

# Thinking About Building Your Own Home?

## The Potential Pitfalls of Being Your Own General Contractor



Produced by



This brochure was prepared by the HBA staff. It is intended to enlighten from a lay person's perspective. Many of the aspects of home building involve legal issues. The reader should consult an attorney for answers to specific questions.

## Thinking About It...

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. However, they don't realize that 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 these issues so that you can avoid some of the pitfalls.

### *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. Our hope is that you will be helped by this publication. There are several things you will need to know and questions you will need to answer, but the biggest is...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 (this means that you can't pay yourself for the countless hours you'll spend).

## Bookkeeping Responsibilities

*IRS:* 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 subcontractor is an independent contractor - that is, you did not have to supervise his/her work and you did not dictate what time was 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. Mistakes in this area 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 on your experience, skills, 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.

## **Deposits**

Deposits may 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 Worker’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.

*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 jobsite.

*Builder’s Risk:* The mortgage lender will require this type of insurance, which covers the home materials only (not 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.

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

*Friendly Warning:* Do NOT accept a release of injury in lieu of a subcontractor having workers’ compensation insurance as the release may not be binding in a court of law. This is an issue which has been of increasing concern to property owners because 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 workers’ compensation insurance. This presents a legal issue that property owners should be know about. Your attorney or insurance agent can explain this to you.

### **Time Constraints**

Be prepared to spend as much 35 hours per week, for anywhere from four to six months to complete your home. This is calculated for an average 1,500 sq. ft. home. If your 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 that subcontractors usually 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 time that you need them? For example, do you have the toilet installed before or after the flooring? Often times, one subcontractor cannot do their work until another has completed theirs. Delays are frustrating and can be frequent and very costly.

### **Bidding Expertise**

Do you really know how to properly analyze a cost breakdown? Are you able to distinguish between 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, but 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 recognize 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 that the work is done properly? If, after inspection, the work is rejected by the Building Inspector, who will absorb the cost to redo the work? While this work is being redone, time will be lost, and other subcontractors may have to be rescheduled.

### **Washington Industrial, Safety & Health Act (WISHA)**

WISHA is the state-equivalent of OSHA and requires "employers" to provide workers with a safe and healthy workplace. WISHA applies to almost every single employer and employee in the State of Washington, including when you have a contract with someone else (such as a subcontractor) that primarily involves personal labor, even if you are not required to pay industrial insurance or unemployment insurance premiums and if you have any volunteers working for you who received any benefit or compensation (friends who help you out and get paid cash). As your own general contractor, you could be held responsible for any subcontractors who do not adhere to WISHA safety requirements, and could even be responsible for any penalties incurred as a result.

## **Lien Laws**

In the event any of your subcontractors fail to pay their suppliers or laborers (even if you have paid them), 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.

## **State Building Code**

Any construction in the state must comply with the Washington State Building Code. This code is extremely detailed and complex. Failure to comply can result in fines, penalties or even your project being shut down. Before you undertake a building project, you should have a thorough understanding of the Building Code.

## **Permits & Inspections**

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 completed before commencing work. Mistakes can be costly and time consuming.

## **Contractor Registration**

According to Washington State law, a “Contractor” includes a consultant acting as a general contractor, as well as any person, firm, corporation, or other entity covered by the law, whether or not registered as required, or who are otherwise required to be registered or licensed by law, who offer to sell their property without occupying or using the structures, projects, developments, or improvements for more than one year from the date the structure, project, development, or improvement was substantially completed or abandoned. This means that if you build your own home but turn around and sell it without living in it, you could be a considered a contractor and required to register as one.

If you are overwhelmed after reading this pamphlet, please call the HBA office at (509) 735-2745 or go to our website [HBATC.COM](http://HBATC.COM), for referrals to professional, licensed builders and save yourself from everything that is required to be your own general contractor.

## *About the HBA...*

It takes a variety of companies to build a home or commercial structure. Developers prepare the land; architects design the building; builders and subcontractors complete the structure; suppliers provide the materials; realtors make the sales; and banks provide the funds. Within each of these segments, there are numerous smaller companies that also contribute to every new home and commercial building.

The Home Builders Association provides the structure for these diverse companies to work together to provide quality homes and commercial buildings for the Tri-Cities, Walla Walla and all of southeast Washington.

Quality construction in attractive, affordable communities is important to us because we are your neighbors. We work, play and serve in your communities. Home Builders Association members are dedicated to preserving the integrity and lifestyle of southeast Washington through high professional standards and sound business practices.



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