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Remodelers Implicated in Mass. Mortgage Scam

Several studies and a recent series of articles in the Boston Globe have implicated Massachusetts home improvement contractors in a scheme to sell overpriced repairs and high-interest second mortgages to homeowners. The allegations, which are being investigated by both law enforcement agencies and members of the U.S. congressional housing committee, hold that home improvement contractors, serving either formally or informally as agents of second-mortgage companies, systematically duped elderly and minority homeowners into taking out high-interest home equity loans to pay for repairs.

Many reputable contractors, of course, often refer their clients to lenders. But in these cases, the allegations hold that the contractors received high finder's fees from the second-mortgage companies, and often served as loan sales agents, misrepresenting interest rates and loan fees, so that the homeowners ended up with payments much larger than expected. In addition, the allegations hold, the repairs were often overpriced and shoddy, so that the entire house sometimes ended up being worth less than the loan that paid for the repairs.

As a result, many of the homeowners, some of whom had owned their houses outright before taking the loans, lost them to foreclosure when they were unable to keep up with payments. The cases have occurred almost exclusively in lower-middle-class minority neighborhoods.

Many of the victims are elderly. Dianne Wilkerson, attorney for the Boston chapter of the NAACP, estimated that as many as 5,000 elderly and minority homeowners may have been duped.

Major regional banks have also been implicated in the accusations, which hold that some banks, including Fleet/Norstar, which just took over the failed Bank of New England, have been regularly

buying the high-interest loans from the second-mortgage companies. Some banks have also allegedly extended lines of credit to the mortgage companies, or even worked directly with some of the home improvement contractors who have been implicated.

The remodeling industry, of course, hasn't been thrilled to hear about the alleged scam, which reinforces the stereotype that many contractors are sleazy. One remodeler said, "It gives the impression that it's typical of all contractors, which of course it's not. It's certainly not helpful to the industry's image."

Such worries proved to be well-founded: One immediate effect of the publicity was a strong wave of support for a group of "builder lemon laws" designed to protect consumers from shady contractors. The pressure to pass these laws (which are in committee as this is being written) became so intense that the Massachusetts Home Builders Association (MHBA) abandoned its outright opposition of the laws in favor of trying to modify their most objectionable clauses.

"Some of the clauses, such as requirements for universal licensing, for written contracts, and for full disclosure of payment and interest terms, are good," says Garen Bresnick, MHBA's executive director. "They would help prevent the sort of thing that's come to light in these recent scams. But some of the other clauses, in particular the one-sided arbitration clause and this Guaranty Fund the law proposes to create, will simply penalize the good contractors without affecting the bad."

As proposed, the arbitration clause would make binding arbitration available on demand to any disgruntled customer, but not to contractors. The proposed Guaranty Fund, which would be created by annual contributions of \$100 to \$500 per contractor,

continued



Standard tread and riser dimensions, handrail height, and baluster spacing are being challenged, and sometimes changed, in recent code revisions.

Bill McLearn

Stair Codes Changing

With an estimated 4,000 deaths and 800,000 injuries per year caused by falls on stairs, it's no wonder stairway design in the home as well as in public buildings is a major safety issue.

Stairs are considered the most dangerous architectural feature in the home, says Jake Pauls, a safety specialist with Hughes Associates, a Washington, D.C.-based building safety consulting group. In addition, as the population ages, it is becoming increasingly sensitive to the problems of the elderly, including getting up and down stairs safely.

As a result, several building codes groups have recently changed their stair safety

requirements to include smaller, more graspable handrails, higher guardrails, and less space between balusters. There is also a trend toward applying the stricter safety requirements for public buildings and handicapped accessibility provisions to residential codes.

Shorter, deeper steps. "The leading cause of falls is an inadequate riser/tread relationship," Pauls says. While the Building Officials and Codes Administrators (BOCA) model code now requires an 8 1/4-inch maximum riser and a 9-inch minimum tread, the group is considering a proposal to require a maximum riser height of 7 inches and a minimum tread width of 11 inches

for all one- and two-family dwellings.

The "7-11" proposal would add one to three treads to most flights of stairs, depending on the stairway configuration, Pauls says. The larger stairwell would require an average of 14 extra square feet per floor.

That may not seem like much, "but it's a major issue in two-story units when you're trying to design and build low-cost housing," says Don Leubs, technical director of the National Association of Home Builders (NAHB) Research Center.

BOCA is expected to decide whether to include the "7-11" proposal in code at their membership meeting in September.

Other stairway-related code changes and issues include:

Baluster spacing. Both BOCA and the Uniform Building Code have reduced the maximum space permitted between balusters from 6 inches to 4 inches. A similar change has been proposed to the Standard Building Code. The smaller spaces are designed to prevent small children from falling through.

Handrails. All of the codes specify handrails for stairways with three or more risers. But there have been proposals to require handrails for all residential flights, even those with one riser.

Handrail height. Most of the codes have increased the height from 30 inches to a minimum of 34 inches, and from 34 inches to a maximum of 38 inches. BOCA permits a

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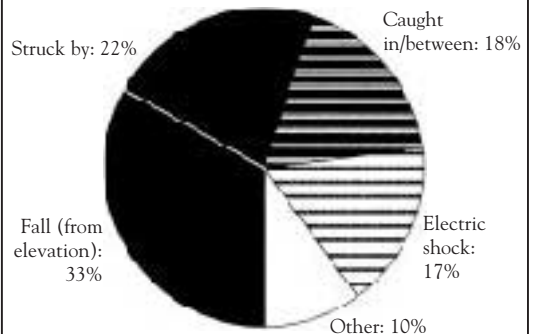
Study: Falls Leading Cause of Fatalities

Falling from roofs, scaffolds, and ladders constitutes 33% of all construction fatalities, and continues to be the leading cause of death among workers in the construction trades. That is one conclusion of the Occupational Safety and Health Administration's (OSHA) *Analysis of Construction Fatalities* covering the period 1985 to 1989.

"We need to look a lot closer at why workers are

continued

Construction Fatalities, 1985-1989



Causes of construction-worker deaths: Falls rank as the leading cause of death among construction workers, a recent OSHA study found. A fifth of the falls were from scaffolding.

Scam, continued

would be used to pay any settlements resulting from these arbitrations, with the deficit to be made up by the contractor involved. If the contractor is out of business or bankrupt, however, the deficit would have to be replenished by those legitimate contractors still in business. Bresnick was

lobbying to have arbitration available on demand by either party, and to find a different way to reimburse the fund.

"These scams are an unfortunate thing for everyone," says Bresnick. "But it doesn't mean it should be open season on the legitimate contractor. It's not fair that the good ones should have to pick up the slack for the bad apples."

From What We Gather

Homeowners, it appears, are more worried about the presence of "toxica," an imaginary toxin, than radon in their homes, according to Radon News Digest. A recent survey sponsored by a radon research group asked participants to rank, in order of perceived danger, 12 environmental health risks. These included lead, dioxins, asbestos, and radon. They were also told about toxica, which supposedly had health risks identical to those associated with radon. Toxica was consistently ranked among the top three health risks while radon appeared among the bottom three.

More than 76% of the nation's single-family home builders are using computers in some phase of their business operations, according to a survey by the National Association of Home Builders. Most of the more than 1,100 respondents reported using IBM-compatible personal computers, with only 8% using Apples.

Public stock in homebuilding companies has jumped 50% in value since 1990, with some companies' stocks rising as much as 300%. The rise reflects investors' belief that the construction market has bottomed out, offering good stock buys.

Fatalities, continued

falling, to improve safety," said Charles Culver, director for OSHA's Office of Construction and Engineering. "We especially need to look at why they are falling off scaffolds that are designed so workers can be safe," he said. Nearly one-fifth of fatal falls were from scaffolds.

The next largest cause of fatalities is being "struck by" an object (22% of all fatalities), which usually involves heavy construction equipment like trucks or cranes. Poor rigging of loads being moved and poor storage of materials are two major contributors to the fatalities in this category. Tools account for very few of these fatalities.

The category "being caught in or between" constitutes 18% of all construction-related fatalities. Like the "struck by" injuries, these fatalities are more common in the heavy construction trades.

The final category, "electrical shock," constitutes 17% of all construction fatalities. About 65% of these involve direct contact with overhead high-voltage wires. Besides direct contact, ladders, scaffolds, rebar, metal pipe, and paint rollers are some objects reported as acting as conduits for electrical shock. Electric

boxes and electrical cords contribute to a sizable portion of electrical shock fatalities. Hand-held electrical tools contribute to only 3% of all electrical shock deaths.

Other items of interest from the five-year study include:

- The relative contribution of the four major causes (falls, struck by, caught in/between, and electrical shock) to the total number of deaths did not change significantly over the five-year period.
- OSHA Region VI (including Arkansas, Louisiana, Oklahoma, Texas, and New Mexico) was the only region to show a downward trend in fatalities, with the number of deaths decreasing 47% between 1985 and 1989. All other regions had no apparent trends.
- There was no significant variation in the number of deaths for different days of the work week.
- There was no significant difference in death rates among different worker age groups.
- Distribution of fatalities among union and non-union work sites was similar when adjusted for composition of workforce.

— Jim Hart

Stair codes, continued

minimum of 30 inches and a maximum of 38 inches. When used as a guardrail, along a balcony or loft, for example, handrails must be higher — usually 42 inches.

Handrail size and shape, or graspability. All the codes have some requirements aimed at making handrails small enough for people to grip with ease. BOCA, for instance, requires round handrails to be between 1 1/4 and 2 inches in diameter. Other specified shapes must have a perimeter dimension of between 4 and 6 1/4 inches. However, Pauls says most wooden railings on the market cannot meet these graspability standards. The use of 2x4s or 2x6s for deck or basement railings is not acceptable either.

In the future, code groups are expected to consider additional safety requirements, including handrails on both sides of the stairs, 12-inch handrail extensions at the top and bottom of the stairs, safer tread widths for spiral and curved stairs, and the prohibition of open risers. Carpeting on treads is another issue, some argue that tread measurements should include carpeting.

All of these safety features will add up to a lot of extra costs, says the NAHB's Leubs. Many existing stair code changes have been adopted with "a glaring lack of statistics," he says. When statistics are used, they pertain to public buildings, not homes.

At the same time, if the price of new and substantially renovated housing is pushed too high by stringent stair code requirements, moderate income families, says Leubs, "will be consigned to old houses that probably don't even meet existing codes."

— Carol Anderson

Tax Talk

Getting the Best Bang For Your Tax Buck: Employee Plans

by Irving L. Blackman

Owning your own business forces you to think of yourself and how to get the most out of every dollar spent. You must also think of your employees and how to get the best return on money spent for their benefit. A qualified retirement plan (pension or profit sharing plan) can help you accomplish both of these goals, offering super results for you and your employees.

Defining the animal. Just what is a qualified retirement plan? Technically, it's called a "qualified plan of deferred compensation."

A retirement plan that is "qualified" simply means that the plan meets all of a long list of specific rules set forth in the Internal Revenue Code, thus qualifying for favorable tax treatment. The "plan" itself is a written document spelling out how your own situation will work. "Deferred compensation" means wages or other salary that is set aside until a future year.

But the fact that the money is enjoyed in the future doesn't mean that all the advantages come then. Such a plan gives you several benefits, both immediately and as the plan matures, by allowing you to:

- Take a tax deduction now for the amount contributed to the plan.
- Accumulate investment earnings on the funds in the plan tax-free.
- Get additional tax breaks when those funds are eventually distributed to

you or any other employee/participant.

Who can have a plan?

The answer is: almost any business or professional. The long and short of it is that if you have any earnings from self-employment or are the owner of a closely held corporation, a qualified retirement plan may be the best tax mousetrap to capture money for your future.

But are qualified plans best for every business? No. Sometimes a "non-qualified" plan standing alone is your best bet; you give up part of the tax advantages in exchange for a more flexible plan. Often a non-qualified plan, in tandem with a qualified plan, can save a bundle of taxes.

The big advantage of a non-qualified plan is that you can offer benefits to selected, rather than all, employees. Moreover, there are no limits to how much you can sock away for these selected employees. The employee still does not pay any tax until he or she receives the benefit later in cash, while the employer gets a matching deduction at the same time.

If you want to save every possible tax dollar while finding a way to reward your employees, you should learn the ins and outs of both qualified and non-qualified deferred compensation plans. ■

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