

ARE YOU THINKING ABOUT BUILDING YOUR OWN HOME?

Introduction

It is the American Dream to own your own home ... and many people think they will save an enormous amount of money by building their own. This could be a costly mistake financially, emotionally, and physically. Many aspects need to be considered and the purpose of this brochure is to help you think about avoiding some of the pitfalls and what you can do to make this a successful undertaking. There are several questions you will need to answer. Our hope is that you will be helped by this publication. Ask yourself....Do I really have the time to undertake a project so time consuming? Is it worth the time? How stressful will it be on my family? Do I really have the skills to build a home properly? Do I have the correct tools for those jobs I plan to do? If not, how much money will I spend on those tools? Will I use them again once the home is completed?

Your home is the single largest investment you will make in your lifetime. Do you have the expertise to make sure this home will last you a lifetime?

Arranging Financing

Arranging and applying for a home loan can be quite involved and should be one of the first orders of business. Even if you feel that you have enough cash to do the job, applying for a home loan to allow for inevitable overruns due to increased material and labor costs or upgrades is always advised. Most mortgage companies will not lend money to cover the unanticipated costs on a home on which construction has already begun. As a self-contractor, some lenders will not lend you more than 80% of the projected cost of your home. House plans, specifications and an itemized list of documented costs and bids must be provided to the lender. In calculating costs, do not allow for "sweat equity" as most lenders do not recognize this as a legitimate cost.

Bookkeeping Responsibilities

IRS: The IRS requires that you send any sub who earns \$600.00 or more a 1099 form at the end of the year. In the event you are audited, be prepared to prove that the sub is an independent contractor - that is, you did not have to supervise his work and you did not dictate what time he reported to the job.

Tracking Materials Purchases: It is very important to be on the site or have someone you can trust to document delivery slips. Returns must be accounted for since inaccurate billing can run up costs. You will need to check all invoices and account for all materials. Waste can add hundreds if not thousands to the cost of your home.

Construction Management

Do not take this area for granted. There is much more to building a home than meets the eye. Be realistic about your level of skill and the amount of time you can spend on the jobsite. Base your decision to put "sweat equity" into your home, consider your experience, skills, available time and the amount of stress you and your spouse are able to manage. Your ability to handle long-term disruption of schedules is just as important as your ability to swing a hammer. And there's more!

Deposits

Deposits will be required by all utilities before construction can begin. Make deposits early as some may take weeks to get their services connected.

Insurance

Do you know why builders carry Builder's Risk, General Liability and Workman's Compensation insurance on all of their building projects? Because they know what their liabilities are and YOU, as a self-contractor, may have to assume the same liabilities.

Builder's Risk

The mortgage lender will require this type of insurance which covers the home materials only (no bodily injury, etc.). Upon completion of the home and closing the loan, you will want to convert this policy to a homeowner's policy. Your lender or insurance agent can explain this to you.

General Liability

Your lender may or may not require this type of insurance, but as a self-contractor, the permit purchaser and the property owner, YOU are responsible for any third party injuries that may occur on your property. Without the proper general liability protection, YOU will be held liable if anyone gets injured on the project, including children injured while playing on the job site.

If you are not in the business of building homes, you may not be required to carry workman's compensation insurance; however, it would be prudent to require any subcontractors you hire to provide certification of their workman's compensation coverage. Also, it is important to know that any subcontractor who employs any number of workers is required by law to carry workman's compensation insurance.

Friendly Warning

Do not accept a release of injury in lieu of a sub having workman's compensation insurance as the release may not be binding in a court of law.

Workman's Compensation

There is an issue which has been of increasing concern to property owners ... there is a fine line between being an employer and a do-it-yourself minded builder. A recent case in Oregon ruled that, since the property owner was serving as their own general contractor and had the right to control the worker, they were employers and therefore liable for workman's compensation insurance. This presents a legal issue about which property owners should be knowledgeable. Your attorney or insurance agent can explain this exposure to you.

Time constraints:

Be prepared to spend at least 35 hours per week for probably 5-6 months. This is calculated for an average 1,500 sq. ft. home. If the home is larger, figure accordingly. Does your present employment allow enough flexibility to spend this amount of time away from your job?

Selection & Scheduling of subcontractors:

Remember subcontractors have other jobs in progress besides yours. Their loyalty may be to those builders that give them the most work during the year. Will they be available to you at the proper time? For example, do you have the toilet installed before or after the flooring? One sub cannot do their work until another has completed theirs. Delays are costly, frequent, and frustrating.

Bidding Expertise:

Do you really know how to properly analyze a cost breakdown? Are you able to distinguish high bids, low bids and work quality? Are you allowing for all of the materials you'll need? For example, everyone knows to buy tile ... what about grout, thin-set and spacers? Is everything that will be needed to complete the task included in the bid? Do you know enough about the work to realize if it's not? Remember, the lender will require that your cost breakdown be documented and if you have not projected costs efficiently and run short of funds, the loan amount cannot be adjusted after it is approved.

Technical Expertise:

As the general contractor of the home, it will be your responsibility to hire qualified, licensed, insured and/or certified subcontractors. Do you have the technical expertise to oversee if the work is done properly? If, after inspection, the work is rejected by the Codes Department, who will absorb the cost to redo the work? While this work is being redone, time will be lost, and other subs may have to be rescheduled.

Occupational & Safety Health Administration (OSHA)

As the general contractor of your own home, you can be held responsible for all sub-contractors who do not adhere to the construction site OSHA safety requirements. Specifics such as regulations involving stairways and ladders have been a major source of injuries among construction workers. OSHA has set out about 17 detailed rules that govern stairway and ladder use. Other OSHA standards for a 'job site include postings of emergency numbers and instructions in the event of an injury. If your job site became the target of an OSHA inspection, penalties for any infractions could be very costly. For example, in Texas one inspection of a single home under construction resulted in \$20,000 worth of citations. (Source: NAHB Business Management)

Warranty Responsibility

The New Home Warranty Act, effective Aug. 30, 1986, requires builders of new homes to provide certain warranties that extend over periods of one, two, or five years, depending on the nature of the defect. If you build your own home and sell it to another party, you will be responsible for any of the legitimate defects within the given 5-year time frame. In the case of your death, your estate would be responsible for claims. As far as the law is concerned, you will be the builder and responsible for claims brought by subsequent owners of the home.

Lien Laws

In the event any of your subcontractors fail to pay their suppliers or laborers, a lien can be filed against your property. A lien is a claim against a piece of property and can cloud the title or deed to the property. These suppliers and laborers, if not paid, can file a lien against your property, even if you have paid the sub-contractors.

Permits

Building permits and periodic inspections are required even if you are self-contracting. It can be a tedious and frustrating experience if you are not familiar with the system and all of the "red tape" requirements, which must be complied with before commencing work. Mistakes here can be costly and time-consuming.