

UNLOCK THE POWER OF MECHANIC'S LIENS

Get Paid for the Work You Do



NCS
CREDIT

How Notices & Mechanic's Liens Protect Your Right to Get Paid for the Work You Do

Do you supply material and/or services to construction projects? Do you want to ensure you get paid for the work you do? There's a legal tool just for you! This tool has a few components, but in general it's referred to as **the mechanic's lien process**. In this article, we'll review what the mechanic's lien process is and why it's important to your credit management process.

Construction **Credit Heroes** Need Mechanic's Liens

Every day, credit professionals review and assess financial risk. It's what you do – you are a “Risk Assessor” – like a superhero of credit.

A credit hero!

As a credit hero, you have many credit tools to provide you with the information you need to mitigate risk and maximize profitability. Tools like credit reports, letters of credit, financial statements, and the mechanic's lien process.

Mechanic's Liens Are Your Credit Ally's Specialty

Whether you have a mechanic's lien process in place or are starting to explore the benefits of mechanic's liens, your trusted credit ally, **NCS Credit, is ready to manage and develop the process for you**. The mechanic's lien process, including preliminary notices, mechanic's liens, bond claims, and foreclosure, is our specialty. We are uniquely positioned to provide you with a comprehensive mechanic's lien program.

NCS Credit is the industry's only full-service provider. **Powered by our knowledgeable staff and fueled by technology**, we will simplify your process and deliver a best-in-class client experience. With unparalleled industry expertise, we understand the complexities of commercial credit.

Ready to learn more about the mechanic's lien process? Let's jump in!

Filing a mechanic's lien makes you a secured creditor.

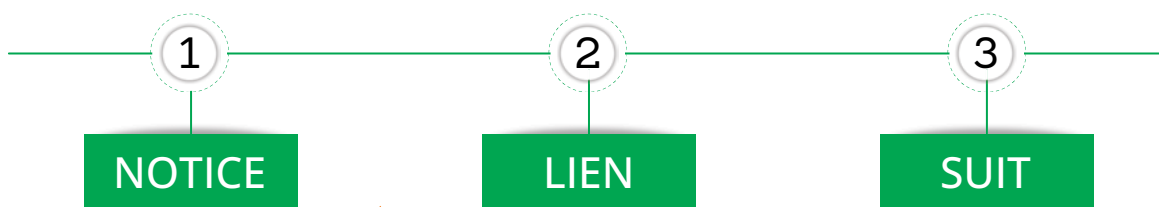
Leveraging your position as a secured creditor will have a positive impact by reducing DSO.

In fact, NCS clients experience an average of **25% reduction in DSO**, with some clients experiencing reductions as high as 50%.

Understanding the Mechanic's Lien Process

Each state in the U.S. (*and most territories or provinces in the U.S. Possessions and Canada*) have mechanic's lien and bond claim laws in place to protect companies that furnish (*aka supply*) to the permanent improvement of real property.

The mechanic's lien process is comprised of three parts: preliminary notice, mechanic's lien (or bond claim), and foreclosure or suit.



Pro-Tip: Want to give your customer one more chance to pay before you file a lien? Send a **demand letter**!

Preliminary Notices Are the Key

Serving a preliminary notice is the most common and effective step in the lien process. The notice alerts a project owner their property has or will be improved by the materials or services you supply. Often, the owner of the property is unaware a supplier has provided value to the property or project until the notice is served.

The preliminary notice is not a lien, it's a prerequisite to filing a mechanic's lien and identifies you as a supplier of labor and/or materials to the construction project. It doesn't reflect negatively upon the creditworthiness of your customer or any party within the ladder of supply.

A preliminary notice goes by different names depending on the state in which it's served. Some alternative names include notice to contractor, notice to owner, notice of furnishing and prelien notice.



Deadlines Matter

The deadline to serve your preliminary notice varies by project location. In most cases, your notice must be served within a set time frame from when labor and/or materials are first furnished on the project.

For example, a private project in the state of Ohio requires the preliminary notice to be served within 21 days from first furnishing, while a private project in Florida has a more lenient requirement of 45 days.

Some states, such as Texas and Louisiana, require a preliminary notice to be sent monthly for every month that payment is not received. These states require greater management of deadlines, which can slightly complicate the process.



Format Properly

Just as preliminary notices vary in name, type and deadline, each state has its own specific formatting requirements. Some states are particular about seemingly small details such as font size and formatting like bold, italic, and underlined words or phrases.

There have even been cases where companies lose their mechanic's lien rights due to something as detailed as margin size. Review and re-review formatting requirements so you don't lose your mechanic's lien rights.

Typically, preliminary notices must be sent by certified mail with return receipt requested or by registered mail. It's important to save a copy of the notice and receipt so that if/when you file a mechanic's lien on a project, you can prove compliance with the statute.



Preliminary Notice Pro-Tip

Serve a notice on every project. It is a low-cost solution and establishes your mechanic's lien rights. If serving a notice on every project doesn't fit your business model, consider setting a dollar threshold. Determine what you are willing to lose in the event of default and serve a notice on any order over that value – e.g. serve notices on all projects that have a contract of \$10,000 or more. If you intend to serve preliminary notices on your own (i.e. without the NCS experts), make sure the notice complies with statute requirements.

Too many companies have found themselves with an invalidated mechanic's lien because of errors in their preliminary notice.

Mechanic's Liens Provide Security and Leverage

If the preliminary notice does not prompt payment, it's time to proceed with a mechanic's lien. You should have copies of invoices, bills of lading, the statement of account and copies of various communications, to support your claim.

Our experience shows **serving a preliminary notice** and **filing a mechanic's lien** will get you paid more than **99% of the time**.

What Information Is Included in a Mechanic's Lien

The lien filing may include the:

- legal description of the property
- project owner's information (*including the information of an agent or someone acting on behalf of the owner*)
- general contractor's information
- lender's information
- surety information
- description of the materials and/or services provided
- when materials/services were provided
- claim and contract amounts
- potentially additional parties of interest, including the party with whom you contracted

Instrument Prepared By
And Recording Requested By

Space above this line for recorder's use only

CALIFORNIA MECHANIC'S LIEN

STATE OF CALIFORNIA
COUNTY OF _____

Notarized by _____, this Mechanic's Lien, this "Lien," is filed as of _____ (mm/dd/yyyy), (the "Effective Date"), by _____ (Address), with the license number of _____ (mm/dd/yyyy) and expiring on _____ (mm/dd/yyyy). The "Claimant" claims a construction lien in the sum of \$ _____ for labor, services, materials, and/or equipment furnished for improvement to certain real property owned by _____ (collectively, the "Owner"), located at _____ (Address, County), and with the legal description of: _____

_____ (the "Property").

This Lien is claimed, separately and severally, as to both the buildings and improvements thereon, and the said real property.

The Claimant and _____ (Owner, General Contractor, etc.) entered into a contract on _____ (mm/dd/yyyy) whereby the Claimant provided the following labor, services, materials, and/or equipment at the Property (the "Work"): _____

for the total amount of \$ _____ (Contract Price).

Who Should Receive the Lien

Generally, the lien should be served upon the owner and general contractor; however, it is recommended to serve a copy on all parties involved.

The more people that know you have not been paid, the more pressure these people will put on the appropriate party to encourage payment.

Foreclosure Is the Final Straw

In the event you remain unpaid, the final step is to proceed with a suit to enforce the mechanic's lien or foreclosure. Foreclosure is typically a slow (and costly) process, due to the various facets of litigation. Fortunately, if you have a preliminary notice and mechanic's lien program in place, **less than 1% of your projects will necessitate foreclosure.**

If you need to foreclose, you should use an attorney who is well versed in construction / mechanic's lien laws and familiar with the project itself (including issues surrounding change orders, back charges, etc.).

Bear in mind, everyone has a specialty and that is what makes them great – would you ask your cardiologist to fix your car or ask your mechanic to fix your heart?

Construction **Credit Heroes** Use Mechanic's Liens

OK, we don't get a cape, and we miss out on that whole "secret identity" thing, but we are credit heroes. We are expected to do more with less, balance the demands of our salespeople while protecting the financial assets of the business, and at the end of the fiscal year, we need to demonstrate that we reduced company write-offs while improving sales.

Implementing a mechanic's lien process will help you achieve your credit risk goals and ensure you are paid for the work you do.



About NCS Credit

Preliminary notices, deadline tracking, mechanic's liens, and foreclosure actions are NCS' specialty. We are uniquely positioned to provide you with a comprehensive mechanic's lien program.

NCS Credit is the industry's only full-service provider. From UCC filings and mechanic's liens to commercial collections, we have it all under one roof.

Powered by our knowledgeable staff and fueled by technology, NCS will simplify your current process and deliver a best-in-class client experience.

With unparalleled industry expertise, we understand the complexities of commercial credit. We believe everyone deserves to get paid for the work they do!



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