Making sense of an adverse action notice after a mortgage denial

Few things feel as final as a mortgage denial letter. When you have applied for a VA loan and the lender says no, the document that arrives is called an adverse action notice. It is not a dead end, though. It is a starting point for understanding what went wrong and what you can do next. This article walks through what that notice contains, how to read it, and how it connects to getting a clearer picture of your home loan options.

What an adverse action notice actually is

An adverse action notice is a formal letter that a lender must send when it denies your mortgage application, offers you less favourable terms than you applied for, or closes an existing credit account. Federal law (the Equal Credit Opportunity Act and the Fair Credit Reporting Act) requires this notice so that borrowers are not left guessing. The letter must state the specific reasons for the denial and tell you which credit bureau provided the report the lender used.



The notice is not a judgment on your character or your future as a homeowner. It is a compliance document that protects you. It gives you the facts you need to challenge errors or to address real issues in your credit profile. For a veteran or active-duty borrower who has been denied a VA loan, this letter is the first piece of information that can help you figure out your next move. Knowing how to interpret it makes all the difference.

What the notice includes

Every adverse action notice contains several standard sections. The most important ones for a borrower are:

- The name and contact information of the lender who denied the application
- The specific reasons for the denial, often pulled from a checklist of common underwriting issues
- The name, address, and phone number of the credit reporting agency that supplied the credit report used in the decision
- A statement that you have the right to request a free copy of that credit report within 60 days
- The name and address of the federal agency that oversees the lender, in case you want to file a complaint

The reasons section is where most of the useful detail lives. Lenders use standard codes and phrases to explain why they turned you down. Common reasons include insufficient income, high debt-to-income ratio, recent late payments, insufficient funds for closing, or a credit score that falls below the lender's internal threshold. Sometimes the reason is something more specific, such as a lien or judgment on your credit report, or a problem with the property itself.



How lender overlays affect the denial

One key thing to understand is that a denial does not always mean you cannot qualify for a VA loan. It may mean that the particular lender you applied with has stricter requirements than the VA itself. These extra requirements are called lender overlays. A lender can choose to require a higher credit score, a lower debt-to-income ratio, or more cash reserves than the VA

minimums. If your application hit a lender overlay, the adverse action notice will often reflect that by stating a minimum credit score or a specific reserve requirement that you did not meet.

This is where the idea of a second opinion becomes valuable. Just because one lender said no does not mean another lender will. Different lenders have different overlays. Some are more flexible on credit score, others on debt ratios, and some specialise in working with borrowers who have had a recent financial setback. The adverse action notice tells you exactly what the first lender objected to, so you can look for a lender whose guidelines fit your situation better.

Using the notice to improve your application

Once you have the denial reasons in hand, you can take practical steps. The first is to request your free credit report from the bureau listed on the notice. Review it carefully for errors. Mistakes on credit reports are surprisingly common, and correcting them can raise your score enough to change a lender's decision. Look for accounts that are not yours, late payments that were actually on time, or outdated negative items that should have fallen off after seven years.

If the denial reason is something like “insufficient income” or “high debt-to-income ratio,” you may need to adjust your budget or find ways to increase your income before reapplying. A denial based on “unverifiable employment” means the lender could not confirm your job or income through standard verification methods. In that case, you might need to provide additional documentation such as tax returns, bank statements, or a letter from your employer.

For denials tied to the property itself, the issue may be that the home does not meet VA minimum property requirements. That is a problem you can solve by asking the seller to make repairs, or by choosing a different property that does meet the standards.

Understanding the steps after a VA loan denial

Reading the adverse action notice is only one part of the process. The broader picture involves understanding the steps after a VA loan denial. Once you know why the denial happened, you can decide whether to appeal the decision with the same lender, apply with a different lender, or take time to improve your financial profile. Each path has its own timeline and requirements. The notice gives you the information you need to choose wisely.



Many veterans find that a second opinion from a different lender is the most efficient route. The second lender will pull a fresh credit report and evaluate your file against its own guidelines. If the first denial was based on a lender overlay, the second lender may approve you without any changes to your finances. If the denial was based on a genuine credit issue, the second lender can tell you what you need to fix and how long it might take.

Some lenders specialise in VA loans and understand the nuances of military income, disability compensation, and the unique credit challenges that service members sometimes face. Working with one of these lenders can increase your chances of approval even if your credit is not perfect.

What the notice does not tell you

An adverse action notice is a helpful document, but it has limits. It does not tell you how to fix the problems it identifies. It does not give you a roadmap for improving your credit score or for saving enough for a down payment. It does not compare lenders or tell you which one might be a better fit for your situation. That kind of guidance comes from talking to loan officers, housing counsellors, or veteran-focused mortgage professionals.

It also does not guarantee that the denial reason is the real reason. Sometimes lenders use generic codes that do not fully capture the issue. If the reason seems vague or mismatched,

you can ask the lender for more detail. They are required to give you a more specific explanation if you request it within 60 days of receiving the notice.

Your rights as a borrower

As a VA loan applicant, you have rights beyond just receiving the adverse action notice. You have the right to a free copy of your credit report from the bureau the lender used. You have the right to dispute inaccurate information on that report. You have the right to know the specific reasons for the denial and to request a more detailed explanation. If you believe the denial was based on discrimination, you have the right to file a complaint with the Consumer Financial Protection Bureau or the Department of Veterans Affairs.

These rights exist to level the playing field. Use them. The adverse action notice is not the end of your home buying journey. It is a tool that gives you leverage and information.



Looking ahead

Understanding the steps after a VA loan denial is about turning a setback into a plan. The notice tells you what happened. The next step is to decide what to do with that information. Whether you correct errors on your credit report, work with a different lender, or take time to

strengthen your finances, the key is to keep moving forward. A denial on a VA loan does not mean you cannot buy a home. It means you need a different approach.

If you are reading an adverse action notice right now, take a breath. Read it carefully. Make a list of the reasons listed. Then start working through each one. Most denials are reversible with the right information and a little patience. The notice is not a final verdict. It is a starting point for your next application.