

## **Funding Fee Guidance to Lenders and Servicers**

1. **Purpose.** This Circular supplements the Department of Veterans Affairs (VA) Lenders Handbook, Chapter 8, Topic 8, The VA Funding Fee, and updates Chapter 6, Refinancing, concerning Interest Rate Reduction Refinancing Loans (IRRRLs).

2. **Background.** Congress enacted the funding fee to help reduce the government's costs associated with loans guaranteed, made, or insured under VA's Home Loan program. In September 2011, VA added the Veteran's funding fee status to the Certificate of Eligibility (COE). Lenders and servicers should rely on the funding fee status shown on the COE as evidence of the Veteran's exemption status. All Veterans must pay the VA funding fee except the following:

a. A Veteran who is receiving disability compensation (or who, but for the receipt of retirement pay or active service pay, would be entitled to receive compensation).

b. A surviving spouse of any Veteran (including a person who died during active military, naval, or air service) who died from a service-connected disability.

c. A Veteran who is rated eligible to receive compensation resulting from a pre-discharge disability examination or rating, or based on a pre-discharge review of existing medical evidence that results in the issuance of a memorandum rating.

3. **Action.** Effective immediately, lenders and servicers must comply with the following guidance regarding the VA funding fee.

a. **Funding Fee Exemption Determination.** Ensuring that the funding fee exemption information is up to date at the time of closing is essential to avoid incorrect charges to exempt Veterans. Lenders must not advise Veterans who believe they are exempt from paying the funding fee to close on a loan without first establishing their funding fee exemption status.

b. For IRRRLs, a COE is now required.

c. For all loans, if the COE does not show that the Veteran is exempt from paying the funding fee, the lender must ask the Veteran if he or she has a claim for compensation pending with VA. If so, the lender must obtain an updated COE no earlier than 3 days before the loan closing using the COE "Correct" function in WebLGY. Instructions for the "Correct" function are found in the "Quick Reference Document For Correct Certificate of Eligibility" available at:

[https://www.benefits.va.gov/HOMELOANS/documents/docs/LGY\\_COE\\_Quick\\_Reference\\_Document.pdf](https://www.benefits.va.gov/HOMELOANS/documents/docs/LGY_COE_Quick_Reference_Document.pdf). Step-by-step instructions are available on the [VA's Lender Resource](#) webpage in the Lender's COE tutorial.

d. The lender must ask the Active Duty Servicemember if he or she has a pre-discharge claim pending. If so, the lender must contact the Regional Loan Center (RLC) immediately to request assistance in obtaining a proposed or memorandum rating in the event that the Servicemember may be exempt from paying the funding fee as noted in Item 2 above. If a proposed or memorandum rating is not obtained and a closing takes place, the Servicemember is not eligible for funding fee exemption.

e. Funding Fee Correction Request. Lenders and servicers must initiate a request in the Funding Fee Payment System (FFPS) within 3 business days from being notified by VA or the Veteran of an overpayment of the funding fee to include a request for a retroactive refund. Necessary corrections may be made in FFPS by utilizing the "Correct" function at any time. Lenders and servicers must provide a detailed explanation together with the name, phone number, and email address of the person requesting the correction/waiver on behalf of the Veteran.

f. Funding Fee Refunds. Funding fee refunds must be paid to the Veteran by VA through FFPS. The lender/servicer must change the refund destination from '*Lender/Vendor*' to '*Primary Veteran*' in the refund setting section of FFPS. If the loan is in default, the Veteran will be advised that he/she may wish to use the refund to bring their loan current.

4. Rescission: This Circular is rescinded July 1, 2020.

By Direction of the Under Secretary for Benefits

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Director, Loan Guaranty Service

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