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How unlicensed contractors can cost you

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by *Daniel Simmons*

It's down to two. You've vetted a long list of contractors. Wheat has emerged from chaff. Now the final decision gets tough. Each appeals to you for different reasons. They're almost identically qualified, with one difference: one's licensed, the other isn't.

Questions float through your head: What does it really mean to be licensed? Why are some contractors licensed and others not? And the ultimate question: Does it matter? You're not alone in your confusion. Contractors feel it, too. Licensing rules vary state to state. Most states require a license for at least a few home-improvement trades, some don't. Some cities and counties require additional licenses, some don't. Some states and municipalities strictly enforce their licensing laws, most don't.

Once contractors think they've got the rules figured out for where they work, another unhappy epiphany dawns: not everyone — homeowners or contractors — knows the rules. And not everyone plays by the rules. Contractors pay a tidy sum to play by the rules, which makes it hard for them to compete against those who don't. Homeowners can pay the price when they fail to distinguish between the two.

What follows are several stories about homeowners and contractors across the country negotiating the complicated world of trade licensing. In each you'll see the complexities and frustrations encountered in a system that can be called many things, but definitely cannot be called simple.

Portland painter falls hard for licensing

Fifteen years ago, one of Eric Hernanz' employees fell off a ladder. The fall resulted in a broken elbow and a sky-high medical bill — about \$18,000. Hernanz, a Portland painter, was young and "borderline destitute," but he had his Oregon contractor's license, which requires workers' compensation insurance. And his insurance paid the bill.



Photo by James Holk | State-licensed painter Eric Hernanz learned the value of having a license and proper insurance when one of his employees fell off a ladder.

But what if he wasn't licensed and didn't have insurance? "My employee very well could have sued the homeowner for medical bills and lost wages since it happened on his property," Hernanz says. "Unlicensed contractors put their own clients at risk if someone's injured on the job."

The incident illustrates why Hernanz still cares — really cares — about contractors being licensed. "Choosing to go with an unlicensed contractor is like a drug user choosing to perpetuate the drug dealing system," he says. "I feel very strongly that there are moral and ethical implications, as well as tangible reasons, for being licensed."

According to research compiled by *Angie's List Magazine*, contractors must demonstrate proof of insurance as part of obtaining a trade license or registering in 39 states. Claire Wilkinson, vice president of global issues for the Insurance Information Institute, says the first thing a homeowner should do before hiring is ask for proof of a license and insurance.

Liability insurance covers property damage and bodily injury caused by that contractor's work. Homeowners should also make certain the contractor's insurance policy includes workers' compensation, which covers injuries the contractor's employees may suffer while on the job, says Dean Herriges, vice president of the National Association of the Remodeling Industry. If a contractor doesn't have these types of insurance, consumers could end up paying out of their own pocket if their homeowner's policy is insufficient to cover the bills, Herriges says.

Bonding is also important, which is why many licensing and some registration boards require it as well. Bonds protect homeowners if the company performs shoddy work, doesn't finish the project, or fails to pay subcontractors and suppliers.

The economy makes these assurances all the more important. There's been a surge in unlicensed painters in the Portland area, Hernanz says, as contractors take financial shortcuts by not paying licensing and insurance fees. And he says the penalty if caught working without a license deters no one. "The fines are a slap on the wrist," he says.

Oregon Construction Contractors Board Enforcement Manager Rich Blank responds that unlicensed contractors face increased fines for repeat offenses, and that the board will ultimately seek criminal charges if the first few sanctions don't work.

In June alone, Hernanz bid four jobs against competitors he believes to be unlicensed. "A telltale sign is a too-good-to-be-true price," he says. In those cases, Hernanz e-mails the customers, explaining the increased costs of being licensed. He encourages them to check with the state board to make sure the companies are properly licensed, bonded and insured. "I think it's important they know the risks," he says.

And he believes homeowners should be held criminally liable for knowingly hiring unlicensed contractors. "They're contributing to fraud and cutting into the business of legitimate companies," he says.

He knows it's unlikely that punishing homeowners will fly politically. But it doesn't dampen his resolve. "This isn't how I want it to be," he says.

Cincinnati electrician plays by the rules, but takes a hit

In June, a plumber friend of Charlie Fischer's was found in the basement of a house where he was working in Cincinnati. He lay on the floor, unconscious. Blood spilled out his mouth. He had bit almost entirely through his tongue. The man had been nearly electrocuted after bumping against an ungrounded fluorescent light fixture while holding a copper pipe.

"It went right through him," Fischer says of the 110 volts of electricity.

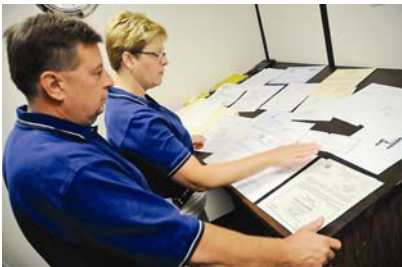


Photo by Rod Vesper | The Fischers sort through the dizzying stack of licensing paperwork necessary to work in the different states and communities they serve.

Fortunately, he was found and resuscitated, but he was taken to the hospital and lost the next week of work. And it happened because of shoddy electrical work — which Fischer says was done by an unlicensed electrician. To him, it was a sobering, 110-volt reminder about the importance of licensing.

"That's what licensing does," says Kay Fischer, Charlie's wife and business partner in [Craftsman Electric Inc.](#), a Super Service Award winner in Cincinnati. "It proves you have the knowledge and you really do know your trade."

The couple points to the extensive training and testing required of each of their electricians in order to stay licensed. The ongoing education, they say, ensures quality work that will

keep clients safe from fire and electrical accidents such as the one that felled their friend. "We want things done right," Charlie says. "But that comes at a cost."

The company operates in municipalities across southwestern Ohio and northern Kentucky. It requires navigating a complex array of licensing requirements of both states and the various cities and counties within.

"It's very confusing, and it goes on and on," Kay says. The company prides itself on meeting every licensing requirement, which they estimate tacks an extra \$30,000 a year onto their operating costs.

In Kentucky, the diligence pays off, they say. Every job requires pulling a permit, and contractors must show proof of licensing to get the permit. "All licensing is done through the state," Charlie says, "then local inspectors enforce it."

And the system, he says, works. Across the Ohio River, it's a different world.

"If you put your name on the side of a pickup truck, you can do all the electrical work you want in Cincinnati," Charlie says. "Nobody's going to stop you."

Electrical companies are required to be licensed through the state of Ohio, but there's little enforcement, he says. The state's licensing board has two enforcement agents statewide, says Matt Mullins, spokesman for the Ohio Department of Commerce, which appoints the 17-member licensing board.

Further, unlicensed contractors must be caught by agents in the act of performing jobs. That practice is fairly common in states that require contractors to be licensed, says Ginenne Lanese, program coordinator for the National Association of State Contractor Licensing Agencies.

In Cincinnati, a law passed in January 2008 mandates permits for all construction work within the city limits be issued only to registered contractors. But Kay says she's never had to show proof of registration when pulling a permit in the city.

The unlicensed contractors have a financial advantage without the overhead costs of getting employees licensed. "There's no way we can compete with them," Charlie says, even though he continues to offer residential services despite the higher costs. "If you play by the rules you get penalized."

Los Angeles contractor is unlicensed and proud of it

"He understands doors to a greater degree than I would have guessed was possible ... He works fast and the quality is excellent."

These quotes, from two recent reviews of Los Angeles area contractor Patrick K. Stone and his [Door Dr.](#) business, sum up Angie's List members' experience with him. In 32 reports, he has earned an A for his work 32 times. Thirteen members have nominated him for Pages of Happiness. He was a Super Service Award winner in 2008. Clearly, he's a professional and a fair dealer.



Photo by Sara Cozolino | Pat Stone, owner of Door Dr. in California, calls licensing a joke and says very few of his customers care that he's unlicensed.

But he's also something else: illegally unlicensed. And he's not about to apologize for it.

"It's a joke," he says of California licensing laws. "If you had to be good at your job, that would be one thing. But anyone can pay a fee and get a license."

Stone is hardly the only contractor with such views. In interviews across the country, similar themes repeated themselves: I do quality work, have insurance and don't need to pay for a piece of paper.

Others might not be openly proud of being unlicensed, but simply fly under the radar. Kevin Darosa, owner of highly rated [Kevin Darosa Home Improvements](#) in the Boston area, has operated without the state-mandated registration — required for jobs worth more than \$500 — on and off again for roughly 10 years.

"You're the first person who's ever asked me about [it]," Darosa told *Angie's List Magazine*. However, he says he's considering getting registered for tax purposes.

[Relo Interior Services](#), a highly rated Angie's List SSA winner based in Tampa, Fla., holds no contracting license.

"I don't need a license, because all the work is done by my subcontractors, who are licensed, insured and carry workers' comp," says Relo president Tony Hough, who interprets the law differently than state and county regulators who say he's considered a contractor and doing unlicensed work under Florida law if he accepts money or negotiates contracts for a job.

Hough later told his Angie's List advertising account manager his attorney is checking into the laws and any discrepancies would be corrected.

Stone and Darosa say their customers rarely ask about licensing. "I could count on one hand how many times I've been asked for a license," Stone says. "I think most people just want someone who will do a good job."

But homeowners should care, says Rick Lopes, public affairs officer for the Contractors State License Board in California. "Consumers can suffer serious financial consequences," he says.

Stone says he works alone, so any injuries he suffers would be paid for by his own medical insurance. He adds that he's careful not to take jobs that appear dangerous. "I'm very cautious," he says.

And he's not nervous about getting caught. Currently, state law fines up to \$1,000 for working without a license, a misdemeanor offense. Stone says such a wrist-slap isn't likely to deter him or others, although a bill making it through the state legislature would increase the maximum penalty to \$5,000.

"I think it's ludicrous," Stone says of the higher fine. "The state's got to make any revenue they can. They just want to take my money."

Lopes says the CSLB is self-funded, so the fines don't benefit the state. Further, Lopes admits that enforcement agents don't typically target small-scale offenders. "We just don't have the resources," he says. "We're trying to find the worst of the worst and work our way down."

Other contractors in the LA area have mixed views about their unlicensed peers. "If everybody was licensed, we'd all have the same overhead costs," says Dan Eyre of Dan's Landscape and Maintenance, a licensed 2008 SSA winner. "How can licensed contractors compete?"

But Stephen Hume of Hi- Performance Plumbing, another licensed 2008 SSA winner, points out an unexpected benefit. "I've been called in to fix their plumbing, so I'm making money off unlicensed contractors," he says. "Some customers are looking for a deal, and they get what they pay for."

Philadelphia homeowner goes after unlicensed inspector

Her friend, a general contractor, told Allison Sacks that [Safe Haven Home Inspections](#) was trustworthy. Owner Michael McKinney was licensed in both New Jersey and Philadelphia, according to his business card.

With those assurances, she hired McKinney to inspect her first home last April. He did the inspection and pointed out major and minor defects that helped her negotiate a lower purchase price when she closed in May.

However, when she started having things fixed prior to moving into the house, the surprises started — obvious problems Sacks says McKinney hadn't noticed. The brick facade had a 2-inch bulge that required having massive metal "starbolts" drilled through joists between the first and second floors, according to Sacks. In addition, she says two windows had been screwed shut to apparently hide the fact they were falling out of the frames.



Photo by Linda Johnson | Homeowner Allison Sacks says her unlicensed home inspector missed the fact that the home's windows were screwed shut and impossible to open.

"I had no idea about these problems and it was a week and a half before I moved in," she says.

Sacks says she got an estimate to fix the problems: \$4,550. She contacted McKinney via e-mail: "The two issues ... are located in readily accessible and visually observable areas of the structure and should have been noted during the home inspection," she wrote.

She asked for compensation for the cost of the repairs and says he offered only to reimburse the cost of the inspection: \$450. She then took her case to licensing boards in Philadelphia and New Jersey, where his business card claims he's licensed, and got another unwelcome surprise.

The Philadelphia license number was bogus — it didn't match the license number he once held, which had expired in 2006, according to city spokeswoman Maura Kennedy. And his New Jersey license? Records showed it had expired more than a year earlier.

"He's not accountable to anyone," Sacks says. "He just laughed at me." Worse, she filed a complaint with the city's business compliance department, which informed her that he must be caught in the act of doing an inspection without a license in order to prosecute. Kennedy confirmed the policy. "We don't have unlimited resources," she says.

With no option for reimbursement through licensing boards, Sacks filed suit in Philadelphia municipal court. A year later, in June, the court sided with her, ordering McKinney to pay her \$4,605. But because the business is registered in New Jersey, the case must be transferred there.

McKinney, who has an F rating on Angie's List due to Sacks' review, didn't return phone messages seeking comment. Sacks, who became a member because of her nightmare experience, says she has no expectation of collecting the money.

But the experience taught Sacks an important lesson: check license numbers with licensing boards. Just because contractors claim to be licensed doesn't mean they are. "It was an expensive learning experience," she says. "He taught me how to be a better consumer."

— additional reporting by Staci Giordullo, Mason King, Diana Lamirand, Robin Mohr, Jackie Norris, Joshua Palmer, Paul F.P. Pogue and Kristen Rojowski