

Blue Water Navy Vietnam Veterans Act of 2019

1. Purpose. The purpose of this Circular is to provide *interim* guidance concerning the U.S. Department of Veterans Affairs' (VA) implementation of The Blue Water Navy Vietnam Veterans Act of 2019 (the Act).

2. Background. On June 25, 2019, the President signed the Act, [Public Law 116-23, 133 Stat. 966](#). In accordance with the Act, including the provisions that impact VA's Loan Guaranty Service (LGY), the law will become effective January 1, 2020. VA encourages all program participants of the VA Home Loan Guaranty program to review the Act in its entirety.

3. Effective and Applicability Dates. Provisions of the Act amending 38 U.S.C. §§ 3703 (loan limit) and 3729 (loan fees), will apply to all loans closed on or after January 1, 2020. All loans closed before January 1, 2020, must follow current legal requirements, regardless of when the loan is disbursed or when the Loan Guaranty Certificate is issued. Section 7 of the Act will allow VA fee panel appraisers to use third-parties to obtain information. VA will issue further guidance regarding applicability of the provision of the Act amending 38 U.S.C. § 3731 in the future.

4. Policy Changes. Below is a summary of Section 6, *Loans Guaranteed Under the Home Loan Program of Department of Veterans Affairs*, and Section 7, *Information Gathering for Department of Veterans Affairs Home Loan Appraisals*, of the Act and their corresponding amendments. The Act authorizes VA to issue guidance to implement these amendments before prescribing new regulations.

a. Adjustment of Loan Limit: The Act amends 38 U.S.C. § 3703(a)(1) to expand maximum guaranty amounts for purchase, construction, and cash-out refinance loans greater than the Freddie Mac conforming loan limit (CLL)¹, in certain circumstances. However, the Act does not change the maximum amount of guaranty entitlement available to Veterans for loans equal to or less than \$144,000 regardless of the Freddie Mac CLL.

(1) Freddie Mac CLLs are no longer a factor for Veterans with full entitlement. For Veterans with full entitlement, the maximum amount of guaranty for a loan above \$144,000 is 25 percent of the loan amount, regardless of the Freddie Mac CLL.

Example A1: Veteran has full entitlement available and the loan amount is \$1,200,000.

$\$1,200,000 \times 25\% = \$300,000$ [Maximum Guaranty and Entitlement Available]

¹ The "Freddie Mac conforming loan limit (CLL)" means the limit determined by the Federal Housing Finance Agency (FHFA) and published at <https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx>.

Example A2: Veteran is looking to complete a cash-out refinance of an existing VA-guaranteed loan in which the Veteran has used \$80,000 of entitlement. The amount of the refinance loan is \$600,000. The entitlement used for the existing VA-guaranteed loan can be restored for purposes of the refinance, resulting in full entitlement available to the Veteran.

$$\$600,000 \times 25\% = \$150,000 \text{ [Maximum Guaranty and Entitlement Available]}$$

Note: Lenders may restore entitlement for a cash-out refinance of active VA-guaranteed loans when ordering or correcting the Certificate of Eligibility (COE). Step-by-step instructions on how to obtain a cash-out refinance conditional COE and/or correct a COE are located in the links can be found at <https://www.benefits.va.gov/homeloans/lenders.asp>, [Lender's Certificate of Eligibility \(COE\) Tutorial](#), and [Correct COE Quick Reference](#). The cash-out refinance restoration condition must be shown on the COE for the entitlement to be restored.

(2) For Veterans who have previously used entitlement and such entitlement has not been restored, the maximum amount of guaranty is the lesser of 25 percent of the loan amount OR the maximum amount of guaranty entitlement available. The maximum amount of guaranty entitlement is 25 percent of the Freddie Mac CLL, reduced by the amount of entitlement previously used (not restored) by the Veteran.

Example B: Loan amount is \$765,000; Entitlement used (not restored) is \$70,000; Freddie Mac CLL is \$724,000.

$$\begin{aligned} \$765,000 \times 25\% &= \$191,250 \text{ [25\% of Loan Amount]} \\ (\$724,000 \times 25\%) - \$70,000 &= \$111,000 \text{ [Guaranty Entitlement Available]} \\ \$111,000 / \$765,000 &= 14.51\% \text{ [Maximum Guaranty]} \end{aligned}$$

Example C: Loan amount is \$200,000; Entitlement used (not restored) is \$36,000; Freddie Mac CLL is \$500,000.

$$\begin{aligned} \$200,000 \times 25\% &= \$50,000 \text{ [25\% of Loan Amount]} \\ (\$500,000 \times 25\%) - \$36,000 &= \$89,000 \text{ [Guaranty Entitlement Available]} \\ \$50,000 / \$200,000 &= 25.00\% \text{ [Maximum Guaranty]} \end{aligned}$$

Example D: Loan amount is \$400,000; Entitlement used (not restored) is \$161,000; Freddie Mac CLL is \$600,000. The Veteran does not have entitlement available for this purchase.

$$\begin{aligned} \$400,000 \times 25\% &= \$100,000 \text{ [25\% of Loan Amount]} \\ (\$600,000 \times 25\%) - \$161,000 &= (\$11,000) \text{ [No Guaranty Entitlement Available]} \end{aligned}$$

(3) *Interest Rate Reduction Refinance Loans (IRRRLs)*. VA will continue to guarantee 25 percent of the loan amount without regards to the Veteran's available entitlement and/or Freddie Mac CLLs. See [Lenders Handbook, M26-7, Chapter 6](#) for additional information.

b. Adjustment of Loan Fees: The Act amends 38 U.S.C. § 3729(b)(2) by replacing the loan fee / funding fee table. The below table summarizes funding fee rates for the most common types of loans for all Veterans (Regular Military, Reserves, and National Guard) for loans closed on or after January 1, 2020, and before January 1, 2022.

Type of Loan	Downpayment	Percentage for First Time Use	Percentage for Subsequent Use
Purchase and Construction Loans	None	2.30%	3.60%
	5% but less than 10%	1.65%	1.65%
	10% or more	1.40%	1.40%
Cash-Out Refinance Loans	n/a	2.30%	3.60%
IRRRLs	n/a	0.50%	0.50%
Loan Assumptions	n/a	0.50%	0.50%

c. Waiver of Fees for Purple Heart Recipients: The Act amends 38 U.S.C. § 3729(c) by adding a waiver of the VA funding fee for members of the Armed Forces who are serving on active duty and provide, on or before the date of loan closing, certificate or military orders of having been awarded the Purple Heart. Further guidance on what additional evidence may establish eligibility for the waiver and the process for obtaining a COE with funding fee exempt status will be discussed in the final Circular to be published later this calendar year.

d. VA Appraisals: The Act amends 38 U.S.C. § 3731(b) by authorizing VA to establish policies that enable VA-designated appraisers to rely on third-parties for appraisal related information. VA Fee Panel appraisers are not authorized to use third-party information before policy is established by VA. Any VA Fee Panel appraiser found not personally reviewing the subject property is in violation of VA policy and Uniform Standards of Professional Appraisal Practice (USPAP) and may result in disciplinary action, including removal from the panel.

e. VA System Enhancements. VA will incorporate the requisite changes to the VA portal to support the Act. VA system enhancement release notes will be published prior to the implementation date of the enhancement.

f. Rescission: This Circular is rescinded October 1, 2020.

By Direction of the Under Secretary for Benefits

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Distribution: CO: RPC 2021

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