

## **12. Avoid Bankruptcy... 3 Owner-built Pitfalls** (5 Minutes)

- Q1. For Do-It-Yourself home builders, what are common blunders that you've seen that could lead to bankruptcy?
- A1. The number one big blunder is not having the proper type of builders risk insurance.
- Q2. Aren't all insurance policies the same?
- A2. One needs to get a good insurance agent who will explain the different types of builders risk insurance policies. Find out if it is an all-risk type policy or if it is a named peril policy. The all-risk policy, as it states, provides coverage subject to exclusions. The named peril policy has specific hazards that it covers. You have the most coverage under the all-risk policy. An example would be if a person was building their own home and they hired a subcontractor to backfill around the basement walls. The home builder/owner did not properly brace the walls and the walls caved in. There was no touching of the basement walls by the blade or any part of the bulldozer. The policy required that there be actual contact for vehicle damage coverage to afford paying for the repairs. Since there was no contact, there would be no coverage. This is based upon an actual case where the home builder filled in the excavation, removed the platform, and no house was built, as he basically ran out of funds and did not have the money to continue, because he did not have insurance coverage for this disaster.
- Q3. How about materials stored at the site?
- A3. This is another big item to find out if building materials have to be attached prior to there being coverage, or if they can be stored on the premises, if coverage would be afforded. Many times these materials are stolen or vandalized. Another big item that is overlooked is not checking with your insurance agent or real estate attorney counselor, about workers compensation or other liability-type laws in your state. You may be viewed as being the general contractor if you hire subcontractors to do the work. Many times these subcontractors do not provide the required workers comp insurance or other insurances, and become injured. Often the sequence of events is where a harmed party represented by an attorney looks for insurances to go all the way up the line. You may be considered as being the general contractor and you may be bankrupted if you do not have insurance coverage such as workers comp or liability coverage to cover this matter. I've seen it happen. I've been involved in situations when I was a church trustee and we hired people to do contracting work, but they did not have

workers comp insurance. We had to get workers comp coverage prior to allowing them to do the repairs. It just was not worth the risk. Don't go bankrupt. Even experienced subcontractors can do something stupid like backing off from a roof that may only be 10 feet tall, falling on their head, and becoming paralyzed for life.

Q4. How about manufactured or modular homes?

A4. A third item that is a big concern is the common trend of manufactured or modular homes. Many of the modular homes are of a quality level like stick-built homes, both in the craftsmanship and materials. If you act as a general contractor to dig your own footings or foundations or hire them out, and then you have the manufactured or modular home transported by the dealer or a contractor and placed on the foundations or supports, please be aware that there are approved methods to do this. Most of those units have engineers' specifications. These specifications will indicate if the unit can be rolled onto the foundation or if it has to be lifted by a crane and then placed on the foundation. Sometimes if an inexperienced installer is in the picture, he may try to shortcut the system. He may not have the proper size of crane, he may not have the proper hook-up points, and in the process I've heard of situations where modular homes have been installed incorrectly with a crane so that there was a jackknife type of effect, because they were not done to engineers' specification. The problem being, you being the general contractor, may be stuck with this inferior damaged structure, especially if the installer does not have insurance or the courts may look on it that you should have supervised the situation, acting as the general contractor. Do not get into this situation. Make certain you understand the method of installation and monitor it, whether it entails hiring an engineer to watch the installation process or if you do it yourself. Don't go bankrupt.