

# Terms of Agreement

A CONSUMER GUIDE TO  
HOME IMPROVEMENT CONTRACTS

**CONTRACTORS STATE  
LICENSE BOARD**

California Department of Consumer Affairs



# Example Contract



1234 Address – Santa Sierra, CA 90000 – License # 12345 (Earthwork and Paving)

## CONSTRUCTION CONTRACT (Home Improvement)

This Construction Contract (“Contract”) is entered into by and between EFG Construction, Inc. (“Contractor”) and \_\_\_\_\_ (“Owner”), whose residence address is \_\_\_\_\_, and whose project address is \_\_\_\_\_.

1. DESCRIPTION OF WORK.
2. DESCRIPTION OF MATERIALS AND EQUIPMENT.
3. THE CONTRACT PRICE. Owner shall pay Contractor the fixed sum of
4. PAYMENT SCHEDULE. The Contract Price shall be paid in progress payments, which do not include finance charges of any kind, according to the following schedule:  
\$ \_\_\_\_\_ upon signing this Contract;
5. START AND COMPLETION OF WORK. The work to be performed under this
6. PERMITS AND TESTS. Unless otherwise agreed in writing by the parties, Owner shall
8. PERMISSIBLE DELAYS. Contractor shall be excused from any delay in the completion
9. EXTRA WORK. If Owner or his agents or any public body or inspector directs any
10. RELEASE OF MECHANICS’ LIENS. Upon satisfactory payment being made for any
11. ATTORNEY’S FEES. In the event any arbitration or any action at law or in equity shall be brought on account of any breach of this Contract, or to enforce or interpret any of the any award or judgment rendered.
12. CONTRACTORS REQUIRED TO BE LICENSED. Contractors are required by law to
13. COMPLETE AGREEMENT. This Contract constitutes the entire agreement between the
14. OWNER’S RIGHT OF CANCELLATION. Owner may cancel this transaction at any copy of this Contract.

DATED: \_\_\_\_\_

DATED: \_\_\_\_\_

EFG CONSTRUCTION, INC.

By: \_\_\_\_\_  
Arnold W. Mason, President

\_\_\_\_\_  
[Owner’s Name]



## What is a Contract?

A contract is a legal agreement between two or more people. A written agreement is one of the most important communication tools for both the contractor and consumer. It insures there are no misunderstandings about what a job will include. A thorough contract tells how the work will be done, when it will be done, what materials will be used and how much it will cost.

In California, there must be a written contract for all home improvement projects over \$500. By law, that contract must include specific information about your rights and responsibilities. This Contractors State License Board (CSLB) brochure outlines the information for you.

A home improvement contract and any changes made to that contract must be in writing, be legible, be easy to understand, and inform the consumer of their rights to cancel or rescind the contract. If you are promised something orally make sure that it is included in writing.

Disagreements over home improvement projects can cost time and money. Besides producing bad feelings, they can also lead to lawsuits or other legal action. A well-written contract prevents that.

## Anatomy of a Contract

A contract should contain everything agreed upon by the consumer and contractor. It should detail the work, price, when payments are made, who gets the necessary permits, and when the job will be finished. It should also identify the contractor, give their address and contractor license number.

A good contract also has warnings and notices about the right to cancel, mechanic's liens, and permissible delays.



**DON'T SIGN ANYTHING UNTIL YOU  
UNDERSTAND THE CONTRACT AND  
AGREE TO THE TERMS.**

## Description of Work to Be Done

### (THE SIGN OF A WELL-BUILT CONTRACT)

The best way to avoid disputes over what is or isn't expected from a home improvement job is to write out the details in a contract.

The contract should be as specific as possible regarding all materials to be used, such as the quality, quantity, weight, color, size, or brand name as it may apply.

For example, the contract should say "install oak kitchen cabinets, manufactured by Company XYZ, model 01381A, as per the plan," not just "install kitchen cabinets."

### DESCRIBING THE JOB - THE GOOD, THE BAD AND THE UGLY

THE GOOD	THE BAD	THE UGLY
Install oak kitchen cabinets manufactured by Company XYZ, model ABC, per plan	Install oak country style kitchen cabinets	Install some cabinets
Paint indoor entry (per plan) using brand X paint, color ABC, two coats, with preparation described in next paragraph.	Prep and paint entryway with blue paint	Paint the entry
Install brand X kitchen faucet in style ABC and color BCS.	Kitchen faucet replaced if necessary	Replace kitchen fixtures

Swimming pool contracts must include a plan and scale drawing showing the shape, size dimensions, and construction and equipment specifications.

Make sure the contract includes everything that is agreed to, up to and including complete cleanup and removal of debris and materials, and special requests like saving lumber for firewood or saving certain materials or appliances.



## Complaints and Warranties

Be sure to get any warranty offered by the contractor for labor and materials in writing. It should specify which parts of the work are covered and the duration of the warranty. You should also request any written warranties offered by the manufacturers of materials or appliances installed by the contractor.

Consumers generally have 4 years to file a complaint about a faulty project with the CSLB. That deadline can be extended if there are additional warranties written into the contract.

## Money – The Bottom Line

**PRICE** – All contracts must include the price that was agreed upon for the work. Any job \$500 or more needs a written home improvement contract. And by law, the job must be completed for the agreed upon contract price.

If the contract price needs to be changed, it **MUST** be done with a written “Change Order”, which then becomes a part of the contract.

**DOWN PAYMENT** – If the contract calls for a down payment before work starts, the down payment can not be more than one thousand dollars (\$1,000) or 10 percent of the contract price, whichever is less, for a home improvement job or swimming pool, excluding finance charges. There are no exceptions for special order materials.

**SCHEDULE OF PAYMENTS** – A home improvement contract must include the payment schedule. It should show the amount of each payment and explain what work, materials or services are to be performed for that particular payment.

Payments to the contractor cannot exceed the value of the work performed.

**SWIMMING POOLS** – With swimming pool contracts, the final payment may be made at the completion of the final plastering phase of construction (Provided that any installation of equipment, decking, or fencing required by the contract is also completed). To learn more about hiring and dealing with swimming pool



contractors, see the CLSB's free publication, *Before You Dive Into Swimming Pool Construction*.

**FINANCE CHARGES** – Must be laid out separately from the contract amount.

**SALES COMMISSION** – If the contract provides for a payment of a salesperson's commission out of the contract price, that payment shall be made on a pro rata basis in proportion to the schedule of payments made to the contractor.

**SALESPERSONS** – A salesperson cannot legally sign a home improvement contract for the contractor unless they are registered with the CSLB.

## Mechanics Liens

Consumers are required to receive a "Notice to Owner" warning about property liens. Anyone who helps improve property, but who is not paid, may place what is called a mechanics' lien on the property. A mechanics' lien is a claim made against the property and recorded with the county.

Even if the contractor is paid in full, unpaid subcontractors, suppliers, and laborers involved in the project may record a mechanics' lien and sue the property owner in court to foreclose the lien. A property owner could be forced to pay twice or have the court sell their home to pay the lien. Liens can also affect a consumer's personal credit along with the ability to borrow and refinance.

Consumers can protect themselves from liens by getting a list from the contractor of all the subcontractors and material suppliers who will work on the project along with the dates when they will start. After 20 days it is possible to get suppliers and subcontractors to sign lien releases when their portion of the work is completed.

Another option for consumers is to pay with a joint check. Write a joint check payable to both the contractor and the subcontractor or material supplier.

For other ways to prevent liens, get the free CSLB Publication, *A Homeowners Guide To Preventing Mechanics Liens*.

## Canceling

**THE THREE-DAY RIGHT TO CANCEL** – The Home Solicitation Sales Act requires a seller of home goods or services to give the buyer three days to think about whether or not to buy the offered goods or services.

To cancel, the buyer need only give the contractor written notice of his or her intent not to be bound by the contract—there is no penalty or obligation on the part of the buyer. Under the law when the contract is canceled the seller can be required to return the entire contract amount and, if a service has been provided, to return the consumer’s property to the way it was before the contract, and return any materials to the contractor that were applied to the project.

The purpose of the three-day right to cancel is to protect consumers from the pressure they often feel from door-to-door solicitors.

Unless the contract is negotiated at the contractor’s place of business, the buyer qualifies for the 3-day right to cancel.

## The Exception

### SERVICE AND REPAIR CONTRACTS

One major exception to the “three-day right to cancel” is a ‘Service and Repair’ contract that covers emergency repairs or services that are requested by the consumer on short notice.

The right to a three-day notice is automatically canceled the moment the contract is signed and the contractor begins working on a service and repair contract.



### CONTRACTORS STATE LICENSE BOARD

P.O. Box 26000  
 Sacramento, CA 95826-0026  
 1-800-321-CSLB (2752)  
[www.cslb.ca.gov](http://www.cslb.ca.gov)



# CHECKLIST FOR HOMEOWNERS

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## CHECK OUT YOUR CONTRACTOR

- Did you contact the Contractors State License Board (CSLB) to check the status of the contractor's license? Contact the CSLB at 1-800-321-CSLB (2752) or visit our Web site: [www.cslb.ca.gov](http://www.cslb.ca.gov).
- Did you get at least three local references from the contractors you are considering?
- Did you call them and see the work the contractor completed?

## BUILDING PERMITS

- Will the contractor get any needed permits before the work starts?
- Are the permit fees included in the contract?

## CHECK OUT THE CONTRACT

- Did you read and do you understand your contract?
- Does the 3-day right to cancel a contract apply to you?
- Does the contract tell you when work will start and end?
- Does the contract include a detailed description of the work to be done, the material to be used, and equipment to be installed? This description should include a plan and scale drawing showing the shape, size, dimensions and specifications. It should include brand names, model numbers, quantities and colors. Specific descriptions now will prevent disputes later.
- Are you required to pay a down payment? If you are, the down payment should never be more than 10% of the contract price or \$1,000, whichever is less.
- Is there a schedule of payments? If there is, you should pay only as work is completed and not before.
- Did your contractor give you a "Notice to Owner," a warning notice describing liens and ways to prevent them? Even if you pay your contractor, a lien can be placed on your home by unpaid laborers, subcontractors, or material suppliers. A lien can result in you paying twice or, in some cases, losing your home in a foreclosure. Check the "Notice to Owner" for ways to protect yourself.
- Did you know changes or additions to your contract must all be in writing? Putting changes in writing reduces the possibility of a later dispute.