

**Certificate of Eligibility Funding Fee Status Update
For Active-Duty Service Members With Pending Pre-Discharge Claims**

1. **Purpose.** The purpose of this Circular is to announce an update to the funding fee status on Certificates of Eligibility (COE) where the lender has submitted VA Form 26-8937, *Verification of VA Benefits*, for an active-duty Service member who indicates they have a pre-discharge disability claim pending with VA.

2. **Background.** VA Circular 26-21-11 advises lenders to ask borrowers if they have a pending disability claim with VA and to submit VA Form 26-8937 for active-duty Service members with a pre-discharge claim pending. If a proposed or memorandum rating is not obtained, and the loan closing takes place before the Veteran is discharged from service, the funding fee exemption does not apply, and the Service member will not be entitled to a refund.¹

3. **Action.** VA is introducing a funding fee status to inform lenders when the VA Form 26-8937 has been received and the pre-discharge or memorandum rating request is in process. Upon receipt of VA Form 26-8937, VA will conduct research to see if the Service member has filed a pre-discharge claim.

a. If the Service member is eligible for the home loan benefit and VA records indicate the Service member does not have a pre-discharge claim pending, VA will annotate the COE record and issue the COE with a funding fee status of *Non-Exempt*.

b. If the Service member is eligible for the home loan benefit and VA records indicate the Service member's pre-discharge claim has been adjudicated, VA will update the COE with the appropriate funding fee status and issue the COE.

c. If the Service member is eligible for the home loan benefit and VA records indicate the Service member has a pre-discharge claim pending that has not been adjudicated, VA will submit the rating request to the Veteran Service Center (VSC). VA will update the COE funding fee status to *Non-Exempt – In Development* and issue the COE. The Service member is not exempt at this time. If a proposed or memorandum rating is not obtained, and the loan closing takes place before the Veteran is discharged from service, the funding fee exemption does not apply, and the Service member will not be entitled to a refund. VA will update and reissue the COE as appropriate based on the response received from VSC.

(1) Please note: the time required to issue a memorandum rating may vary. If the Service member has any questions about a pending pre-discharge claim, they should contact their Physical Evaluation Board Liaison Officer (PEBLO). The Service member may alternatively reach out to VA by calling 1-800-827-1000, with hours of operation between 6am to 9pm ET.

(2) Lenders are reminded per Circular 26-21-11, they are to ensure, before loan closing, whether a borrower is exempt from having to pay a funding fee.² Lenders are also to exercise

¹ 38 U.S.C. § 3729(c)(2)

² See VA Pamphlet M26-7, Revised: Chapter 8, Topic 8.

due diligence in determining whether an exemption would apply at the time of loan closing (that is, when the funding fee is normally collected from a borrower). Lenders are not to ignore information that could indicate a funding fee exemption might apply.

4. Counseling Checklist for Military Homebuyers. Lenders are reminded to provide³ VA Form 26-0952, *Counseling Checklist for Military Homebuyers*, to active-duty Service members along with the Uniform Residential Loan Application (URLA). This form informs applicants how they can pursue an exemption from the VA funding fee if they have a pre-discharge claim pending with VA.

5. Questions. Contact a VA Regional Loan Center (RLC) by calling 1-877-827-3702, with hours of operation between 8am to 6pm ET.

6. 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 number 2900-0406. 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.

7. Rescission: This Circular is valid until rescinded.

By Direction of the Under Secretary for Benefits

John E. Bell, III
Executive Director
Loan Guaranty Service

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³ 38 CFR § 36.4340(f)(2)(iii)