

# MORTGAGE LENDING UPDATE

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## Building a home

Oh, I see. Your uncle or brother in law or girlfriend's step dad is a contractor, so you think it would be a good idea to build your own home. If they were auto mechanics instead of contractors, would you consider doing your own automatic transmission rebuild? I know, I'm stretching believability to make a point. The point is that there are some things better left to the professionals. That being said, I've had the lack of good sense to build my personal residence three times over, with decreasing degrees of personal involvement each time. A lawyer friend of the family, now gone on to his reward, told me one time that everyone should build a house at least once in their lifetime. It gives them a good appreciation of what general contractors have to deal with.

The first time I lost my mind was as a newlywed. A banker friend of mine agreed to speak with his good friend, a general contractor. As a favor to the banker friend, the general contractor agreed to get my first home out of the ground and 'dried in'. Meaning that he would see that the critical foundation work was done properly, the home framed up, sheathed and roofed, with windows and doors installed, along with the rough in of the plumbing, electrical and heating and air. I would take over after that and complete the remainder of the home on my own.

Boy, did I learn a lot. I learned that I never wanted to do that again. Subcontractors, those who do the various portions of the project, such as sheet rock, or electrical, or concrete, or painting, never show up when they tell you they will show up. They also don't bother to call you to tell you they won't be there. As an individual building your own home, you will have absolutely no leverage to compel them to come. You are reduced to begging. Your job will be fit in around the general contractor who offers the sub the opportunity of repeat business. That just makes economic sense to the sub. Who would they rather disappoint? The individual owner-builder, who will have no more future business for them, or the general contractor, who might keep food on their table for years to come?

And the problem with absent subs is that in order to build a home, you have to do certain things in order. For example, you can't sheetrock until the insulation is in the walls. If the insulation subcontractor is scheduled to be there Wednesday and sheetrock is scheduled for Thursday, guess what happens when the insulation subcontractor fails to show? You've got a mess.

Or you could do the wall insulation yourself, like my wife and I did on our first home. Talk about a learning experience. We were at the house till 3 am doing insulation because, you guessed it, sheetrock was scheduled to begin the next day. Did I mention that my wife and I had full time regular jobs? We also had the insulation packed so tight around the window sashes that our windows wouldn't open. We didn't know what we were doing. We later found out that we could have hired it done more cheaply than we were able to purchase the insulation and install it ourselves. And I could have avoided that embarrassing trip to the house with umpteen huge slippery bundles of insulation piled high and tied onto the back of a pickup truck.

After sufficient time had passed so that we couldn't remember all the previous problems, we decided to sell that home and build another. But this time, we were smarter. We wouldn't do any work ourselves. We would have a general contractor do everything. So we signed an agreement with a general contractor. The contract was a 'cost plus' arrangement. That is we agreed to a set fee for the contractor to oversee the entire project and we agreed to pay the actual hard costs of the construction of the home.

Another learning experience. The first framer incorrectly framed up a portion of the roof rafters on one end of the home. He refused to fix it or come back. I heard that he had gone bankrupt. Another framer had to be hired to tear apart what the first framer had done and correctly finish the job. Guess who wound up paying for the mistake? Yep. Because my agreement with the general contractor was a 'cost plus' contract, I paid the first framer for the botched job, paid for the material for the botched job, and then paid for the second framer and the material to correct and finish the job.

And because I had gotten the construction loan in my name, the delay also cost me additional interest. Live and learn. Die and forget it all.

Anyway, the third time was the charm. I found a great general contractor, signed a construction contract for a turn key job with a fixed total price and don't plan on building again. Next week, if I haven't already convinced you otherwise, I'll explain the steps you will need to take to finance the construction of your new home.

*David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, [mbag.org](http://mbag.org). For an archive of past articles visit [mbag.org/ML\\_Update.html](http://mbag.org/ML_Update.html).(6/16/10)*