Can You Get a VA Loan with a 500 Credit Score?

For many veterans and active-duty service members, the dream of homeownership can feel out of reach when credit scores are low. A credit score near 500 often raises red flags for conventional lenders, but VA loans are different. The Department of Veterans Affairs does not set a minimum credit score for VA-backed loans. Instead, it leaves that decision to individual lenders, and many are willing to work with borrowers who have scores in the low 500s if other parts of the application are strong.

Understanding how VA loan underwriting works is the first step. Lenders look at the whole picture, not just a number. If your credit score is around 500, you can still qualify, but you will need to show compensating factors that offset the risk. This article explains what those factors are and what to expect when applying for a VA loan with a 500 score.



How VA Loan Credit Requirements Work

The VA itself does not publish a minimum credit score. Its role is to guarantee a portion of the loan, which protects the lender if you default. Because of this guarantee, lenders can take on

more risk than they would with a conventional loan. However, each lender sets its own overlay requirements. Some require a score of 620 or higher. Others go lower, sometimes into the low 500s, especially if the borrower has strong income and low debt.

If you have a 500 credit score, your best bet is to find a lender experienced with VA loans and willing to do manual underwriting. Manual underwriting means a human reviews your entire financial history instead of relying solely on an automated approval system. This can work in your favor if your low score is due to isolated problems like a period of medical bills or a past hardship that has since resolved.

Compensating Factors That Help

When your credit score is low, lenders look for compensating factors to balance the risk. These are elements of your financial profile that show you can handle the mortgage payment despite a low score. Common compensating factors include:



- Residual income well above the VA's guidelines for your family size and region
- A large down payment, even though VA loans typically allow zero down
- Significant cash reserves after closing, such as savings or liquid assets
- Stable employment in the same field for two or more years
- A low debt-to-income ratio, meaning you have few other monthly obligations

If you can demonstrate two or more of these factors, a lender may approve a VA loan with 500 score even if automated systems say no. The key is to provide thorough documentation: pay stubs, tax returns, bank statements, and a letter explaining any credit issues.

Manual Underwriting and the Certificate of Eligibility

Manual underwriting is not as scary as it sounds. It simply means a loan officer reviews your file personally, looking at the story behind the numbers. For a borrower with a 500 score, this is often the path forward. You will need a Certificate of Eligibility (COE) from the VA, which proves you meet service requirements. You can get it through the VA's online portal, by mail, or through your lender. Without a COE, no VA loan can proceed.

During manual underwriting, the lender will check residual income carefully. Residual income is the money left each month after paying all major obligations, including the new mortgage. The VA sets minimum residual income amounts based on family size and location. If your residual income is well above those minimums, it counts heavily in your favor. A strong residual income can outweigh a low credit score in many cases.

What About the VA Funding Fee?

The VA funding fee is a one-time charge that helps keep the program running. For most first-time VA loan users, the fee is a percentage of the loan amount. If you make a down payment, the percentage drops. Since a borrower seeking a VA loan with 500 score may not have a down payment, the fee will be at the standard rate. You can finance this fee into the loan, so you do not need to pay it out of pocket at closing. The fee does not affect your credit score or eligibility, but it is something to be aware of when budgeting.

Steps to Improve Your Chances

Even if your score is around 500, you can take concrete steps before applying. First, review your credit reports from all three bureaus. Look for errors, old collections, or accounts that should have fallen off. Disputing errors can sometimes raise your score by several points quickly. Second, pay down credit card balances if possible. High utilization hurts your score more than most factors. Third, avoid applying for new credit in the months before your loan application. Each hard inquiry can drop your score a few points.



Another practical step is to save extra cash for reserves. Having two to three months of mortgage payments in the bank shows lenders you have a buffer. Also, consider a co-borrower who has better credit. A spouse or family member with a higher score can strengthen the application. However, that person must also meet VA eligibility requirements if they are a veteran, or the lender may require them to be on the title.

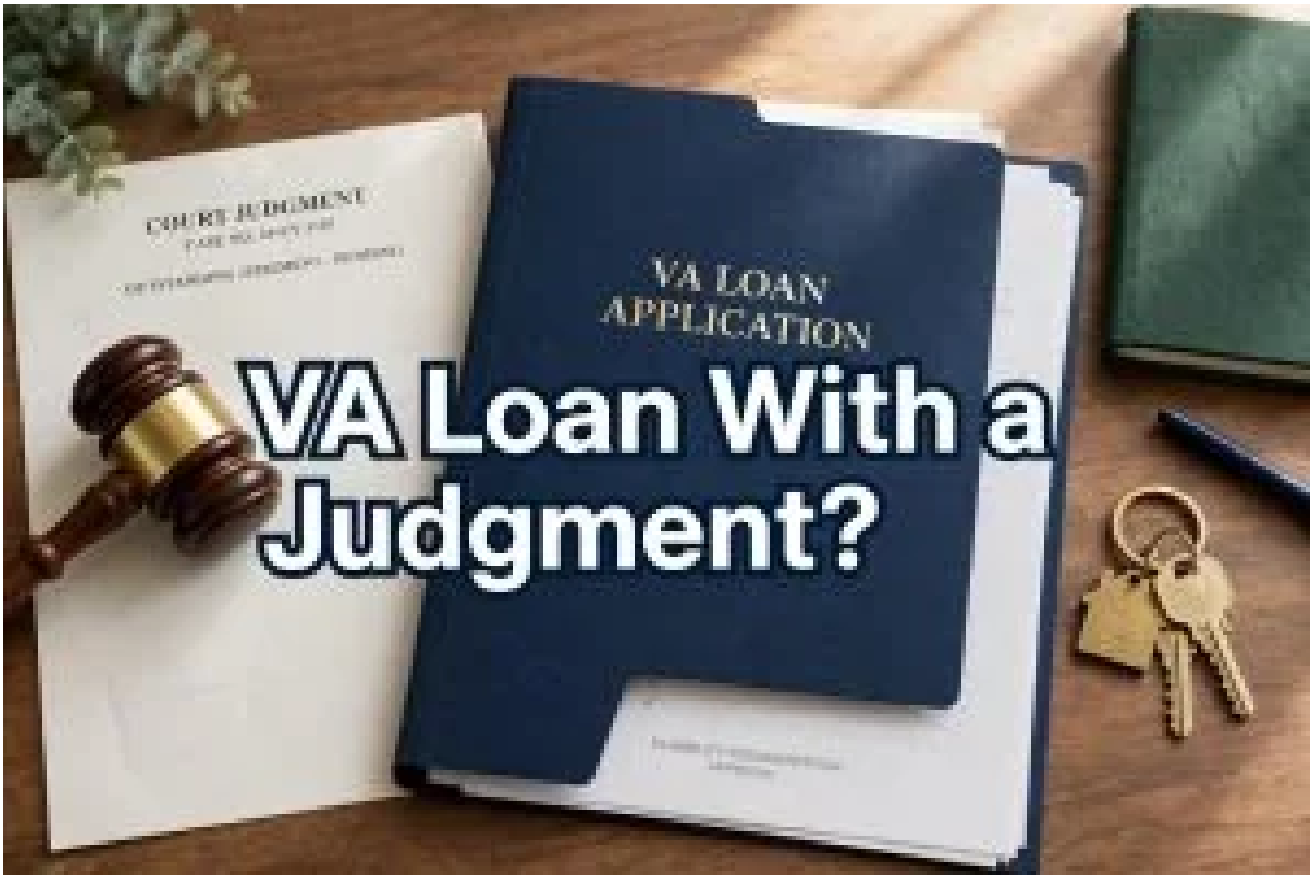
What Lenders Look for Beyond the Score

A low credit score does not automatically disqualify you from a VA loan. Lenders weigh the whole profile. They examine your payment history on rent, utilities, and insurance. If you have been paying rent on time for 12 months or more, that is a positive sign. They also check for any recent bankruptcies or foreclosures. A Chapter 7 bankruptcy may require a two-year wait from discharge, while a Chapter 13 can sometimes be okay during the repayment plan if you have court permission. Foreclosures usually require a two-year wait as well.

The most important thing is to be upfront about your situation. If you have a 500 score because of a specific event, explain it. Lenders are human and can consider context. A medical crisis, divorce, or job loss that has since resolved is less concerning than chronic overspending. Providing a written explanation with supporting documents can make a difference in manual underwriting.

Pre-Qualification vs. Pre-Approval

Before you start shopping for a home, get pre-qualified. Pre-qualification is a quick estimate based on self-reported information. It gives you a general idea of what you might afford. Pre-approval is more rigorous and involves a credit check and document review. For someone with a 500 score, pre-approval is the more meaningful step because it shows a lender has looked at your full file. Ask the lender if they will do a manual underwrite for pre-approval. Some lenders will not, but those who specialize in VA loans for borrowers with bad credit often do.



Preparing for the Long Term

Even if you get approved, your interest rate may be higher than average. That is the trade-off for a low score. Over time, as you make on-time payments, your credit score will improve. You can then refinance to a lower rate through the VA's Interest Rate Reduction Refinance Loan (IRRRL). This can lower your monthly payment and total interest without requiring a new credit score check in many cases. So think of your first VA loan as a stepping stone.

To summarize: a VA loan with 500 score is possible, but it takes preparation. You need the right lender, strong compensating factors, and a willingness to go through manual underwriting. Focus on residual income, cash reserves, and a stable job history. Get your COE early, clean up

your credit report, and be ready to explain any past issues. With patience and the right strategy, homeownership can be within reach even with a low credit score.