

VA Lenders Handbook (VA Pamphlet 26-7), Chapter 8, Topic 8 — The VA Funding Fee

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8. The VA Funding Fee Change Date November 8, 2012, Change 21 • Subsection b has been updated to note the expansion of eligibility for a funding fee waiver as a result of the Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012. • Subsection h, Funding Fee Tables, has been updated to note that the present fee structure is extended through September 30, 2017, as a result of the law noted above. • This section has been updated to make minor grammatical edits. a. The Lender's Role The lender must: • verify the status of any veteran who may be exempt from paying the funding fee; • determine the amount of funding fee owed by any non-exempt borrower; • collect the appropriate fee from all non-exempt borrowers at loan closing; • electronically remit the funds to VA in a timely manner through the VA Funding Fee Payment System (FFPS); • print proof of payment of the funding fee; and • submit proof that the funding fee has been paid or that the veteran is exempt from paying the funding fee to VA with the closed loan package. Note: The funding fee may be paid from loan proceeds or cash from borrower. b. Who is Exempt from Paying The Funding Fee? The following persons are exempt from paying the funding fee: • Veterans receiving VA compensation for service-connected disabilities. • Veterans who would be entitled to receive compensation for service- connected disabilities if they did not receive retirement pay. • Veterans who are rated by VA as eligible to receive compensation as a result of pre-discharge disability examination and rating or on the basis of a pre-discharge review of existing medical evidence (including service medical and treatment records) that results in issuance of a memorandum rating. • Veterans entitled to receive compensation, but who are not presently in receipt because they are on active duty. • Surviving spouses of veterans who died in service or from service- connected disabilities (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan). VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-18 8. The VA Funding Fee, Continued c. How to Verify Exempt Status The lender must verify exempt status by obtaining one of the following: • a properly completed and signed VA Form 26-8937, Verification of VA Benefits, indicating the borrower's exempt status, • for a veteran who elected service retirement pay instead of VA compensation, a copy of the original VA notification of disability rating and documentation of the veteran's service retirement income, or • indications on the Certificate of Eligibility (COE) that the borrower is entitled as an unmarried surviving spouse. Consult VA if the borrower's status is unclear after reviewing the appropriate documents, or if conflicting information is found. d. Loan Submissions Involving Exempt Borrowers Submit a copy of the documentation used to verify exempt status with the closing package. Exception: The lender does not have to submit the documentation if the borrower is an eligible surviving spouse, or the documentation had been previously provided to VA with the loan application as verification of the veteran's income. Note: A lender who believes that a servicemember may be exempt from payment of the funding fee based on a pre-discharge exam should contact the VA Regional Loan Center (RLC) of jurisdiction for assistance

confirming the exempt status. Continued on next page VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-19 8. The VA Funding Fee, Continued e. If Exempt Status Cannot Be Determined If the veteran's exempt status cannot be verified prior to loan closing, the funding fee must be remitted as if the borrower was not exempt. Indicate in the closing package that the veteran claims exempt status. VA will determine the borrower's status and refund the funding fee if appropriate. If the veteran has a pending disability compensation claim at the time of loan closing, the funding fee must be remitted as if the borrower was not exempt. Advise the veteran to contact the VA RLC to request a refund if it is later determined that the veteran is entitled to compensation retroactively to a date prior to loan closing. Reference: Refer to subsection j, "Refunding Overpayments to the Veteran," in this section. f. How to Calculate the Funding Fee For all loans except IRRRLs, apply the appropriate percentage (from the funding fee tables) to the loan amount. If the funding fee is to be paid from loan proceeds, apply the percentage to the loan amount without the funding fee amount added to it. For IRRRLs, calculate the funding fee by completing VA Form 26-8923, IRRRL Worksheet. Reference: For joint loans, see "Calculation of the Funding Fee" in section 1 of chapter 7. Continued on next page VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-20 8. The VA Funding Fee, Continued g. How to Use the Funding Fee Tables The lender must find the appropriate percentage in the tables using the following parameters:

- Is the veteran eligible for VA loan benefits through service in the regular military or the Reserves/National Guard? Examine the COE. For Reserves/National Guard, the COE bears the notation, "RESERVES/NATIONAL GUARD - INCREASED FUNDING FEE," and is buff-colored rather than green.
- Is the veteran a subsequent user of VA home loan benefits or obtaining his or her first VA loan? Examine the COE. An entitlement code of "5" indicates subsequent use, as does a loan number entered in the "Loan Number" column.
- What type of loan is the veteran obtaining? The funding fee varies depending upon whether the loan is a purchase or construction loan, an IRRRL, or a cash-out refinancing loan.
- Is the veteran making a downpayment of at least five or ten percent? – Calculate what percentage of the sales price of the property the veteran is remitting as a downpayment. – The downpayment may come from the veteran's own resources or borrowed funds. Except, if the purchase price exceeds the reasonable value of the property, the difference between the purchase price and the reasonable value must be paid by the veteran in cash without borrowing.
- For construction loans only, equity in the secured property counts as a downpayment for calculating the funding fee.

Continued on next page VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-21 8. The VA Funding Fee, Continued h. Funding Fee Tables Purchase And Construction Loans Note: In 2011, funding fees were lower from October 1 through October 5, and November 18 through November 21. The enactment of Public Law 112- 56, signed November 21, 2011, established rates at the below levels through September 30, 2016. The Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012, signed August 6, 2012, further extended the rates through September 30, 2017. Type of Veteran Downpayment Percentage for First time Use Percentage for Subsequent Use Regular Military None 5% or more 10% or more 2.15% 1.50% 1.25% 3.3% * 1.50% 1.25% Reserves/ National Guard None 5% or more 10% or more 2.4% 1.75% 1.5% 3.3% * 1.75% 1.5% Cash-Out Refinancing Loans: Note: There are no reduced funding fees for regular refinances based on equity. Reduced fees only apply to purchase loans where a downpayment of at least 5 percent is made. Type of Veteran Percentage for First Time Use Percentage for Subsequent Use Regular Military 2.15% 3.3% * Reserves/National Guard 2.4% 3.3% * *The higher subsequent use fee does not apply to these types of loans if the veteran's only prior use of entitlement

was for a manufactured home loan. Type of Loan Percentage for Either Type of Veteran Whether First Time or Subsequent Use IRRRLs .50% Manufactured Home Loans (NOT permanently affixed) 1.00% Loan Assumptions .50% Continued on next page VA Pamphlet 26-7, Revised Chapter 8: Borrower Fees and Charges and the VA Funding Fee 8-22 8. The VA Funding Fee, Continued i. How and When to Remit the Funding Fee to VA Lenders must remit the VA funding fee via the VA FFPS; within 15 calendar days of loan closing. Lenders paying the fee more than 15 days after loan closing will automatically be assessed a four percent late fee. Fees paid more than 30 days late will automatically be assessed an interest charge in addition to the late fee. j. Refunding Overpayments to the Veteran A refund is appropriate if: • an exempt veteran paid a funding fee, or • a miscalculation of the fee caused an overpayment. Using the VA FFPS, lenders can make appropriate corrections that may result in refunds being due. If the veteran was overcharged, the following applies: • A veteran who paid cash for the funding fee receives a cash refund for the amount of the overpayment. • In the case of a veteran who paid the funding fee out of loan proceeds, the lender must apply the overpayment against the loan balance. Submit evidence to VA that the refund was applied to the loan's principal balance.

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