VA renovation loans: federal rules versus lender requirements

Understanding the two layers of VA renovation loan rules

When you apply for a VA renovation loan, you are dealing with two sets of requirements at once. One comes from the Department of Veterans Affairs itself, and the other comes from the lender that processes your loan. Many borrowers assume that the VA sets every rule, so they are surprised when their lender asks for something that seems stricter than what they read about online. The difference matters because it affects which renovations you can finance, how much you can borrow, and how long you have to complete the work.

This article breaks down which rules belong to the VA and which ones belong to lenders, so you can plan your home improvement project with a clearer picture of what to expect. Knowing the difference helps you avoid delays and choose a lender whose overlay fits your renovation plans.



Where the VA sets the baseline

The VA renovation loan program, often called the VA renovation loan or the VA energy efficient mortgage, has a core set of guidelines that every lender must follow. These are the minimum standards for eligibility, property condition, and allowable improvements. The VA does not care what color you paint your kitchen, but it does require that the home be safe, sanitary, and structurally sound after the work is finished.

One of the most important VA guidelines is that the renovation must be attached to the property and improve its livability or energy efficiency. That includes structural work, foundation repair, roofing, plumbing, electrical, and even some landscaping if it improves drainage or access. The VA also requires that the work be completed within a specific timeframe, usually 12 months, and that the contractor be licensed and insured. These are the actual VA renovation rules that apply to every loan, no matter which lender you choose.

Another key VA rule is the appraisal process. The VA requires a licensed appraiser to review the renovation plans and provide an "as-completed" value estimate. That estimate determines how much you can borrow, because the loan amount is based on the home's value after the improvements are done, not its current condition. The appraiser also checks that the proposed work meets VA minimum property requirements, which cover things like adequate heating, safe electrical systems, and no peeling lead-based paint in homes built before 1978.



What lenders add on top

Lenders are allowed to add their own requirements, known as overlays, as long as they do not violate VA rules. These overlays exist because the lender takes on some of the risk if you default, and because they have to sell the loan on the secondary market. Investors like Fannie Mae and Freddie Mac have their own overlays, and lenders often adopt those to stay competitive.

A common lender overlay is a minimum credit score. The VA itself does not set a minimum credit score, but most lenders require at least 620 or 640. Some lenders go higher, especially for renovation loans, because the process is more complex and the risk of cost overruns is higher. Another overlay is a debt-to-income ratio limit. The VA allows a higher ratio than many

lenders are comfortable with, so a lender may cap your total monthly debt payments at 45% of your gross income even though the VA would allow 50% or more.

Lenders also add overlays around contractor qualifications. While the VA requires a licensed contractor, some lenders require the contractor to have a specific bond or a certain number of years in business. A few lenders even maintain a list of pre-approved contractors, which can limit your choices but also speed up the approval process.

Completion deadlines and inspection rules

The VA sets a general completion deadline of 12 months for renovation loans, but lenders can impose a shorter deadline. Some lenders require the work to be finished in 6 months, especially if the renovation is extensive or if the property is vacant. A shorter deadline can create pressure if your contractor runs into delays with permits or material shortages.

Inspection requirements also vary. The VA requires a final inspection to confirm that the work meets minimum property requirements. Lenders may require additional inspections during the renovation, such as a rough-in inspection after the framing or electrical work is done. These extra inspections give the lender confidence that the money you borrowed is being spent on the approved work and that the project is on schedule. If you plan to do the work yourself, be aware that many lenders require all renovation work to be done by licensed contractors, not by the borrower.



Eligible improvements and cost limits

The VA publishes a list of eligible improvements that includes structural repairs, energy efficiency upgrades, and alterations that bring the home up to current building codes. The VA also allows repairs that bring the home to the condition of similar homes in the neighborhood, which is a phrase you will hear often from appraisers. This means you cannot finance a luxury kitchen in a modest neighborhood unless you pay the difference yourself.

Lenders may narrow that list further. For example, some lenders exclude swimming pools, outdoor kitchens, or detached garages, even though the VA allows them. Other lenders cap the total renovation cost at a percentage of the home's value, such as 50% of the after-improvement value, while the VA does not have a hard percentage cap. The lender's cap can

limit how much you can borrow for improvements, especially if the home needs major structural work or foundation repair.

Cost overruns are another area where lender rules differ from VA rules. The VA allows a contingency reserve of up to 10% of the renovation budget, which you can use if unexpected issues arise. Lenders may require a larger reserve, or they may require you to pay for overruns out of pocket. Always ask your lender how they handle cost overruns before you sign the loan documents.

How to navigate both sets of rules

The best approach is to understand the actual VA renovation rules first, because they form the foundation of every loan. Then ask each lender you consider for a written list of their overlays. Compare those overlays with your renovation plans. If your project involves foundation repair or other structural work, a lender with a longer completion deadline and a higher cost cap may be a better fit. If your credit score is borderline, look for a lender with a lower minimum score.



Remember that overlays are not set in stone. Some lenders will waive an overlay if you have strong compensating factors, such as a large down payment or a long history of on-time payments. It never hurts to ask, especially if the overlay prevents you from financing a renovation that the VA would allow.

The bottom line for veterans

VA renovation loans offer a powerful way to finance home improvements, but the rules come from two sources. The VA sets the minimum standards for safety, structural integrity, and eligible improvements. Lenders add their own overlays to manage risk and meet investor requirements. By knowing which rules come from which source, you can choose a lender whose requirements match your renovation goals and avoid surprises during the loan process.