

## **Notice to Home Improvement Contractors**

### **Avoid the Fine!**

### **Make Sure Your Contracts Comply With New MHIC Requirements**

Recent amendments to the Home Improvement Law and Regulations have changed the form and content requirements for home improvement contracts. Please take time to familiarize yourself with these updates to ensure that your home improvement contracts comply.

All contracts must include the contractor's telephone number, the MHIC webpage, and a notice describing protections available through MHIC, as well as a homeowner's right to request that the contractor purchase a performance bond to cover additional losses not available through the Guaranty Fund (the contractor is not obligated to pay for the bond). Also, new regulations authorize MHIC to issue civil citations in the amounts of \$500 to \$2,000 for violations of the contract requirements.

### **Contract must be in writing**

Each home improvement contract must be in writing and must be legible. Contractors cannot accept a deposit or payment from a homeowner until the contract is signed by each party to the contract. Also, the contract must describe each document that it incorporates, such as an architect's drawings or a building permit. The homeowner must receive a signed copy of the contract prior to the work starting.

### **Information that is Required to be in Contracts**

#### **Contractor's Name, Address, Telephone Number & MHIC License Number**

A home improvement contract must contain the contractor's name, address, telephone number, and MHIC license number. If a salesperson solicited or sold the home improvement, then the contract must also contain the name and license number of each salesperson.

#### **Salesperson's Name and License Number**

If a salesperson solicited or sold the home improvement contract, then each salesperson's name and license number must appear on the contract. Each salesperson and the contractor shall sign the contract.

#### **Dates**

A home improvement contract must contain the approximate dates when the performance of the home improvement will begin and when it will be substantially completed.

#### **Description of the Home Improvement**

The contract shall contain a description of the home improvement to be performed and the materials to be used. This section of the contract is very important because many disputes can be avoided if the contract clearly states what work will be performed and the quality or brand of materials to be used.

#### **Notice for Homeowners**

Each home improvement contract must contain a notice that gives the telephone number and web site of the Home Improvement Commission and states that "each contractor and subcontractor must be licensed by the Commission and anyone may ask the Commission about a contractor or subcontractor."

For each contract signed after August 20, 2012, MHIC regulations require that the contract contain the following notice:

1. Formal mediation of disputes between homeowners and contractors is available through the

Commission;

2. The Commission administers the Guaranty Fund, which may compensate homeowners for certain actual losses caused by acts or omissions of licensed contractors; and
3. A homeowner may request that a contractor purchase a performance bond for additional protection against losses not covered by the Guaranty Fund.

This notice shall be included within the contract or, until July 1, 2013, may be included in an addendum attached to the contract, provided that the addendum is signed by the homeowner and contractor.

### **Deposit and Payments**

A contractor cannot accept more than 1/3 of the contract price as a deposit and may not accept any payment until the contract is signed. The agreed upon price of the home improvement contract should be clearly stated. Beyond the initial deposit, the Home Improvement Law does not control the payment schedule; instead payment terms, including a deposit of less than 1/3 of the contract, can be negotiated between the homeowner and contractor.

The contract shall contain the agreed consideration, or the amount to be paid pursuant to the contract. If payment will be made by monthly payments, the contract shall state the number of monthly payments and the amount of each payment, including any finance charge.

### **Mortgage or Liens**

If the homeowner has borrowed or is borrowing money to finance the home improvement project, this information is very important. Whenever payment for work performed under a home improvement contract will be secured by an interest in residential real estate, the contract is required to contain additional information. On the first page of the contract, there must be a written notice in at least 10 point bold type that states in substantially the same form:

**This contract creates a mortgage or lien against your property to secure payment and may cause a loss of your property if you fail to pay the amount agreed upon. You have the right to consult an attorney. You have the right to rescind this contract within 3 business days after the date you sign it by notifying the contractor in writing that you are rescinding the contract.**

This notice must be independently initialed by the homeowner.

### **Arbitration Clause**

Contracts are not required to contain arbitration clauses. However, if there is an arbitration clause, it must comply with the Home Improvement Regulations. Whenever an arbitration clause is in a home improvement contract, it must include the name of the person or organization that will conduct the arbitration; whether any mandatory fees will be charged to the parties for the arbitration and list the fee schedule; whether the arbitrator's findings are binding; and a disclosure that a claim against the Guaranty Fund will be stayed until completion of the mandatory arbitration proceeding. Also, the parties must initial and date the contract next to the arbitration clause.

### **Door-to-Door Sales Act**

Most home improvement contracts are also covered by the Maryland Door-to-Door Sales Act. If the contract is covered by the Door-to-Door Sales Act, the contract must contain information regarding the homeowner's right to cancel the contract without any penalty. The notice shall state that "you may cancel the transaction at any time prior to midnight of the 3<sup>rd</sup> business day after the date of the transaction." A separate "Notice of Cancellation" form must be attached to the contract and filled in with the information about how to cancel the contract and the deadline for doing so. The Door-to-Door Sales Act requires that the contract be written in the same language as that principally used in the oral sales presentation.

### **Legal Advice**

Information contained in this flyer is not legal advice. You may wish to consult an attorney prior to creating or signing any legal document.