to be run through the walk-in closet that I had been using as my recording booth. Once that closet was torn apart, I was unable to record anything until the room was finished.

I expected the downtime to last no more than a week, but the contractor's cash flow problems also caused stagnation on finishing my studio. Even though the work was mostly done by mid-August, several weeks went by without anyone showing up to finish the project. We were beginning to think that the project would never be completed. Because my studio was not finished on time, I lost numerous audition opportunities and a major narration job from a regular client. I also was in the middle of production of several large projects for which I had to cease recording until the studio was completed.

My business suffered, and I lost income. Unfortunately, our contract did not specify any penalties for missed deadlines resulting from the contractor's negligence or empty promises. We won't make that same mistake on future projects!

## LESSON #8: Specify in the contract the grade of framing timber that you want in your construction.

We didn't realize that framing timber comes in different grades, and we were less than happy to see the various pieces of wood with large knots, bark and shaved-out edges. All of the wood holding up the walls in my studio does not look like solid pieces. It doesn't look like the nice lumber sitting in the middle of the Home Depot; it looks like the wood from the outer circumference of the trees. Better grade framing timber costs more, but, in our opinion, is worth it!

## LESSON #9: Be on hand to supervise as much of the project as possible to ensure that materials specified in the contract are actually utilized.

This room wasn't an ordinary addition to the house. It is a soundproof studio for my voice-over business. Our contract specified two layers of 5/8" sheetrock. However, Drew came home from work early one day and discovered that the crew was busy installing a layer of 1/2" sheetrock. He quickly told them to cease their efforts and made sure that 5/8" sheetrock was delivered and installed per the contract. If he had not gone home, we might not have known about the switch.

The contractor also planned to install ugly, non-directional recessed lighting that looked like industrial coffee cans. However, we had a vision all along for track lighting to highlight the number of fine art pieces that are now hanging in the studio. Again, we caught this mistake before holes were cut in our ceiling.

If we had the opportunity to inspect the framing timber prior to its usage, we would have insisted on better quality wood.

We believe that the contractor was cutting costs at every conceivable place. We picked out Behr paint colors for the room. Our contractor did not want to use that brand, claiming that it did not spread well. We agreed to let him match the colors and use another brand. In hindsight, we now realize that he probably didn't want to use Behr paints because it is expensive, not because of any inherent quality problems with the brand.



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## LESSON #10: Ensure that your contractor provides you with a detailed action plan with timelines and maintains constant communication during the project life cycle.

One of our biggest irritations during this project occurred numerous times: no one showed up to do any work, and the contractor wouldn't return our calls. We stressed repeatedly that we expected better communication, but we had nothing in the contract to indicate how frequently communication should occur or any penalties that might be invoked if we failed to hear from the contractor.

One of the biggest challenges of the project resulted from joining the studio to my kitchen at the point where we used to have a bay window. When the bay window was removed so that a new interior hall and doorway could be framed, we discovered that the concrete poured for the new studio foundation is about 3/4 to one inch higher than the rest of the linoleum kitchen floor. Our contractor had no idea for the longest time how he was going to integrate that part of the floor with the rest of the kitchen. Drew is the one who came up with an idea for fixing the floor, primarily because we were tired of looking at the ugly, chipped concrete for at least 2 months while

## LESSON #11: If a specialist is needed for your project, specify his participation in the contract. Maintain right-of-refusal over sub-contractors.

When preparing the estimate, our contractor brought a sound engineer with him as a consultant. Thanks to the sound engineer's sound advice, I have 2 ceilings, as well as 2 doors at each entrance to provide better soundproofing. The sound engineer was supposed to be our project manager.

However, after the building began, we didn't see the sound engineer. Our contractor told us that the sound engineer had personal problems, and we were surprised when our project manager soon became the contractor's brother-in-law. We're unsure of the brother-in-law's experience and credentials, other than the fact that he was a warm body who probably wasn't charging our contractor for his time.

In my recording studio, the cabling for my microphone is ultra-important. The contractor ran the wiring in the walls for my microphone, and I was never convinced that he knew what he was doing or that he purchased quality audio cabling. When my recording engineer speaks to me through my headset, I often hear a clicking sound. I am using the same equipment that I used when I recorded in the walk-in closet, yet I never heard that sound before moving into the new studio. That sound may be due to improper cabling in the wall. If the sound engineer who originally consulted on the project had been allowed to see it through to completion, I don't think I would have this cabling issue.

We also have an issue with the ventilation in the studio. The temperature is off by as many as 10 degrees compared to the rest of the house: too warm in the summer and too cold in the winter. We should have insisted that the contractor contact our current HVAC technicians who service our existing unit. The contractor did not properly research the capacity of our current system before connecting the studio to the house unit.

In addition, the techs did not install the studio vents in the proper location. We told the contractor more than once that we were installing a 6'x8' professional recording booth with 7' walls in one corner of the room, but he did not convey this critical information to the HVAC tech. The vents were installed one day when we weren't home to supervise. Naturally, one of the 2 vents in the room is located directly above that booth. We are now faced with paying someone to troubleshoot the problem and potentially increase the capacity to that room because the ventilation wasn't installed correctly during construction.

## LESSON #12: PUT EVERYTHING ON THE FINAL PUNCH LIST THAT NEEDS ATTENTION.

I know that the laborers thought I was extremely picky with some the touch-up work that I demanded. Since we were the ones who were PAYING for the construction and now have to live with it, I had a right to be demanding about the quality of the room! We still see things that were not done correctly because the workers were too hurried and did not pay attention to details.

