

Funding Fee Charge Update

1. **Purpose.** VA is publishing this Circular to announce a scheduled change to VA funding fee rates for loans closed on or after April 7, 2023, as listed on the loan fee table located in 38 U.S.C. §3729(b)(2).

2. **Background.** Congress instituted the VA funding fee to help reduce the government's cost associated with administering the VA home loan benefit. The funding fee is charged on VA transactions where the borrower does not meet the qualifications for a fee waiver (exemption) detailed in 38 U.S.C §3729(c). Statute also provides for a reduced funding fee for borrowers purchasing or constructing a home with a 5- or 10-percent down payment.

3. **Action.** Lenders must continue to charge non-exempt Veterans the current funding fee percentage for VA transactions that close prior to April 7, 2023. Exhibit A contains the current funding fee rates for loans that close prior to April 7, 2023.¹

For loans closed on or after April 7, 2023, lenders must charge non-exempt Veterans the new funding fee percentage from the loan fee table. Exhibit B contains the funding fee rates for loans closing on or after April 7, 2023 and prior to November 14, 2031.²

4. **Fee Calculation For Transactions With A Down Payment.** Pursuant to 38 U.S.C. §3729(b)(2), VA loans made to purchase or construct a dwelling are subject to a reduced funding fee when there is at least "5-down"; that is, a 5 percent down payment without rounding to the nearest whole percentage. For purposes of calculating the funding fee, the percentage down is calculated as a percentage of the total purchase price or construction cost of the dwelling.³

a. Any amount paid by the borrower towards the purchase price, including cases where the purchase price exceeds the reasonable value established by VA, is included in the percentage down calculation.

(1) For example: A purchase loan is closing on March 15, 2023. A borrower makes a down payment of \$18,000 on a home with a purchase price of \$300,000. The reasonable value is established at \$290,000. The percentage down payment is 6 percent ($\$18,000 \div \$300,000$). In this example, the purchase price in the Funding Fee Payment System (FFPS) should be entered as \$300,000, and the down payment should be entered as \$18,000. FFPS will automatically calculate the required funding fee of \$4,653 (1.65%).

b. For construction loans only, equity in the secured property may be used as a down payment for calculating the funding fee.

¹ 38 U.S.C. §3729(b)(2)

² 38 U.S.C. §3729(b)(2)

³ 38 U.S.C. §3729(b)(4)(G)-(I)

(1) For example: A borrower is using a VA (one- or two-time) construction loan to construct a dwelling on land owned prior to construction. The VA financing will close on March 15, 2023. The reasonable value is \$400,000, and the loan amount is \$350,000. The purchase price in FFPS should be entered as \$400,000 and the equity in the secured property, \$50,000 (\$400,000 - \$350,000), should be entered as the down payment. FFPS will automatically calculate the required funding fee of \$4,900 (1.40%).

5. Paperwork Reduction Act: The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. § 3501-3520) and assigned OMB control numbers 2900-0474. In accordance with the Paperwork Reduction Act, VA may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

6. Rescission. Circular 26-21-26 is immediately rescinded. This Circular is valid until rescinded.

By Direction of the Under Secretary for Benefits

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