

Tips On How To Protect Yourself During A Construction Project

By Kathy Daily

It's finally spring and that big - or little - construction project is on the horizon. You've received bids from several contractors and you think you are ready to get started. Then you start hearing horror stories from family and friends about their experiences with contractors. In turn, you start worrying about how to protect yourself. Don't let this happen to you.

As an agricultural lender that has financed quite a few construction projects in the past, I've compiled a list of tips that can help protect you:

1. Written contract – No matter how well you know the contractor or how good their references are - get a written contract. At minimum, the contract should include the following:

- a. Legal names and addresses of both parties
- b. Detailed description of the work to be performed, type and grade of materials that will be used, and if material cost is included in the contract price
- c. Who will obtain necessary building permits and insurance
- d. List of any subcontractors that will be used and what they will be doing
- e. Total project price and agreed upon progress payments on completion of each stage
- f. Project begin date and expected completion date
- g. Who is authorized to make changes to the project on the behalf of both parties (This will prevent someone asking an employee for the authority to change something.)
- h. Document that all changes must be in writing and approved by both parties
- i. Require that all workers, including employees of contractors and subcontractors, will be bonded and insured
- j. Clearly state how disputes will be handled
- k. Contract should be signed and dated by both parties
- l. Have building plans attached
- m. Both parties should initial/sign and date each page of the contract and any attachments

2. Be present and aware – Being knowledgeable is one of your best defenses.

- a. Know who is on your property and who they work for every day. This will ensure that if a new subcontractor shows up, you know about it.
- b. Also, be cognizant of materials that are moved from your farm and taken elsewhere.
- c. If possible, be around when building inspectors show up so you hear first-hand issues or problems that the inspector uncovers.

3. Lien Waivers – This is a simple tool that can protect you in a big way. A lien waiver is a document that you have the contractor and subcontractors sign when payment is made to ensure nothing else is owed to them at that point. Example: Your contractor hires an electrician and he finishes installing the electric. The contractor then wants the money to pay the electrician. At this time, you would have both the electrician and the contractor sign a lien waiver stating that he has been paid in full. This prevents the contractor from collecting from you and never paying the electrician. Without lien waivers, the subcontractors can file a mechanics lien on your property for non-payment.

4. Insurance – Notify your hazard insurance carrier prior to starting construction to confirm that the building is insured during the construction period. You may have to purchase a different policy, or add it onto your existing policy, but you want to be sure you have coverage.

Once labor has begun, you will be liable for the work that has been performed and you will have assets at risk once you make the first payment. Insure your investment from theft, fire, and weather related losses.

5. References – Get a list of references and call them. If possible, go see the work done for those references. Often people will tell you more in person than they would on the phone.

There are a lot of good reputable builders out there, but by the time you find out that your contractor is not reputable, it is usually too late. Reputable builders and contractors will recommend that you take steps to protect yourself. If they discourage you from taking these steps, there is probably a reason.

Good luck on your next building project.