FUNDING FEE (FF) EXEMPTION STATUS AND VERIFICATION OF INCOME ON CERTIFICATE OF ELIGIBILITY (COE)

1. **Purpose.** This circular announces the first release of COEs incorporating the FF exemption status and Income Verification. By having the FF status shown on the COE, lenders in most cases will no longer be required to fax the Department of Veterans Affairs (VA) Form 26-8937, Verification of VA Benefits, to a VA office for processing. There will still be instances where faxing VA Form 26-8937 is necessary, but the majority of FF exemption determinations will be processed internally and displayed on the COE.

2. **Discussion.** Effective September 11, 2011, the first release of the COE includes a new field entitled “FUNDING FEE” near the top of the COE. The exemption status, either “EXEMPT,” “NON EXEMPT,” or “CONTACT RLC,” will appear to the right of the new field title.
   
   a. **EXEMPT** status indicates the Veteran is exempt from paying the FF.
   
   b. **NON EXEMPT** status indicates the Veteran is not exempt from paying the FF.
   
   c. **CONTACT RLC** indicates a system-generated determination is not available.

3. **Important.** Regardless of the new FF status shown on the COE, lenders must still be sure to read any and all statements appearing in the “CONDITIONS” field, which appears near the middle portion of the COE.

   a. For COEs with “EXEMPT” status, the following “CONDITIONS” may appear:

      (1) “Funding Fee – Veteran is exempt from Funding Fee due to receipt of service-connected disability compensation of $___ monthly.”

      (2) “Funding Fee – Veteran is exempt from Funding Fee due to receipt of service-connected disability compensation. Monthly compensation rate has not been determined to date.”

      (3) “Funding Fee – Please fax a copy of VA Form 26-8937 to the VA Regional Loan Center of jurisdiction.”

      (4) “Funding Fee – Please have the lender contact VA Regional Loan Center for loan processing. Please fax a copy of VA Form 26-8937 to the RLC of jurisdiction.”

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b. For COEs with a “NON EXEMPT” status, the following “CONDITIONS” may appear:

(1) “Funding Fee – Veteran is not exempt from Funding Fee.”

(2) “Funding Fee – Veteran is not exempt from Funding Fee due to receipt of non-service-connected pension. LOAN APPLICATION WILL REQUIRE PRIOR APPROVAL PROCESSING BY VA.”

c. For COEs with “CONTACT RLC” status, the following “CONDITION” will appear: “Funding Fee – Please fax a copy of the 26-8937 to the RLC of jurisdiction.”

4. Interest Rate Reduction Refinance Loans (IRRRLS). To determine the exemption status on IRRRLs, lenders may obtain a COE with the FF exemption status as discussed in the preceding paragraphs. Alternatively, lenders may continue to fax a copy of VA Form 26-8937 to the VA Regional Loan Center of jurisdiction.

5. Exempt Status and Verified Income. Lenders may rely on the “EXEMPT” status appearing next to the “FUNDING FEE” field for verification of FF exemption. Additionally, on COEs with an “EXEMPT” status, lenders may treat any service-connected disability income amount appearing in the “CONDITION” section of the COE as verified income. There is no need to fax in VA Form 26-8937 to confirm the status or amount showing on the COE.

6. Rescission: This circular is rescinded October 1, 2014.

By Direction of the Under Secretary for Benefits

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