

# Is Self-Contracting Worth the Risk?

Nearly every American dreams of building their own home one day, but to literally do it yourself is not as easy as it may sound. There are many factors to weigh when considering self-contracting.

## FINANCING

Arranging & applying for a home loan can be quite involved and should be one of the first steps you take. 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 materials costs or upgrading is always advised. Most mortgage companies will not lend on a home which has already begun construction in order to cover unanticipated costs. 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.

## INSURANCE

A professional builder carries builder's risk, general liability and worker's compensation insurance on all of his building projects. You, as a self-contractor, have the same liabilities.

*Builder's Risk:* The mortgage holder will require this type of insurance, which covers the home materials only. Upon completion of the home and closing of the loan, you will want to convert this to a homeowner's policy.

*General Liability:* As a self-contractor, the permit purchaser and the property owner, you are responsible for any third party injuries which may occur on your property. Without the proper general liability protection, you will be held accountable if anyone gets injured on the job site.

*Worker's Compensation:* If you are not in the business of building homes, you may not be required to carry worker's compensation insurance. However, you should require any subcontractors - framers, plumbers, roofers, etc. - to present certification of their own worker's comp coverage. It is required by law that any subcontractor who employs workers must carry worker's compensation insurance. Do not accept a release of injury in lieu of a sub having insurance. It may not be binding in a court of law.

## 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.

*Department of Zoning:* The locality has certain development regulations for which the permit purchaser/builder is responsible. An architectural scaled plan/plat showing all of the variances and setbacks must be presented and approved before you can secure a building permit. In addition, your lender will require a slab survey to insure that you are complying with all those variances and setbacks. Also note that the location of existing utilities and underground wiring must be identified by [Miss Utility](#) before construction can begin.

*Building Department:* You must secure a building permit from the local building department. As the permit purchaser, you are liable for compliance with all residential codes. After construction begins, the building department must perform multiple mandatory inspections. If any of these construction inspections fail, remedial work must be completed before work can continue.

## CONSTRUCTION MANAGEMENT

There is a lot more to building a home than meets the eye. Be realistic about your level of skill and the amount of time you can spend. Base your decision to put “sweat equity” into your home on your experience, skills, available time and the amount of stress you and your spouse are able to manage. Be prepared to spend at least 6-8 hours a day, 5 days a week for 4-5 months managing your project. Remember that subcontractors have other jobs in progress besides yours, and scheduling of them must be done in the proper order. For example, the countertops cannot be installed until the cabinets are finished, and trim has to be installed before painting begins. Delays from subs can be costly and frustrating.

## BOOKKEEPING RESPONSIBILITIES

The IRS requires that you send any subcontractor who earns \$600 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. Being on site yourself or having someone you can trust to document delivery slips is very important to keeping track of your project. Returns must be accounted for also, since inaccurate billing can run up costs. Check invoices and account for all materials. Waste can add hundreds to your bills.

## OCCUPATIONAL & SAFETY HEALTH ADMINISTRATION (OSHA)

As the general contractor of your own home, you can be held responsible for all subcontractors who do not adhere to the construction site OSHA safety requirements. OSHA standards for a job site include posting of emergency numbers and instructions in the event of an injury, guaranteeing fall protection measures are in place, and much more. If your job site became the target of an OSHA inspection, penalties for any infractions could be very costly. Visit [www.osha.gov](http://www.osha.gov) for more information.

## WARRANTY RESPONSIBILITY

Virginia has an [implied warranty on new homes](#), which requires builders of new homes to provide certain warranties. If you sell the home to another party, you will then become responsible for any of the damages within the given timeframe.

## LIEN LAWS

In the event any of your subcontractors fail to pay their supplier or laborers, a lien can be filed against your property.

## LICENSING

A homeowner may build his own home one time per year, and you must actually occupy the home upon completion. It cannot be sold to anyone else. Also, you may not pull another permit to build again as a self-contractor for 18 months from the time you pulled the previous permit. Anyone who pulls a permit as a self-contractor, builds the home, never lives in it, sells and then pulls another permit as a self-contractor is considered “in the business of” and therefore required to be licensed.

These are just a few of the many issues to consider when self-contracting your home which could cause you headaches, frustration and sleepless nights. To hire a licensed, experienced and insured professional building Contractor - visit [rrhba.com](http://rrhba.com).