When VA Loan Guidelines Say Yes but Your Lender Says No

VA alteration and repair loans offer veterans a powerful way to finance home improvements as part of a purchase or refinance. The program's guidelines are broad, allowing eligible borrowers to include the cost of structural work, foundation repair, and other upgrades directly into the loan amount. But many veterans discover a frustrating gap between what the VA allows and what their lender will actually approve. Understanding this gap can save you time, money, and a lot of confusion.

What VA Alteration and Repair Loans Cover

The VA loan program includes an alteration and repair feature that lets borrowers finance necessary renovations. The guidelines define eligible work broadly: anything that brings a property up to basic habitability standards, improves energy efficiency, or makes it comparable to similar homes in the area. This can include new roofing, electrical upgrades, plumbing fixes, and even major structural work like foundation repair. The VA does not impose a hard cap on the amount you can borrow for these purposes, as long as the total loan stays within the county loan limit and the property appraises for the expected value after repairs.



The Reality of Lender Overlays

Here is where things get complicated. Individual lenders often add their own requirements on top of VA guidelines. These are called lender overlays, and they can restrict or outright block work that the VA would otherwise permit. A lender overlay might limit the types of renovation work you can finance, the maximum amount allowed for repairs, or the completion deadline for the work. For example, a lender might refuse to finance structural work or foundation repair if the property is deemed too risky, even though the VA guidelines explicitly allow it. Another common overlay is a stricter cap on the cost of improvements, say $15,000, when the VA would allow much more based on the appraised after-repair value.

Why Lenders Add Overlays

Lenders are not trying to be difficult. They face their own risk management requirements. VA loans are guaranteed by the government, but the lender still has to fund the loan upfront. If a renovation project goes over budget, takes too long, or the contractor walks off the job, the lender could be left with a partially finished property that is harder to sell. Overlays are a way for lenders to limit that exposure. They may also have internal policies based on past losses or

investor requirements. For instance, a lender that has had bad experiences with foundation repairs might decide to avoid financing them altogether, regardless of what the VA says.

Common Restrictions You Might Face

Knowing what overlays often look like can help you prepare. Here are a few typical restrictions lenders may impose even when VA guidelines allow the work:



- A low dollar cap on the total cost of alterations and repairs, such as $10,000 or $15,000, regardless of the property's after-repair value.
- A ban on financing certain types of work, like structural work, foundation repair, or roof replacement, unless the property is already in good condition.
- A requirement that all work be completed within a very short time frame, such as 30 or 60 days, which can be unrealistic for larger projects.
- A rule that the contractor must be licensed and bonded in a specific way that may not be required by the VA.
- A refusal to allow the veteran to act as their own contractor, even when permitted by VA guidelines.

These overlays vary widely from one lender to the next. Some lenders have very few overlays and will follow VA guidelines closely. Others have extensive lists that make it difficult to finance anything beyond minor cosmetic updates.

How to Navigate Lender Overlays

The first step is to ask upfront. When you are shopping for a VA loan, ask each lender directly about their overlays on alteration and repair loans. Do not assume that because the VA allows something, your lender will too. Get the specific policies in writing if possible. If a lender tells you they cannot finance foundation repair or structural work, ask why and whether there is any flexibility. Some lenders will make exceptions on a case-by-case basis, especially if you have strong credit and a solid contractor.

Another strategy is to work with a mortgage specialist who understands the VA program inside and out. Someone like Carlos Scarpero, VA Mortgage Specialist, NMLS 1674385 can help you identify lenders with fewer overlays and guide you through the approval process. Their experience with VA renovation rules means they know which lenders are more likely to approve the work you need.

What to Do If Your Lender Says No

If you hit a wall with one lender, do not give up. You may need to switch lenders or adjust your renovation plans. Sometimes the solution is to break the project into phases. Finance the essential repairs first, like structural work or foundation repair, and tackle cosmetic upgrades later with cash. Or consider a different loan product, such as a VA cash-out refinance, which may have fewer restrictions on how you use the funds.



It is also worth checking whether the lender's overlay conflicts with VA guidelines in a way that could be challenged. While lenders are allowed to set their own requirements, they must still comply with federal lending laws. If an overlay seems arbitrary or discriminatory, you may have grounds to file a complaint with the VA or the Consumer Financial Protection Bureau. But in most cases, the easiest path is to find a lender whose overlays align with your project.

The Role of the Appraisal

An appraisal is a key part of any VA alteration and repair loan. The appraiser will estimate the property's value after the planned repairs are completed. This "after-repair value" determines how much you can borrow. If the appraiser believes the work will not increase the value enough, the lender may limit the loan amount or refuse to approve the project. Lenders sometimes add their own appraisal requirements, such as requiring a second appraisal or using a specific appraiser, which can add time and cost.

Planning Ahead Saves Headaches

The best way to avoid surprises is to plan your renovation project carefully before applying for the loan. Get detailed quotes from licensed contractors, set a realistic timeline, and have a backup plan for unexpected costs. Share these details with your lender early in the process.

The more information you provide, the more comfortable the lender may be with approving the work.

Working with a knowledgeable professional can make all the difference. Carlos Scarpero, VA Mortgage Specialist, NMLS 1674385 has helped many veterans navigate these exact challenges. Their familiarity with lender overlays and VA guidelines means you are less likely to get stuck at the last minute.



Final Advice

VA alteration and repair loans are a fantastic benefit for veterans who want to improve a home. But the fine print matters. Lender overlays can restrict work that the VA permits, especially

when it comes to structural work, foundation repair, and larger projects. Do not assume that because the VA says yes, your loan will go through smoothly. Ask the right questions, compare lenders, and work with someone who knows the territory. A little extra effort upfront can save you from a stalled project and a lot of frustration later.