

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 1, paragraph 2, section b: add the following statement to the end of the paragraph: “The surviving spouse must be in receipt of Dependency and Indemnity Compensation (DIC).”

Page 1, paragraph 2, section c: add the following language to the end of the paragraph: “before the loan closing takes place.”

Page 1, paragraph 3, section a: replace with the following paragraph: “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 and request a funding fee refund at a later date. The Veteran’s funding fee exemption status must be established before closing.”

Page 1, paragraph 3, section b: replace with the following paragraph: “For IRRRLs, a COE is now required, except in the following three situations:

- 1) The Veteran has already been determined to be exempt from the funding fee as evidenced on IRRRL assignment screen in WebLGY.
- 2) The entitlement encumbered on the loan being refinanced belongs to the surviving spouse of a Veteran.
- 3) The entitlement encumbered on the loan being refinanced belongs to a Veteran who has since passed away and the IRRRL borrower is spouse who was also a co-borrower on the loan being refinanced.

Please note: The spouse of a Veteran who is now deceased, will not be considered exempt from the VA Funding Fee unless (s)he is in receipt of DIC. Lenders may remit VA Form 26-8937, Verification of VA Benefits, to the RLC of jurisdiction to verify a surviving spouse’s exempt status.

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."

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 Rescission: This Circular is rescinded July 1, 2020.

By Direction of the Under Secretary for Benefits

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