



BYOB BE YOUR OWN BUILDER

Construction Financial Solutions [CFS] does allow an individual to act as their own builder as long as they meet certain criteria.

EXPERIENCE

Managing the construction of a home involves much more than project management and subcontractor/vendor relations. Residential construction is a complicated process and the Builder of Record needs to have extensive knowledge of city and county regulations, utility set up, insurance guidelines, inspections, budget management as well as construction knowledge. More than paperwork, the person managing the build must be able to walk onto a job site at any point in time and identify faulty work by subcontractors and know how to resolve the issues at minimal expense.

It is for these reasons the Builder of Record must be able to show residential construction knowledge and experience. For a homeowner to act as their own builder, they must show they have either [1] built homes for clients in the recent past and provide client and supplier references, and/or [2] provide a work history to support residential construction knowledge.

FORMATION

The Builder of Record will execute the following documents upon commencement of the Construction Loan:

- Draw Disbursement Procedures
- Mechanic's Lien Note and Assignment of Lien
- Mechanic's Lien Contract
- Affidavit of Commencement of Work
- Environmental Certificate
- Contractor Affidavit of Compliance

These documents must be executed by a Company, not an individual. Thus a homeowner who wants to act as their own builder must establish a Limited Liability Company [LLC] or Corporation [INC] as the Builder with the State of Texas [not a DBA or Assumed Name].

BOOKEEPING

Texas Property Code details funds received for residential construction be kept separate from a builder's administrative and personal funds. Hence, a bank account under the Builder's name must be in place, and accounting records must keep construction funds separate from administrative costs. Furthermore, the Builder's recordkeeping must separate funds used for each individual project / home.

Paid receipts must be obtained for all materials, and paid receipts and/or Releases of Lien, signed and dated by each subcontractor, must be obtained for all labor associated with the construction of a residential property. These documents must be submitted to Construction Financial Services, Inc, in order to receive draw disbursements for construction costs. The Builder must archive all these documents for a period no less than 12 months after the completion of the home.

W9 forms must be obtained from all subcontractors and vendors who are paid more than \$600 per calendar year if they are not established Corporations. End of Year 1099 reports must be filed with the IRS. Please consult with your Tax Accountant for details on reporting to the IRS.



BYOB BE YOUR OWN BUILDER [CONT.]

INSURANCE, WARRANTIES AND INSPECTIONS

The Builder must have active insurance policies to include both General Liability and Builder's Risk Insurance. General Liability insures the Builder against claims for bodily injury and property damage, medical payments and personal and advertising injury. The Builder's Risk protects the home itself, including materials, fixtures and/or equipment being used in the construction or renovation should those items sustain physical loss or damage. Construction Financial Solutions must be listed as an additional insured on the Builder's Risk Insurance.

When a homeowner will be refinancing their construction loan into either a VA or FHA mortgage, the mortgage lender will require the builder provide certain information and documentation on the home.

INSIDE CITY LIMITS

If the home is INSIDE city limits, the builder is required to get permits and inspections done by the city. When complete, the city will provide a Certificate of Occupancy [CofO]. Additional information required by the builder at the time of completion includes:

- Builder's Certification of Plans, Specifications and Site [Form HUD-92541]: Form provided by mortgage lender
- Builder's One Year Warranty [Form HUD-92544] : Form provided by mortgage lender
- Building Permit and Certificate of Occupancy: Provided by the City
- Wood Infestation Report, NPCA 99a and 99b
- Local Health Authority Well Water Analysis or Septic Report, where applicable

OUTSIDE CITY LIMITS

If the home IS NOT INSIDE city limits, then there are no permit or inspection requirements by the county. FHA and VA will require the items listed above, but in lieu of the Certificate of Occupancy, the builder must supply a 10 Year Builder's Warranty... and the only way for the builder to get the warranty is to in fact [1] apply and obtain membership in a Warranty Group, [2] obtain a engineered slab and [3] hire a 3rd party real estate inspector to provide inspection reports for the [1] initial pre-pour, [2] framing and [3] final. If the homeowner is refinancing into a VA mortgage, the real estate inspector must be a licensed VA inspector.

The builder needs to ensure the contract price of the home covers the cost of the inspector, as well as the cost of the warranty which includes an annual membership fee as well as the home itself [around \$3 per \$1,000 cost of home].

When getting the warranty, the builder must apply for membership. It is extremely rare for the warranty group not to approve membership but in rare cases it has happened. The builder will need to complete an application which may include:

- Contact, tax ID number, entity type
- Experience [residential, commercial, condo, etc.]
- Number of homes completed within past year
- License information
- Insurance Information
- Background [association, bankruptcy, judgments, etc]
- References to include banks, construction financing, subcontractors
- Financials – assets and liabilities

You can find Builder Warranty groups on file, but the most commonly used are:

- 2-10 Home Buyer Warranty [<http://www.2-10.com/>]
- Aces Builders Warranty [<http://www.acesbuilderswarranty.com/>]
- Bonded Builders Warranty Group [<http://bondedbuilders.com/>]
- RWC [<https://www.rwcwarranty.com/>]