

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. Therefore, Circular 26-19-17 is changed as follows:

Page 2, paragraph 3, section d: replace with the following paragraph: 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 \(RLC\) by email](#) immediately to request assistance in obtaining a proposed or memorandum rating to determine if the Servicemember may be exempt from paying the funding fee as noted in Item 2 of this Circular. While Form 26-8937, Verification of VA Benefits, may be submitted, an alert to the RLC by email is also required to ensure the RLC is aware of the need for the proposed or memorandum rating. If a proposed or memorandum rating is not obtained and a closing takes place, the Servicemember is not eligible for funding fee exemption.

Page 2, paragraph 3, section f: Replace Item 3, paragraph f with the following information: “Funding Fee Refunds. Funding fee refunds must be paid to the Veterans 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 help bring their loan current. When a funding fee refund does not involve a Veteran, for example, a lender paid a funding fee to VA in error which was not charged to the Veteran, or a lender paid a funding fee before the Veteran decided not to close on the loan, the refund destination will be ‘Lender/Vendor’ in FFPS and the RLC will refund the funding fee to the lender. Lenders should add notes describing the reason for refund, otherwise, if the notes are unclear, it may appear that the lender failed to change the refund destination and the refund should be paid to the Veteran. If a refund is requested to be paid to the lender on a closed loan, a copy of the final closing disclosure must be uploaded by the lender into WebLGY.

3. Rescission: This Circular is rescinded April 1, 2021.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Executive Director
Loan Guaranty Service

Distribution: CO: RPC 2021
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)