Veterans Benefits Administration
Department of Veterans Affairs
Washington, DC 20420

Circular 26-21-26
December 17, 2021

Determination of the VA Funding Fee Percentage on Purchase Loans with Down Payments

1. Purpose. The purpose of this Circular is to clarify processes relating to the determination of the statutory funding fee. This Circular supplements information provided in Circular 26-21-11.

2. Background. Circular 26-21-11 outlined VA's expectations that lenders exercise due diligence in determining whether a borrower is exempt from paying the statutory funding fee[1]. This included steps lenders should take when evaluating a borrower's funding fee status as well as refund-related issues. VA did not address determining the applicable funding fee rate for a borrower, including when to apply the reduced fee percentage for borrowers purchasing or constructing a home with a 5- or 10-percent down payment[2]. While VA addresses this information in Topic 8 of Chapter 8 of the Lenders Handbook, VA is concerned there remains confusion on the applicability of this reduced funding fee for loans where the purchase price exceeds the reasonable value.

3. Action. This Circular is effective immediately and applies only to purchase and construction loans where the borrower is **not** exempt from paying the statutory funding fee.

4. Fee Calculation. 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. 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. This includes cases where the purchase price exceeds the reasonable value, as established by VA. Further, any amount paid by the borrower towards the purchase price, including an amount exceeding reasonable value, is included in the percentage down calculation.

(1) For example: 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 ÷ $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) 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 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

[1] 38 U.S.C. § 3729(c)
[2] 38 U.S.C. § 3729(b)
[3] 38 U.S.C. §§ 3729(b)(4)(G)-(I)

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. Loan Fee Rates. Exhibit A contains the loan fee rates applied to loans closing on or after January 1, 2020, through April 7, 2023.

6. Recission: This Circular is valid until rescinded.

By Direction of the Under Secretary for Benefits

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