



Protect Yourself From General Contractors Who Leave Jobs Unfinished, Start Jobs and Disappear or Go Bankrupt

5 Things You Need To Look For To Select A Qualified Contractor

Texas does not require general contractors to be licensed! So how do you go about selecting a contractor? You could spend a lot of time doing due diligence but why should you – **make the contractor prove to you that he is trustworthy, financially stable, and experienced enough to complete your project.** Here are 5 things that the contractor should be able to provide to you to make your selection process go more quickly.

1. *Proof of Insurances*
2. *Proof of Financial Stability*
3. *Process & Procedures*
4. *Professional Organizations*
5. *References*

Proof of Insurances

All general contractors should be able to provide to you proof of the following insurances:

- ✓ General Liability
- ✓ Workers Compensation Insurance
- ✓ Builder's Risk Insurance (covers your structure from loss while in the building process)
- ✓ Auto Insurance
- ✓ The ability to get a Performance and Payment Bond without a rate that costs you an arm and a leg. (A guarantee of completion if for some reason the general contractor is not able to complete the project.)

You should also verify how the general contractor ensures that their subcontractors are fully insured. You do not want to have an accident or other event jeopardize the completion of your building if your contractor cannot financially absorb the costs associated with uninsured incidents. Insurance protects you from these risks.

Proof of Financial Stability

One of the first checks to determine financial stability is how long a company has been in business. Typically it takes at least 5 years in business to show a history of continued financial stability. You want to be able to identify those companies that get into financial trouble, file bankruptcy and the next month



open their doors under a new name. Five years in business UNDER THE SAME NAME is an easy way to weed out questionable contractors. Once you have 5 years of history to look at, here are some other ways the contractor can prove financial stability to you:

- ❑ A contractor should be able to present to you a letter from their bank stating their financial stability and character as a company.
- ❑ A contractor should be able to present to you letters from their suppliers stating their payment history over time. Did you know that a supplier can legally put a lien on your property if the contractor doesn't pay him even though you have paid the contractor in full? This letter from the contractor's suppliers will tell you if the contractor has a track record of timely payments.
- ❑ A contractor should be able to present to you letters from their subcontractors stating the contractor's payment history over time. Just as with suppliers, a subcontractor can put a lien on your property if the contractor fails to pay him even though you paid the contractor in full. You want to identify any problems of this nature prior to signing any contract.
- ❑ One final check you can make is to see if the contractor has a Dun & Bradstreet rating. This rating just gives you another level of comfort that the contractor is being rated by a reputable third party and any fiscal problems would surface in their rating.

Receiving all of the above information from a contractor gives you a very good picture of the financial stability of the contractor. Whether "red flags" are raised in the process or not, you will be able to make a more informed selection of a general contractor.

Processes & Procedures

How a contractor runs his business can have a direct impact on you. You need to understand what to expect from the contractor and what he expects from you.

One of the first things to look at is the contract that you will sign with the contractor. Is it detailed so that you know exactly what is covered and what isn't? Many of today's contracts are written in legalese defining methods of payment, recourse if the project doesn't go well, etc. but they do not specifically tell you what you are paying for. Look for a contract that *lists details of what is included and what is excluded*.

Don't agree to pay more than a 10% mobilization fee. A fee of more than 10% should raise a "red flag" and a ton of questions on your part about the use of the up front money.

The contractor should have copies of their subcontractor's license and monitor those to ensure everything is current. Also to avoid future legal issues with subcontractors, does the contractor have their subcontractors sign a partial lien waiver for the work they have been paid for?



Some of the less critical issues to check but still important are:

- Does the project manager and project supervisor have cell phones for fast communication and do they visit the job site daily so that they can answer your questions?
- Does the project manager have regularly scheduled status meetings to keep you informed?
- Do they clean up the job site daily?
- Is there executive oversight for your project so that if something does slip, changes can be initiated to correct the problem? Also, is the corporate executive team available to you if you need some additional information or just a "sounding board"?

Professional Organizations

Before signing any contract, always check with the local Better Business Bureau (BBB) to see if there have been any complaints against the contractor. You also need to ask if the contractor is a member of professional or business organizations within the community. Belonging to organizations shows acceptance as a viable business within the community as well as leadership within the industry.

References

No due diligence would be complete without references. Ask for a minimum of 10 references for the last 12 months. While you might not want to talk to all 10 you can pick those that most closely fit with what you are asking the contractor to do. Along with the client references, you should ask for business references, the people the contractor does business with. You are now getting a complete picture of how the contractor treats not only his clients but also his other business associates.

When checking references be sure to ask the following questions:

- Was your project completed on schedule and if not why?
- Was your project completed within budget and if not why?
- Was the quality of the construction to your expectation and if not why?
- What type of structure did you build?
- What type of project delivery system did you use?