VA Guidelines vs. Lender Overlays: What Blocks Your Mortgage

When a VA mortgage application is denied, the reason often feels like a closed door with no explanation. But the cause of that denial usually falls into one of two categories: the VA's own underwriting rules, or stricter requirements added by the lender itself. Understanding the difference between these two sets of standards is essential for anyone who wants to avoid a rejection or challenge one that has already happened.

The Department of Veterans Affairs sets minimum guidelines for the loans it guarantees. These cover things like credit history, income stability, and property condition. But individual lenders are allowed to add their own overlays on top of those guidelines. An overlay is a stricter requirement that a lender chooses to apply to every loan it funds, or to certain loan types. For example, the VA may allow a borrower to have a credit score of 580, while a particular lender might require a 620 minimum. The VA guideline is the floor; the lender overlay is the ceiling that lender sets for itself.



Why Lenders Add Overlays

Lenders add overlays to manage risk and to align with the requirements of the investors who buy their loans on the secondary market. A lender that sells most of its loans to Fannie Mae or Freddie Mac may follow those agencies' credit score or debt-to-income thresholds, even when the VA would accept a lower number. Overlays also help lenders avoid buying back loans that later default. For the borrower, this means that a loan that the VA would guarantee can still be denied by the lender because of a rule the lender itself created.

Common overlays include higher minimum credit scores, lower debt-to-income ratios, longer waiting periods after a bankruptcy or foreclosure, and stricter documentation of income sources. Some lenders also require larger cash reserves or impose limits on the types of properties they will finance. None of these are VA rules. They are choices made by the lender's risk department.

How to Tell What Caused a Denial

When a mortgage application is denied, the lender is required by law to send an adverse action notice. This document lists the specific reasons for the denial. It may say something like "credit score below minimum requirement" or "insufficient income documentation." The notice alone does not tell you whether the reason came from the VA or from an overlay. To find that out, you need to compare the reason stated in the notice against the VA's published guidelines.

The VA's guidelines are publicly available and relatively straightforward. If the denial reason is something the VA allows, then the lender's overlay is the culprit. For instance, the VA permits a borrower to have a credit score as low as 580 with a properly structured loan. If the adverse action notice says the denial was due to a credit score below 620, that is an overlay. Similarly, the VA does not impose a maximum debt-to-income ratio, though it does require that residual income be sufficient. If a lender denies you for having a DTI above 45%, that is their own rule.



When a Denial Is Based on VA Guidelines

Some denials are purely about VA rules. The most common involve issues with the property itself. The VA requires that a property meet minimum property requirements (MPRs) related to safety, structural integrity, and livability. If a home has a leaky roof, faulty electrical wiring, or a termite infestation, the VA will not guarantee the loan until those issues are fixed. A lender cannot waive those requirements. Similarly, if the borrower's income does not meet VA residual income thresholds, or if the borrower has a recent bankruptcy or foreclosure that has not met the VA's waiting period, the denial stems from VA guidelines that apply to every VA loan.

Another area where VA guidelines are strict involves the borrower's entitlement. If a borrower has already used their VA entitlement on a previous loan and has not restored it, they may not qualify for a new full-entitlement loan without meeting specific conditions. This is a VA rule, not a lender choice.

What to Do After a Denial

If you receive a denial, the first step is to read the adverse action notice carefully. Then look up the VA's actual guidelines for the specific reason listed. The VA's website and its loan guaranty service provide clear explanations of what is required. If the denial reason appears to be a lender overlay, you have several options.

One option is to ask the lender for a second opinion or to request a review of the underwriting decision. Some lenders will reconsider if you provide additional documentation that shows you meet their overlay. For example, if the denial was due to a credit score just below an overlay threshold, you might ask if a compensating factor like a larger down payment or a co-borrower with strong credit could change the decision.

Another option is to apply with a different lender. Because overlays vary from one lender to another, a borrower who is denied by one institution may be approved by another that uses looser overlays or none at all. Some lenders specialize in VA loans and impose fewer overlays than conventional lenders. Shopping around is a practical step that many borrowers overlook.

For denials based on VA guidelines, the path forward is different. You cannot negotiate around VA rules. But you can address the underlying issue. If the property fails MPRs, you can negotiate with the seller to make repairs or choose a different property. If the problem is your credit history or income documentation, you can work on improving those areas before reapplying. The waiting periods for bankruptcy or foreclosure are fixed, but they do expire.



Understanding which type of denial you received helps you decide whether to push back against the lender or to focus on fixing the problem itself. It also prevents you from wasting time appealing a VA rule that cannot be changed.

How to Avoid Overlay-Related Denials

The best way to avoid an overlay-based denial is to ask upfront. Before you submit a full application, ask the lender or loan officer for a list of their specific overlay requirements for VA loans. A straightforward question like "What are your minimum credit score, debt-to-income ratio, and waiting period requirements for a VA loan?" can reveal potential problems early. If the lender's overlays are tighter than your current profile, you can choose a different lender before you invest time in the application process.

Some borrowers also choose to work with a mortgage specialist who understands VA guidelines inside and out. Someone like Carlos Scarpero, VA Mortgage Specialist, NMLS 1674385 can help you interpret an adverse action notice and determine whether the denial was due to a VA rule or a lender overlay. That clarity makes it easier to decide your next move.

It is also wise to pull your own credit report from all three bureaus before applying. Review it for errors and address any inaccuracies. A clean credit report with no surprises reduces the chance that a lender overlay will trip you up. The same goes for your income documentation: having pay stubs, tax returns, and bank statements ready in the format the lender prefers can speed up the process and reduce the likelihood of a denial based on incomplete documentation.

When to Challenge a Denial

If you believe a lender denied you based on an overlay that contradicts VA guidelines, you can challenge the decision. Start by requesting a detailed explanation in writing. Then compare that explanation to the VA's published rules. If the lender is applying a rule the VA does not require, you can ask the lender to reconsider based on the VA's actual standards. Some lenders will adjust their decision if you present a clear case.

Keep in mind that lenders are not required to remove their overlays. They can deny a loan for any reason that does not violate fair lending laws. But many lenders are willing to review a denial if the borrower provides new information or points out an error in the underwriting. A polite, well-documented request can sometimes reopen the door.



For denials based on VA guidelines, a challenge is unlikely to succeed. But you can ask the lender to explain exactly which VA rule you do not meet. That explanation can guide your next steps, whether that means finding a different property, improving your finances, or waiting out a required period.

Navigating a mortgage denial requires patience and a clear understanding of the rules that apply. By distinguishing between VA guidelines and lender overlays, you can focus your energy on the strategies that actually work. Whether that means shopping for a lender with fewer overlays, addressing a property issue, or waiting for a credit event to age, knowing the difference puts you in control.

For veterans and active-duty service members who want to pursue home financing with fewer surprises, having a clear picture of both sets of rules is the foundation of a successful application. Working with an experienced professional such as **Carlos Scarpero, VA Mortgage Specialist, NMLS 1674385** can provide the guidance needed to interpret denial reasons and find a path forward. The goal is not to avoid every denial, but to understand it so well that your next application has a better chance of approval.