

# Hazards Involved in Self-Contracting



There are risks and requirements involved in self-contracting. Building your own home almost never ends up costing less than you anticipated. There almost always will be extra costs associated with something that happens as a result of mistakes made, or unforeseen situations that require additional work. The risk can cost you more than what it is worth. Risks and requirements such as:

## **1. Arranging for financing, before or after you acquire the land.**

### **This includes:**

- Bookkeeping.
- Draws (draws from the lender).
- Deposits for utilities (electricity and water).
- Site Facilities (toilet and dumpster).

## **2. Being able to manage the entire construction job.**

### **3. Insurance, including:**

- Builder's risk.
- General liability.
- Workman's compensation.
- Lien laws.
- Office of Safety and Health Administration (OSHA) requirements.

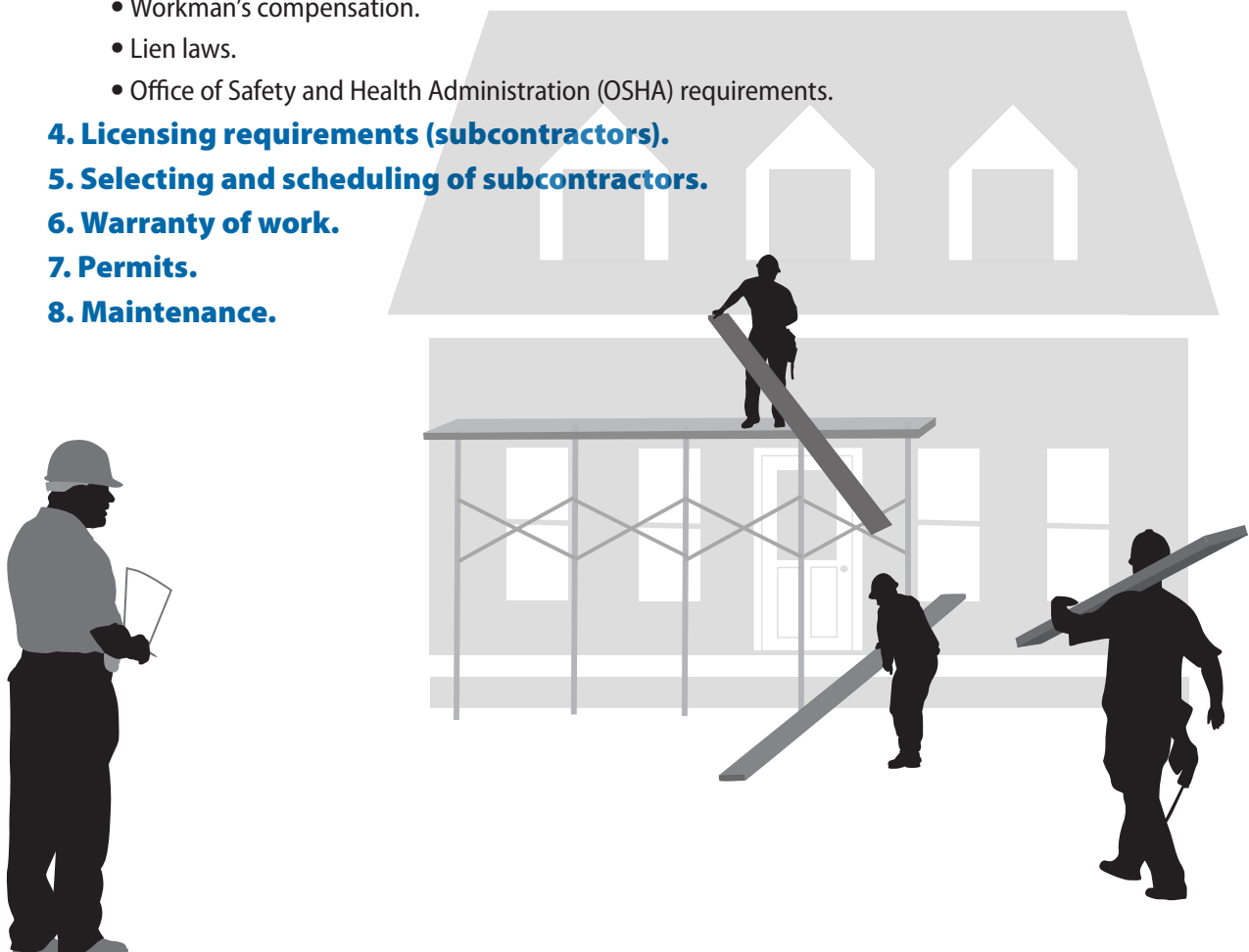
## **4. Licensing requirements (subcontractors).**

## **5. Selecting and scheduling of subcontractors.**

## **6. Warranty of work.**

## **7. Permits.**

## **8. Maintenance.**



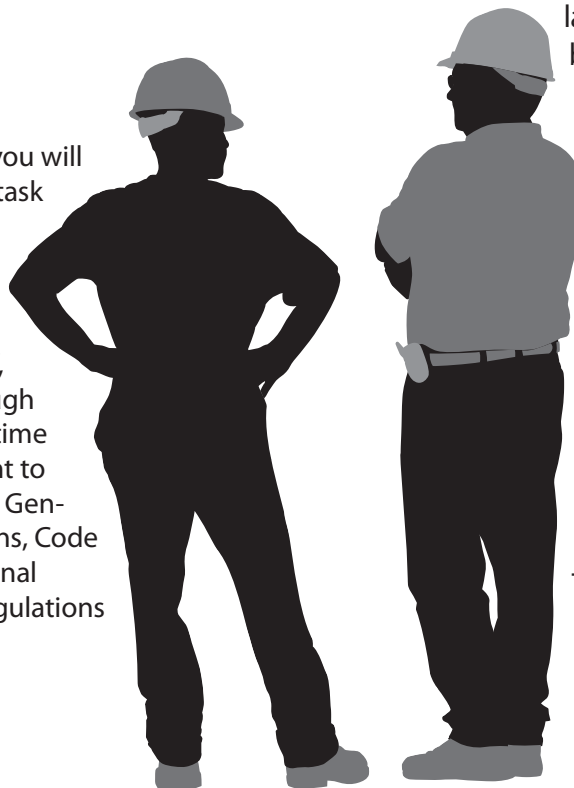
## Arranging for Financing

This can be a very difficult process even if you think you have enough for the initial cost and down payment. You need to be prepared for things such as increases in materials and labor costs. Most mortgage companies will not cover these types of cost increases even if construction has begun. Most lenders will only lend self contractors 80% of the projected cost of the project. Cost such as drawing plans, specifications of the property, material costs list, and labor costs must be provided to the lender.

1. Bookkeeping- Keep good records. The IRS requires you send any subcontractor who earns \$600 or more a 1099 form at the end of the year. If you are audited, be prepared to prove the subcontractor is an independent contractor. Track all material purchases and returns, and check all invoices to account for material. Monitor all waste.
2. Bank Draws- Make sure you know what all your draws will cover and how long it takes the lender to disperse the money.
3. Deposits- Make sure you have applied for electric, gas, sewerage and water service, and you have paid your deposits.
4. Site Facilities- Portable toilet and a dumpster is required by most of the city and/or parish permit offices. It is in the state code booklet that a toilet and a dumpster has to be at the construction site for the workers.

## Managing the Construction Job

Besides managing your money you will have to manage your time. This task can put a tremendous stress on you. You should be prepared to spend at least 30 hours per week for about five to six months. You should ask yourself, will my employer allow me enough flexibility to spend this amount time away from my job? It is important to know issues such as Labor Laws, General Health and Safety Obligations, Code of Practice Laws, 2006 International Residential Code and specific regulations for construction.



## Insurance

You should carry insurance because you will be just as liable as your subcontractors for any accidents or incidents that occur. If your subcontractors have insurance, they will be covered, but not you.. Your insurance should cover such things as, accidents, theft of materials and equipment, materials in transit or at a temporary location, providing coverage for vandalism, and coverage for losses due to change in laws or ordinances.

1. Builder's Risk- This insurance covers the construction materials. Lenders require builders to get this coverage. At the completion of the home this insurance can be converted to homeowner's insurance.
2. General Liability- A lender may or may not require a builder to have this insurance, but as the builder you are liable for any third party injuries that may occur at the construction site including kids playing at the site. You can require all your subcontractors to carry this type of insurance. Be sure their policies are current and have your site listed on the disclosure.
3. Workman's Compensation- If the city or parish refers to you as an employer of your workers, they may say that you are liable for them. Normally, subcontractors have such a policy. Be sure the policy is current.
4. Lien Laws- This law goes into effect if any of your subcontractors fail to pay their suppliers or laborers. A lien can be filed against the builder's property, deed, or title to the property if any of the subcontractors fail to pay their suppliers or laborers.
5. OSHA Requirements- As a general contractor of your own home, you can be held liable for subcontractors who do not adhere to OSHA construction site requirements. These include issues such as regulations involving stairways and ladders, which have been major sources of injuries. Other requirements such as posting an emergency number and instructions in the event an accident might happen. The penalties are very costly.

[More information available](#)

## Licensing Requirements

A homeowner is exempt from having a license to build his/her own home. If the owner acts as the contractor, he/she must occupy the house for at least one year upon completion of the house. When selecting a subcontractor, make sure the subcontractor is reputable and knows Louisiana building laws. Make sure they adhere to the laws involving workman's compensation, general liability, and laws governed by the Louisiana Department of Revenue.

## Selecting and Scheduling Subcontractors

It is important to keep your construction as close to schedule as possible. Delays can push your construction beyond your bank draw causing the bank to take action. When selecting and scheduling your subcontractors, remember they may have others jobs in progress besides yours. Their loyalty may be to those builders who give them jobs on a daily basis. Ask yourself, will they be available when I need them? Will they come when they are scheduled to come? This is important because one job might be delaying numerous jobs. Remember these time components:

- \* Schedule inside work during the cold months.
- \* Get commitments from suppliers on delivery dates and have them inform you days in advance if there will be delays.
- \* Schedule subcontractors tasks far enough apart to allow for inspection and repair work if needed.
- \* Add variance in the original construction plan for unforeseen delays due to weather, labor and delivery problems.
- \* Always have an inspector review the subcontractor work before paying. Have the subcontractor sign a lien waiver document. Get a 2006 International Residential Code (IRC) book.

## Warranty of Work

The New Home Warranty Act requires the builder of a new home to provide certain warranties that extends over a period of one, two, or seven years depending on the nature of the defect. If you build your home and sell it to another person, you will be responsible for any legitimate defects within that seven year time frame. If you die, your estate will be responsible for any claims within that period.

## Permits

A building permit and other permits are required even if you are building your own home. Make sure you have the right permits for all the work needed. Know the zoning ordinances for your area. Periodic inspections are required by the local inspection department and the lender. If you are not familiar with the whole process from start to finish, meet with your local permit official and find out how much commitment is needed in undertaking this project.

## Maintenance

Keeping your jobsite clean and having a dumpster on site is required according to most local codes. An unkept site is a safety hazard to your workers and others who need to come to the site. Before the final inspection or Certificate of Occupancy is given the site must be cleaned and ready for landscaping.



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