#### Chapter 3. Fees and Charges Paid by the Borrower

#### Overview

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| In this Chapter | This chapter contains the following topics:   |  |  |  | | --- | --- | --- | | Topic | Title | See Page | | 1 | Allowable Fees and Charges | 3-2 | | 2 | VA Funding Fee | 3-3 | | 3 | Sample Letter to Veteran Approving Funding Fee Refund | 3-12 | | 4 | Sample Letter to Lender Approving Funding Fee Refund | 3-15 | | 5 | Sample Letter to Veteran Denying Funding Fee Refund | 3-18 | | 6 | Sample Letter to Lender Denying Funding Fee Refund | 3-20 | |

#### 1. Allowable Fees and Charges

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| Change Date | May 23, 2017, Change 5  • The M26-1 was edited in its entirety. |

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| a. Where to Find Information | A Veteran may only pay the fees and charges specified in VA regulations in Title [38 CFR 36.4313](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title38/38cfr36_main_02.tpl).  Chapter 8, in its entirety, of the VA [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp) provides further details. |  |

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| b. Fees Requiring Central Office Approval | Fees, other than those specified in the regulations, may be paid by a Veteran, if the fees are proper local variances authorized by Central Office (CO). Please check the State Fees and Charges Deviation table posted on the [Lenders Page](http://www.benefits.va.gov/homeloans/lenders.asp), to determine whether a local variance applies to a particular fee.  If a fee is not specified in the regulations, and is normally paid by the  borrower in your Regional Loan Center’s (RLC) jurisdiction; is considered reasonable and customary in your RLC's jurisdiction; and its approval would assist Veterans in completing loan transactions rather than serve as a detriment to Veteran/borrowers; then submit a request for authorization of the fee to CO. This request should include:   * An explanation of the fee * All pertinent facts, and * The impact on the Veteran. |

#### 2. VA Funding Fee

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| a. VA Funding Fee | In order to defray the cost of administering a VA home loan, each Veteran, except those with exemption status, must pay a funding fee to VA at loan closing.  Funding fee rates can be found in Title [38 U.S.C. §3729](https://www.gpo.gov/fdsys/pkg/USCODE-2010-title38/pdf/USCODE-2010-title38-partIII-chap37-subchapIII.pdf).  Lenders must pay the funding fee electronically, through the VA Funding Fee Payment System (FFPS), at the following website [www.ffps.vba.va.gov](http://www.ffps.vba.va.gov). |

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| b. Determining Exemption Status | Certificates of Eligibility (COE) issued after September 11, 2011, reflect the Veteran’s exemption status.  If the COE does not reflect the correct exemption status, advise the lender to submit [VA Form 26-8937](http://www.vba.va.gov/pubs/forms/VBA-26-8937-ARE.pdf), *Verification of VA Benefits*, for processing. |

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| c. Funding Fee Refunds | When a Veteran or lender requests a refund of all, or a portion, of a funding fee, determine whether a refund is due, the amount to be refunded, and the party to whom it should be refunded.  All refund requests must be reviewed and a decision made within 10-business days of the initial request date. In the event the Veteran or lender has not provided all the necessary information for a determination, the system of record must be fully documented. |

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2. VA Funding Fee, Continued

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| c. Funding Fee Refunds continued | Funding fee refund requests must be reviewed in detail to determine whether VA must perform a refund. Supporting documentation must be uploaded and detailed notes must be entered into the electronic system of record to document reasons for the refund decision. Also, letters must be drafted and sent (mailed/emailed) to the Veteran and the lender to notify them of the decision. Copies of the letters must be uploaded into the electronic system of record on the same day the letter is sent.  **Note:** Subsection f below provides the detailed steps to process a funding fee refund request. |

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| d. Reasons for Refunding the Funding Fee | The following are the circumstances and necessary documents for VA to refund the funding fee:   |  |  | | --- | --- | | Reason for Refund Request | Necessary Documents | | The Veteran was exempt, at the time of closing. Including:   * Awarded/Applied for disability compensation prior to loan closing date * Quick Start, Benefits Delivery at Discharge (BDD) or Integrated Disability Evaluation System (IDES) claim * Compensation suspended due to active-duty activation * Veteran receiving retirement pay in-lieu-of disability compensation * Reservist was in receipt of drill pay in-lieu-of disability compensation | A copy of the disability award letter (if available) or verification within Compensation’s system of record; a copy of the signed closing disclosure; and a copy of the current mortgage statement. | |

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2. VA Funding Fee, Continued

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| d. Reasons for Refunding the Funding Fee, continued | |  |  | | --- | --- | | Reason for Refund Request | Necessary Documents | | The loan did not close. | A copy of the rescission document with the borrower’s signature. If the rescission document is not available, then the RLC will check WebLGY to see if the loan was canceled. | | The lender made double/over payment or paid with an incorrect loan identification number (LIN). | Verification within the funding fee payment system (FFPS) that a double/over payment or an incorrect payment exists. | | The loan is an ineligible loan and should have not been guaranteed. | Documentation within the system of record, including full file loan review results. | |
|  | In the event a circumstance arises that is not listed in the table, please contact CO for guidance through the Loan Policy mailbox ([LoanPolicy.vbavaco@va.gov](mailto:LoanPolicy.vbavaco@va.gov)). |

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2. VA Funding Fee, Continued

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| e. Refunding the Fee to the Veteran or the Lender | Once it has been determined that a refund of the funding fee is necessary, the following applies:   |  |  | | --- | --- | | If ... | Then ... | | A Veteran who paid cash for the funding fee… | Receives a cash refund for the amount of the funding fee payment. | | In the case where a Veteran financed the funding fee into the loan… | * The lender must apply the funding fee refund against the principal loan balance and submit evidence to VA that the refund was applied to the loan’s principal balance. * If the loan is held by a servicer other than the original lender, provide the refund to the current servicer, and direct the servicer to apply the refund to the principal balance of the loan. * If the loan has been refinanced with another VA loan, provide the refund to the current servicer and direct the servicer to apply the refund to the principal balance of the loan. * If the loan is in default and the current holder objects to applying the refund to the loan balance, consult with Loan Administration to request intervention. | |

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2. VA Funding Fee, Continued

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| e. Refunding the Fee to the Veteran or the Lender, continued | |  |  | | --- | --- | | If ... | Then ... | | The funding fee was paid by seller/lender credit… | * Process the refund to the Veteran (cash payment) or lender (for principal reduction) depending on the amount of the credit.   + If the amount was split by the Veteran paying cash and the seller/lender credit, then the Veteran’s cash portion will be refunded to them and the seller/lender credit will be paid to the lender to be applied to the principal balance. |     The Loan Specialist must enter detailed notes into FFPS indicating that the loan was refunded to the lender, and the lender must apply the refund to the principal balance.  **Note:** A letter must be sent to the lender and the Veteran for all refund determinations. |

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| f. How to Process a Funding Fee Refund Request | With all funding fee refunding requests, the Loan Specialist must input detailed notes in the comment section of FFPS, to ensure that anyone from a different office understands why the approval/denial decision was made. To approve the refund in the system, the Loan Specialist will click on the initial approval within FFPS and then management will perform the final approval.  The steps in the table have been established to process a funding fee refund request for Veterans that were determined to be exempt at the time of the loan closing ([38 U.S.C. 3729(c)](https://www.gpo.gov/fdsys/search/pagedetails.action?collectionCode=USCODE&searchPath=Title+38%2FPart+III%2FChapter+37%2FSUBCHAPTER+II&granuleId=USCODE-2010-title38-partIII-chap37-subchapI-sec3703&packageId=USCODE-2010-title38&oldPath=Title+38%2FPart+III%2FChapter+37%2FSUBCHAPTER+II&fromPageDetails=true&collapse=true&ycord=2885)).   |  |  | | --- | --- | | Steps for Refunding the Funding Fee for an Exempt Veteran | | | Step | Action | | 1 | Review the Veteran’s request or the lender’s request in FFPS, to determine if the documentation is adequate to perform the refund. | |

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2. VA Funding Fee, Continued

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| f. How to Process a Funding Fee Refund Request, continued | |  |  | | --- | --- | | Steps for Processing a Request for an Exempt Veteran, continued | | | Step | Action | | 2 | Review VA Compensation systems of record to verify compensation is being received by the Veteran and the effective date of the award:   1. The effective date for payment of the compensation indicated in VA's award letter to the Veteran is not necessarily the "effective date of the award." 2. If the Veteran applied for disability compensation within 1 year from his or her date of discharge or release, the day following the discharge or release date will be the "effective date of the award." 3. If the Veteran applied more than 1 year after discharge or release, contact the Veteran Service Center to verify the "effective date of the award." 4. For a proposed rating, the Loan Specialist must check Compensation Service’s system of record to determine whether the rating has already processed. | | 3 | Determine whether the award date is prior to the closing date.   1. If the "effective date of the award" was a date prior to loan closing, refund the funding fee and send approval letters to the Veteran and lender (see topics 3 and 4). 2. If the "effective date of the award" was after loan closing, do not refund the fee. Send a denial letter to the Veteran and the lender (see topics 5 and 6). | |

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2. VA Funding Fee, Continued

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| f. How to Process a Funding Fee Refund Request, continued | There are instances when the loan did not close and lender prematurely paid the funding fee. In those instances, the Loan Specialist will follow the steps below.   |  |  | | --- | --- | | Steps for Processing a Request When a Loan Did Not Close | | | Step | Action | | 1 | Review WebLGY to verify that the lender uploaded the rescission document and review FFPS to verify that the lender provided specific notes within the remarks section of the refund request. | | 2 | Check WebLGY to see if the Loan Guaranty Certificate (LGC) has been issued. If the LGC has been issued, then it must be reversed and detailed notes provided in WebLGY (with the case number). | | 3 | In FFPS, click the Full Refund Reason tab to “Loan Did Not Close.” In the Refund Reason box, provide a detailed description of the reason for the refund request and include the lender contact name, phone number, and email address; and, either approve or deny the refund request. |     There are instances when the lender double/overpaid or paid with an incorrect LIN. In these instances, the Loan Specialist must determine if an over/incorrect payment exists and then perform the necessary steps to refund.   |  |  | | --- | --- | | Steps for Processing a Request for Double/Overpayment | | | Step | Action | | 1 | Review FFPS and determine the amount of overpayment or if there was a double payment (same LIN or different LIN). | | 2 | If double payment is on different LINs, then the Loan Specialist will go into the incorrect LIN, change the first three numbers in the last series of seven numbers to 000. For example, 123-456-7-000891. Then complete the refund to the lender and include detailed notes within FFPS. | | 3 | If the double payment is on the same LIN, then the Loan Specialist will need proof from the lender (bank statement) and upload it into WebLGY. The Loan Specialist, with Loan Production Officer approval, will create a voucher for the refund. DO NOT perform this refund in FFPS. |     **Note:** If there are any questions regarding the processing of double/overpayment refunds with a voucher, please contact CO for guidance through the Loan Policy mailbox ([LoanPolicy.vbavaco@va.gov](mailto:LoanPolicy.vbavaco@va.gov)). |

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2. VA Funding Fee, Continued

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| f. How to Process a Funding Fee Refund Request, continued | |  |  | | --- | --- | | Steps for Processing a Refund Request for  Payment with the Incorrect LIN | | | Step | Action | | 1 | Review FFPS and determine whether the payment amount is correct for that Veteran and loan type. Be sure that no payment exists under the correct LIN. | | 2 | The Loan Specialist will go into the incorrect LIN in FFPS and select the “correct” option. | | 3 | Change the incorrect LIN to the correct LIN, make other necessary corrections, and enter detailed comments in the note section. | | 4 | Once all corrections are made, the Loan Specialist can choose “submit the record.” The transaction will update WebLGY so that the payment is reflected on the correct LIN. | | 5 | To correct the record of the incorrect LIN, RLC management must go into the incorrect LIN in WebLGY and perform the “funding fee edit” function. |   **Note:** If the payment on an incorrect LIN has an effective date of 10 years or more, then the RLC must complete a voucher and document the correct LIN in WebLGY with detailed comments. |

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2. VA Funding Fee, Continued

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| f. How to Process a Funding Fee Refund Request, continued | When VA determines that a guaranteed loan is ineligible for guaranty, VA has must perform the following steps to refund the funding fee. In this instance, the lender or Veteran do not need to request a refund because VA no longer has a legal right to the funds. Additionally, VA must inform the lender and the Veteran that the loan is not guaranteed by VA and no subsequent claim will be paid on the loan.   |  |  | | --- | --- | | Steps to Processing a Refund for an Ineligible Loan | | | Step | Action | | 1 | Review the notes and documentation within the ineligible loan, including the full file loan review in WebLGY to verify the reason for ineligibility and removing the Loan Guaranty Certificate is in compliance with VA guidelines. See the "What to do with the Review Findings" heading in Chapter 4, Topic 1(c) of the M26-1, for a better understanding of circumstances under which this might occur. | | 2 | If the loan is ineligible, process the refund in FFPS by changing the Full Refund Reason tab to “Loan Did Not Close.” In the Refund Reason box, provide a detailed description of the reason for the refund and create, then approve the refund request. | | 3 | Send a letter to the lender and the Veteran, to explain the reason for rescinding the LGC. Upload a copy of the letter into WebLGY in the ineligible loan record. | | 4 | Ensure that the Veteran’s entitlement is restored. See “Restoration of Entitlement” in Chapter 7, Topic 10 in the M26-1. | |

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| g. Funding Fee Refund Status | In the event a lender/servicer or Veteran contacts the RLC to determine the status of a refund and it has been more than 7-calendar days since the approval, then contact the Administrative and Loan Accounting Center (ALAC) for an update. Be sure to provide ALAC with the wire number, the date of the approval, and LIN. ALAC will respond with the status within their system.  In the event ALAC indicates that the refund was offset by another federal agency, the lender/servicer is responsible for providing the refund to the Veteran and providing verification (copy of the Veteran’s account with the principal reduction), within 30-calendar days. |

#### 3. Sample Letter to Veteran Approving Funding Fee Refund

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| Change Date | May 23, 2017, Change 5  • The M26-1 was edited in its entirety. |

Date In Reply Refer To: Mail Routing Code

VA Loan #XX-XX-X-XXXXXXX

Lender Loan # XXXXXXX

Name

Address

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan.

**What We Found**

*(Optional Paragraph)*

A review of the information provided verified that your disability compensation award date was prior to the date of closing. Therefore, you are exempt from paying the funding fee.

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with your VA loan. You were charged a “reservist” funding fee in the amount of $ (2.4%); however, your eligibility was based on “active-duty” service, per your Certificate of Eligibility. Therefore, the funding fee assessed should have been $ (2.15%).

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with your VA loan. You were charged a subsequent-use funding fee percentage of 3.3%, in the amount of $ . However, your Certificate of Eligibility shows that this is your first-time use of the program. Therefore, the funding fee charged to you should have been $ or 2.15% of the loan amount.

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3. Sample Letter to Veteran Approving Funding Fee Refund, Continued

**What Action We Took**

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of $amount has been authorized. Since you paid the funding fee in cash at closing, the refund will be mailed to you by the U.S. Treasury Department within 60-calendar days from the date of this letter.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of $amount has been authorized. Since you financed the funding fee into your loan, the refund will be sent to your current mortgage holder. Your mortgage holder was given instructions to apply $amount to the unpaid principal balance of your current loan account. A copy of our letter to your mortgage holder is attached.

You should allow approximately 45- to 60-calendar days from the date of this letter before confirming the receipt of the refund by your mortgage holder.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of $amount has been authorized. Since you paid cash for a portion of the funding at closing and the rest was financed into the loan, the refund will be a split payment. A refund, in the amount of $amount (the portion you paid in cash), will be mailed to you by the U.S. Treasury Department within 60-calendar days from the date of this letter.

Additionally, a refund, in the amount of $amount (the portion you financed into the loan), will be sent to your current mortgage holder. Your mortgage holder was given instructions to apply $amount to the unpaid principal balance of your current loan account. A copy of our letter to your mortgage holder is attached.

You should allow approximately 45- to 60-calendar days from the date of this letter before confirming the receipt of the refund by your mortgage holder.

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3. Sample Letter to Veteran Approving Funding Fee Refund, Continued

**If You Have Any Questions**

If you are looking for general information about benefits and eligibility, you should visit our web site at <http://www.va.gov>. To register for eBenefits, our one stop shop for online benefits-related tools and information, please visit <https://www.ebenefits.va.gov/>. This free enhancement provides links to numerous services and enables you to check the status of your claim.

If you have additional questions, contact \_\_\_\_\_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

#### 4. Sample Letter to Lender Approving Funding Fee Refund

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| Change Date | May 23, 2017, Change 5  • The M26-1 was edited in its entirety. |

Name In Reply Refer To: Mail Routing Code

Title Veteran Name: Name

Company VA Loan #XX-XX-X-XXXXXXX

Address Lender Loan # XXXXXXX

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan.

**What We Found**

*(Optional Paragraph)*

A review of the information provided verified that the Veteran’s disability compensation award date was prior to the date of closing. Therefore, he/she is exempt from paying the funding fee.

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with the above-referenced loan. The Veteran was charged a “reservist” funding fee in the amount of $ (2.4%); however, the eligibility was based on “active-duty” service, per the Certificate of Eligibility. Therefore, the funding fee assessed should have been $ (2.15%).

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with the above-referenced loan. The Veteran was charged a subsequent-use funding fee percentage of 3.3%, in the amount of $ . However, the Certificate of Eligibility shows that this is their first-time use of the program. Therefore, the funding fee charged to the Veteran should have been $ or 2.15% of the loan amount.

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4. Sample Letter to Lender Approving Funding Fee Refund, Continued

**What Action We Took**

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of $amount has been authorized. Since the Veteran paid the funding fee in cash at closing, the refund will be mailed to the Veteran by the U.S. Treasury Department within 60-calendar days from the date of this letter.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of $amount has been authorized and will be sent through a U.S. Treasury check or an electronic wire transfer. Since the Veteran financed the funding fee into their loan, the refund will be sent to you to apply $amount to the unpaid principal balance of the current loan account.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of $amount has been authorized. Since the Veteran paid cash for a portion of the funding at closing and the rest was financed into the loan, the refund will be a split payment. A refund, in the amount of $amount (the portion the Veteran paid in cash), will be mailed to directly to the Veteran by the U.S. Treasury Department within 60-calendar days from the date of this letter.

Additionally, a refund, in the amount of $amount (the portion financed into the loan), will be sent to you through a U.S. Treasury check or an electronic wire transfer to apply $amount to the unpaid principal balance of the current loan account.

**What You Need To Do**

You will be receiving a U.S. Treasury check or an electronic wire transfer (within the next 30- to 45-calendar days) in the amount of $ amount, which is to be applied to the Veteran’s account to reduce the unpaid principal loan balance.

Please provide us with a copy of the loan ledger sheet showing application of the $ amount refund. Please attach a copy of this letter when you submit the ledger sheet. This information must be submitted to our office at the address above within 30-calendar days of the receipt of the treasury check or electronic wire transfer.

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4. Sample Letter to Lender Approving Funding Fee Refund, Continued

**If You Have Any Questions**

Thank you for your prompt attention to this matter. If you have additional questions, contact \_\_\_\_\_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

Cc: [Veteran Name]

#### 5. Sample Letter to Veteran Denying Funding Fee Refund

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| Change Date | May 23, 2017, Change 5  • The M26-1 was edited in its entirety. |

Date In Reply Refer To: Mail Routing Code

VA Loan #XX-XX-X-XXXXXXX

Lender Loan # XXXXXXX

Name

Address

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan, which closed on insert date.

Any Veteran in receipt of service-connected disability compensation at the time of the loan closing is exempt from payment of the funding fee (38 U.S.C. 3729(c)). The effective date of the service-connected disability compensation award must be prior to the date of loan closing to be eligible for a refund of the funding fee.

Additionally, effective October 15, 2010, The Veterans Benefits Act of 2010, extends funding fee exemption to those individuals who were in receipt of compensation, but, either because they re-enlisted or were recalled to active-duty, are receiving active-duty pay in-lieu-of compensation.

**What We Found**

After careful review, we are unable to authorize a refund of the funding fee. You filed your claim for VA service-connected disability benefits on insert date. The effective date of your award was insert date. The loan closed on insert date. Unfortunately, the effective date of your VA disability award was after your closing date of the above-referenced loan. Therefore, we are unable to approve the refund request.

1. Continued on next page

5. Sample Letter to Veteran Denying Funding Fee Refund, Continued

**If You Have Questions**

If you have additional questions, contact \_\_\_\_\_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

Encl.: VA Form 4107

#### 6. Sample Letter to Lender Denying Funding Fee Refund

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| Change Date | May 23, 2017, Change 5  • The M26-1 was edited in its entirety. |

Name In Reply Refer To: Mail Routing Code

Title Veteran Name: Name

Company VA Loan #XX-XX-X-XXXXXXX

Address Lender Loan # XXXXXXX

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan, which closed on insert date.

Any Veteran in receipt of service-connected disability compensation at the time of the loan closing is exempt from payment of the funding fee (38 U.S.C. 3729(c)). The effective date of the service-connected disability compensation award must be prior to the date of loan closing to be eligible for a refund of the funding fee.

Additionally, effective October 15, 2010, The Veterans Benefits Act of 2010, extends funding fee exemption to those individuals who were in receipt of compensation, but, either because they re-enlisted or were recalled to active-duty, are receiving active duty pay in-lieu-of compensation.

**What We Found**

Unfortunately, the effective date of the Veteran’s service-connected disability compensation award of insert date is after the closing date on the above-referenced loan. Therefore, the refund has been disapproved.

**If You Have Questions**

A separate letter has been forwarded to the Veteran explaining the decision. If you have additional questions, contact \_\_\_\_\_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer