US DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS BENEFITS ADMINISTRATION

Audit of Funding Fee Refunds for Veterans Using Dual Entitlement on VA Joint Home Loans

Audit | 25-00824-227 | December 2, 2025

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Executive Summary

The VA Home Loan Guaranty program is meant to help veterans finance the purchase of homes with favorable loan terms. To take advantage of this program, a qualified borrower must apply to a lender to receive a VA home loan.[1] Through a lender, the benefits of the VA Home Loan Guaranty program generally include no down payment, no private mortgage insurance, competitively low interest rates, and limited closing costs.[2]

Veterans typically pay a funding fee to defray the cost of administering the program; however, veterans who receive VA service-connected disability compensation are exempt from paying that fee. The fee depends on the amount of the loan and other factors, and it is calculated as a percentage of the loan amount.[3] The VA Loan Guaranty Service administers and oversees the program. Funding fees are collected by lenders and submitted electronically to VA. If veterans receive a disability determination with an effective date for getting benefits before their loan closing date, they are entitled to a refund of any previously paid funding fee. The Loan Guaranty Service, part of the Veterans Benefits Administration (VBA), implemented an automated process in 2021 to streamline the identification and issuance of retroactive funding fee refunds.[4]

The VA Office of Inspector General (OIG) conducted this audit from January through August 2025 to assess whether the Loan Guaranty Service has been issuing these refunds as required for veterans using dual entitlement (two or more veterans using some or all of their combined eligible loan benefits) on joint loans.[5] Based on the OIG's audit, the acting principal deputy under secretary for benefits concurred with the OIG's recommendations and provided action plans.[6]

[1] Qualified borrowers include veterans, active service members, national guard members, reservists, and surviving spouses who meet certain requirements, such as veterans with 24 continuous months of service and active-duty members with 90 continuous days of service. VBA Loan Guaranty Service, *VA Home Loan Guaranty Buyer's Guide*, April 2022. This audit report refers to qualified borrowers as "veterans."

[2] A down payment may still be required in certain situations, such as when the purchase price of the property exceeds the appraised value. VA Pamphlet 26-7, "The VA Loan and Guaranty," chap. 3 in Lender's Handbook, rev. May 14, 2024.

[3] "VA Funding Fee and Loan Closing Costs" (web page), VA Loan Guaranty Service, accessed December 23, 2024, https://www.va.gov/housing-assistance/home-loans/funding-fee-and-closing-costs.

[4] The manual process was the result of a VA Office of Inspector General (OIG) 2019 report. VA OIG, *Exempt Veterans Charged VA Home Loan Funding Fees*, Report No. 18-03250-130, June 6, 2019. The automation process was implemented in 2021 to streamline the manual process.

[5] Dual entitlement on joint VA home loans means that two or more veterans are using some or all of their combined eligible loan benefits toward receiving a loan. Lender's Handbook VA Pamphlet 26-7, "Loans Requiring Special Underwriting, Guaranty, and Other Considerations," chap. 7, rev. March 11, 2019.

[6] The acting principal deputy under secretary for benefits was confirmed as the principal deputy under secretary for benefits in October 2025.

What the Audit Found

The OIG team sampled a population of veterans who received a disability rating retroactively and found deficiencies with funding fee refunds for veterans using dual entitlement on joint loans. While not initially a focus of the audit, when looking at this small population of loans, the team also noticed that some veterans exempt from paying funding fees were inappropriately charged by their lenders at their loan closings. Based on a sample, the team estimated that 250 veterans were entitled to a funding fee refund due to either lenders' errors at closing or retroactive disability determinations between October 1, 2021, and September 30, 2024.[7]

The OIG determined that the report used by the Loan Guaranty Service as the basis for establishing the specifications programmed into its automated process was missing key information. Although the report identified almost all veterans to whom funding fee refunds were owed, a process error prevented it from flagging veterans using dual entitlements on their joint home loans, causing the automated system to not recognize these exceptions and improperly charge these veterans a funding fee.

The estimated average for the refunds for the 250 veterans was $6,100, totaling $1.5 million during the review period. In the OIG team's sample, the range for these refunds was about $2,200 to $10,800 per veteran. Although the Loan Guaranty Service had issued refunds to an estimated 110 of 250 veterans before the audit, the team determined that an estimated 140 of the 250 veterans still required refunds totaling about $866,000.

What the OIG Recommended

The OIG recommended the under secretary for benefits identify all veterans using dual entitlement on VA-guaranteed joint home loans who were charged funding fees and subsequently received retroactive compensation benefits after July 2019 (when the veteran refund eligibility list was implemented) and then issue refunds to eligible veterans.[8] The second recommendation is to update the systems to ensure veterans using dual entitlement on joint loans are correctly identified for funding fee refunds and that any system updates are tested to demonstrate that the entire population of eligible veterans is included.[9] Because Loan Guaranty Service staff have been developing and implementing a software application to address the relatively small number of exempt veterans who paid funding fees before or at closing, the OIG

[7] Appendix A provides more information about the OIG's scope and methodology, and appendix B provides information on the OIG's statistical sampling.

[8] The recommendations addressed to the under secretary for benefits are directed to anyone in an acting status or performing the delegable duties of the position. In July 2019, Loan Guaranty Service staff compiled data to create a veteran refund eligibility list, identifying veterans who were potentially eligible for funding fee refunds due to retroactive disability determinations, and distributed it to regional loan centers for review and refund processing.

[9] Appendix C shows the monetary benefits associated with the OIG's analysis.

did not make any recommendations related to this issue and will continue to monitor the Loan Guaranty Service's progress.

VA Management Comments and OIG Response

The acting principal deputy under secretary for benefits, performing the delegable duties of the under secretary for benefits, concurred with the OIG's recommendations in September 2025 and provided responsive action plans. The full management comments are included in appendix D.[10] The OIG will monitor VBA's implementation and will close the recommendations once sufficient evidence demonstrates the completion of necessary actions.

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[10] The acting principal deputy under secretary for benefits was confirmed as the principal deputy under secretary for benefits in October 2025.

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Abbreviations

FFPS	Funding Fee Payment System
FY	fiscal year
OIG	Office of Inspector General
PACT Act	Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022
PA&I	Office of Performance Analysis and Integrity
VBA	Veterans Benefits Administration
WebLGY	web-enabled Loan Guaranty System

Introduction

The VA Home Loan Guaranty program was established in 1944 to help veterans finance the purchase of homes with favorable loan terms. To take advantage of this program, a veteran must meet the basic criteria of service and must apply to a lender, such as a bank, credit union, or mortgage company, to receive a VA home loan.[11] Through lenders, the VA Home Loan Guaranty program generally offers benefits such as no down payment, no private mortgage insurance, competitively low interest rates, and limited closing costs.[12]

When qualified borrowers obtain a VA-guaranteed mortgage, they are generally required to pay a onetime funding fee to defray the cost of administering the VA home loan.[13] The fee can be paid at closing when the borrower receives the loan, or it can be included in the loan amount and paid periodically over time with the mortgage. VA reported that it collected about $1.4 billion in funding fees for over 416,000 loans during fiscal year (FY) 2024.[14]

Veterans who have received a disability compensation determination with an effective date for benefits before their loan closing date are exempt from paying the fee. Disability compensation is a monetary benefit for veterans who have service-connected medical conditions, which are disabilities caused by diseases or injuries that were incurred or aggravated during active military service.[15] The amount of monetary benefits a disabled veteran receives is based on a rating decision that lists all claimed disabilities and assigns numerical percentages to them based on the severity of the conditions.

Veterans' eligibility for service-connected disability ratings related to toxic exposures was expanded significantly when the President signed the PACT Act on August 10, 2022.[16] As a result of the act, many veterans retroactively qualified for a disability compensation rating. Some of them obtained a rating with an effective date for receiving benefits that was before their VA

[11] Department of Veterans Affairs, *VA Home Loan Guaranty Buyer's Guide*, April 2022.

[12] A down payment may still be required in certain situations, such as when the purchase price of the property exceeds the appraised value. VA Pamphlet 26-7, "The VA Loan and Guaranty," chap. 3 in VA Lender's Handbook, rev. May 14, 2024.

[13] Qualified borrowers include veterans, active service members, national guard members, reservists, and surviving spouses who meet certain requirements, such as veterans with 24 continuous months of service and active-duty members with 90 continuous days of service. Surviving spouses who receive dependency and indemnity compensation and the unmarried surviving spouse of a veteran who died in service or a veteran who is totally disabled or a prisoner of war are also eligible. Department of Veterans Affairs, *VA Home Loan Guaranty Buyer's Guide*, April 2022. For brevity, this audit report refers to qualified borrowers as "veterans."

[14] "LGY FY24 Fast Facts" (website), VA Loan Guaranty Service, https://vbaw.vba.va.gov/HOMELOANS/LGY_Reports.asp#Fast_Facts. (This website is not publicly accessible.)

[15] 38 C.F.R. § 3.1(k).

[16] Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics (PACT) Act of 2022, Pub. L. No. 117–168, § 1(a), 136 Stat. 1759.

home loan closing date. VA was, and continues to be, required to refund the funding fee paid at loan closing for these veterans.[17]

Given the increased number of veterans potentially eligible for a funding fee refund due to the PACT Act, the VA Office of Inspector General (OIG) team tested a sample of veterans who received a disability rating retroactively. Although the team found no significant issues with funding fee refunds on standard VA home loans, it did find deficiencies with funding fee refunds for veterans using dual entitlement on joint loans. Dual entitlement on joint VA home loans means that two or more veterans are using some or all of their combined eligible loan benefits toward receiving a loan.[18] These loans represent a small subset of the overall VA home loan program. For FY 2024, the Loan Guaranty Service processed about 416,000 home loans, of which only 1,058 were joint home loans with dual entitlements used.

The OIG conducted this audit from January through August 2025 to determine whether the Loan Guaranty Service is issuing required funding fee refunds to veterans using dual entitlement on joint VA home loans.

Loan Guaranty Service

The Loan Guaranty Service, a component of the Veterans Benefits Administration (VBA), oversees VA's home loan program. The Loan Guaranty Service's mission is to "maximize opportunities for veterans and service members to obtain, retain, and adapt homes by providing a viable and fiscally responsible benefit program in recognition of their service to the Nation."[19] The Loan Guaranty Service staff conduct monthly reviews of lenders' compliance with home loan program laws, regulations, and policies. They also complete annual operations reviews of the nine regional loan centers that administer the program using the service's guidance.[20]

Dual Entitlement

VA loans allow two or more veterans to combine some or all of their entitlements, and two or more veterans can be on the loan, even if only one is using their VA entitlement for that loan. A VA loan entitlement is the dollar amount a veteran has available for a guaranty on a loan. The guaranty on a loan is the amount VA may pay the lender in the event of a loss due to

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[17] VBA Circular 26-23-19, *VA Funding Fee Exemption and Refund Procedures for Lenders*, October 2, 2023.

[18] Lender's Handbook VA Pamphlet 26-7, Revised "Loans Requiring Special Underwriting, Guaranty, and Other Considerations," chap. 7, rev. March 11, 2019.

[19] VA Home Loan Guaranty Program, *Annual Benefits Report for Fiscal Year 2024*.

[20] The nine regional loan centers are in Decatur, Georgia; Cleveland, Ohio; Honolulu, Hawaii; Lakewood, Colorado; Houston, Texas; Phoenix, Arizona; Roanoke, Virginia; St. Paul, Minnesota; and St. Petersburg, Florida.

foreclosure.[21] A certificate of eligibility provides verification of the sum available for the loan entitlement. The basic entitlement for each veteran is $36,000. Generally, for loans greater than $144,000, the entitlement is 25 percent of the loan.[22] Accordingly, the available amount may be reduced if a veteran has used an entitlement before that has not been restored.

Certificate of Eligibility

Lenders are responsible for ensuring an applicant is eligible for a VA home loan by obtaining a certificate of eligibility as evidence. Veterans are considered eligible if they meet the basic criteria of length and character of service for the home loan benefit. Lenders are responsible for checking the funding fee exemption status and are to exercise due diligence in determining whether an exemption would apply at closing.[23]

Funding Fees

When a veteran obtains a VA-guaranteed home loan, the lender collects the funding fee and submits it electronically through the Funding Fee Payment System (FFPS), a VA system used to process funding fee payments and refunds. Fees range from 0.5 to 3.6 percent of the loan amount and are determined by such factors as whether the veteran has used the program in the past, the type of loan (such as a purchase or construction loan or the refinancing of an existing loan), whether the veteran is making a down payment, and the amount of that down payment.[24]

As stated earlier, if there are two veterans on the loan and they elect to use at least part of their entitlements, the loan is considered a joint loan with dual entitlement. In these cases, the funding fee can be split between the veterans so that a portion of their respective entitlements can be reserved for future loans. If a veteran has paid a funding fee and later receives disability compensation before their loan closing date, they are entitled to have the fee refunded.[25] For joint loans using dual entitlement, only the veteran who received the retroactive disability compensation rating would receive a refund for the fee they paid.

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[21] If a lender approves a loan, VA guarantees a portion of the loan, protecting the lender against loss up to the amount guaranteed, which is generally 25 percent of the original loan amount. Lender's Handbook VA Pamphlet 26-7, "The VA Loan and Guaranty," chap. 3, topic 4, rev. May 14, 2024, and topic 11, rev. November 8, 2012.

[22] VBA Circular 26-19-30, *Updated Guidance for Blue Water Navy Vietnam Veterans Act of 2019*, November 15, 2019.

[23] VBA Circular 26-23-19, *VA Funding Fee Exemption and Refund Procedures for Lenders*, October 2, 2023

[24] "VA Funding Fee and Loan Closing Costs" (web page), accessed December 23, 2024, https://www.va.gov/housing-assistance/home-loans/funding-fee-and-closing-costs. There was a schedule change to VA funding fee rates for loans closed on or after April 7, 2023, which reduced the funding fee rate from 3.6 to 3.3 percent. VBA Circular 26-23-06, Exhibit A, *Loan Fee Rates for Loans Closing on or After January 1, 2020, and before April 7, 2023*, February 14, 2023.

[25] In addition to veterans, lenders are also entitled to the funding fee refund if they paid the fee on a veteran's behalf. VBA Circular 26-23-19, *VA Funding Fee Exemption and Refund Procedures for Lenders*, October 2, 2023.

Funding Fee Refund Automation Process

A June 2019 OIG report estimated that VA charged 72,900 exempt veterans about $286.4 million in funding fees during calendar years 2012–2017.[26] One of the findings was that the Loan Guaranty Service had no policy for issuing refunds and placed the burden of requesting the refund on the veteran. In response, the Loan Guaranty Service implemented a manual process in July 2019 to begin identifying errors and then initiating and processing refunds to eligible veterans.

The manual process involved obtaining source data from the Compensation Service, the office that oversees disability benefits determinations, to identify veterans with an initial retroactive disability rating.[27] Loan Guaranty Service staff then compared that data with information from VA's web-enabled Loan Guaranty System (WebLGY) and with funding fee payment information from FFPS. WebLGY captures VA baseline loan data including borrower, property, and lender information. FFPS captures funding fee payment data such as payment amount, date, and payee information. Loan Guaranty Service staff compiled the data to create a veteran refund eligibility list, identifying veterans who are potentially eligible for funding fee refunds due to retroactive disability determinations, and distributed it to regional loan centers for review and refund processing.

In November 2021, to expedite the creation of these lists, the Loan Guaranty Service worked with VA's Office of Information and Technology and Office of Performance Analysis and Integrity (PA&I) to automate the process of identifying and distributing funding fee refunds to regional loan centers whose staff would return the fees to the veterans. Loan Guaranty Service staff provided PA&I personnel with specifications to develop the automation. The Loan Guaranty Service then implemented this automation into the funding fee refund process (shown in figure 1).

In the funding fee refund process, PA&I's system extracts veterans' retroactive disability determinations data from the Compensation Service system and matches veterans' loan and funding fee payment data from WebLGY every night. Then, the PA&I system compiles these datasets to generate the veteran eligibility lists used for identifying veterans to whom refunds may be owed. Then WebLGY runs data validation on the veteran eligibility lists to ensure data consistency before transmitting the data into FFPS to create refund requests. If the data do not pass validation, they become exceptions for Loan Guaranty Service staff to manually determine whether refunds are owed.

[26] VA OIG, *Exempt Veterans Charged VA Home Loan Funding Fees*, Report No. 18-03250-130, June 6, 2019.

[27] Veterans who were already exempt from paying the funding fee based on existing exemption data were not included in the manual data comparison.

When refunds are owed to veterans, staff create refund requests in FFPS manually for further processing by regional loan centers. If the data pass validation, refund requests are automatically generated for loan specialists at regional loan centers to review. Loan specialists must complete their manual review within about 20 business days of the date assigned to determine refund eligibility and process a refund.[28] Loan specialist–approved refunds are reviewed by a lead technician or supervisor before they are issued.

Figure 1 illustrates the Loan Guaranty Service's automated funding fee refunding process.

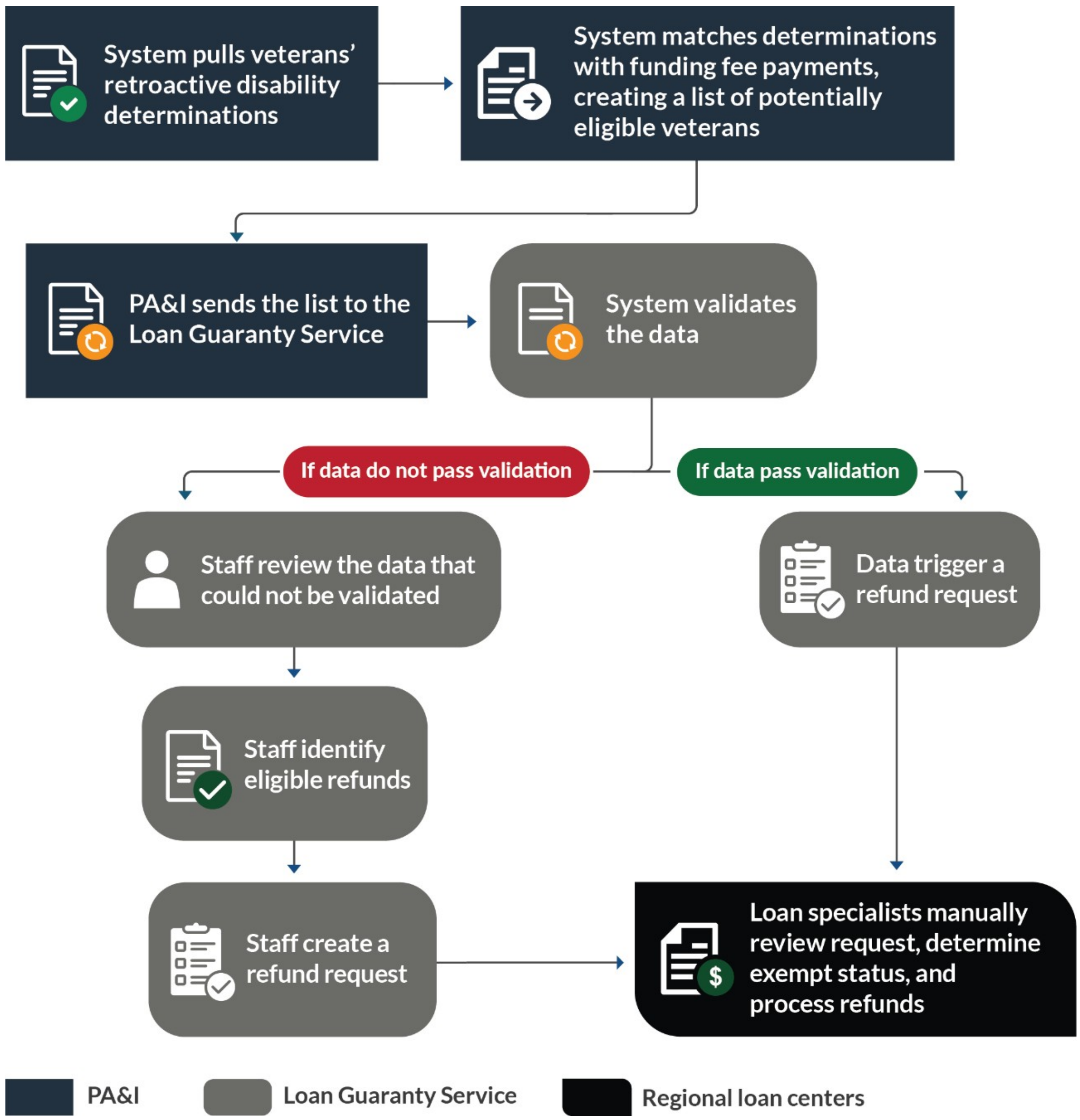

Figure 1. *Automated funding fee refund process.*

[28] VBA Circular 26-21-28, *Timeliness for Funding Fee Refunds*, December 27, 2021.

Source: VA OIG analysis of Loan Guaranty Service processes as depicted by technical process diagrams and Loan Guaranty Service staff interviews.

Loan Guaranty Certificate

The loan guaranty certificate is the lender's evidence that VA has guaranteed the loan. For a guaranty certificate to be issued for a veteran's loan, the lender must report the loan to VA within 60 calendar days of the closing.[29] Lenders are responsible for submitting documents to the Loan Guaranty Service to request the certificate. However, for joint loans, Loan Guaranty Service staff must manually review loan documentation to provide the loan guaranty to the lender.[30] As part of reviewing the request for a certificate from the lender, staff review the veteran's certificate of eligibility and the accuracy of the funding fee amount. Once approved, staff issue the loan guaranty certificate to the lender. Lenders can obtain the loan guaranty certificate electronically.

[29] Loans must be reported to VA within 60 calendar days of closing except construction and alteration/repair loans, which must be reported within 60 calendar days of completion of the construction or improvements in accordance with the plans and specifications as evidenced by the post construction inspection report.

[30] Lender's Handbook VA Pamphlet 26-7, "How to Process VA Loans and Submit Them to VA," chap. 5, May 14, 2024.

Results and Recommendations

Finding: Veterans Who Used Dual Entitlement for Joint Home Loans Did Not Always Receive Funding Fee Refunds

In FY 2024, veterans using dual entitlement for joint loans only represented about 0.3 percent of the VA home loan population. The OIG identified 1,684 joint loans using dual entitlements that were closed from October 1, 2021, through September 30, 2024 (FYs 2022–2024) as potentially eligible for a funding fee refund.[31] In a sample of 330 of those loans, the OIG team found that funding fee refunds were owed for 57 unique loans to 64 veterans. No refunds were owed to veterans who had the other 273 loans. Of the 64 veterans, 28 were exempt from paying funding fees based on their certificates of eligibility and were inappropriately charged the fee at their home loan closings. The remaining 36 veterans were not exempt at the time of the closing but were subsequently exempt due to retroactive disability benefits determinations and, therefore, eligible for a funding fee refund. Based on this sample review, the OIG team estimated that 250 veterans were entitled to a funding fee refund due to either errors at closing or retroactive disability determinations involving about 200 loans. These funding fees totaled an estimated $1.5 million with an average funding fee refund of about $6,100 per veteran. These fees observed in the sample review ranged from about $2,200 to $10,800. Of the approximately 250 veterans entitled to a funding fee refund, the team projected that the Loan Guaranty Service owes repayments to an estimated 110 veterans. This audit revealed an estimated 140 veterans still required refunds for an estimated total of $866,000.

As for funding fee errors made at the loan closing, the Loan Guaranty Service or lenders did identify 21 of the 28 veterans who required a refund. The other seven were refunded in response to this audit. However, the Loan Guaranty Service's automation process did not flag any veterans with dual entitlement who should have received funding fee refunds due to retroactive disability determinations. As mentioned above, this accounted for 36 of the remaining veterans who did not receive a refund via the automation process. According to Loan Guaranty Service officials, the automation did not identify these funding fee refunds because of incomplete specifications used to design the report that identifies veterans using dual entitlement on joint loans as well as deficient implementation processes. The population of veterans using dual entitlement on joint loans was not specifically considered when developing the report used in the automation process. The automated process did not identify these veterans, though other Loan Guaranty Service internal reviews, such as full file loan reviews and the manual loan guaranty certificate process, found instances where refunds were due. These internal reviews were not part of a routine

[31] Based on available data, the OIG team identified a population of veterans who had a retroactive rating decision and paid a funding fee. Further review and analysis were needed to verify whether these required a funding fee refund.

systematic process to detect dual entitlement joint loan funding fees charged to veterans with retroactive disabilities but helped Loan Guaranty Service staff to catch them during another layer of review.

Although the affected population was a small subset of the overall VA home loan program population, there was a consistent system error in the automation process that prevented this group of veterans from receiving their refunds. Until this automation process is corrected, veterans using dual entitlement when one or more of the veterans has a retroactive disability determination will continue to experience delays in receiving refunds or will not receive refunds at all.

The finding is based on the following determinations:

- Most improperly charged funding fees at closing were corrected.
- The automation process did not consistently provide funding fee refunds to all veterans.
- Limitations in the automation process prevented the Loan Guaranty Service from identifying all owed refunds.

What the OIG Did

As noted previously, the OIG team examined a sample of 330 of 1,684 joint VA-guaranteed home loans that were closed from October 1, 2021, through September 30, 2024.[32] This sample involved 663 veterans who used dual entitlements to pay the loan funding fee. In the sample, 328 loans had two veterans on the loan (656 veterans), and two loans included three or four veterans (seven veterans total). The loans included one or more veterans who were granted disability compensation benefits after the loan closing date, but the effective date for those compensation benefits was retroactively set for a date prior.

The OIG team used VBA's electronic systems, including WebLGY, FFPS, and the Veterans Benefits Management System (which contains disability compensation rating data), to review relevant documentation to assess whether VA was required to issue a funding fee refund. In addition, the team interviewed staff from the Loan Guaranty Service, Office of Information and Technology, and PA&I.

Most Improperly Charged Funding Fees at Closing Were Corrected

The OIG team identified 28 veterans in its sample who were exempt from paying funding fees at closing but were still charged. The team estimated that this happened for 120 veterans from the population during the audit period. For an estimated 82 veterans, either the lender or Loan

[32] Appendix A provides more information about the OIG's audit scope and methodology, and appendix B describes the statistical sampling methodology.

Guaranty Service staff using the manual loan guaranty certificate process initiated a refund. In addition, for at least another 15 of the 120 veterans, a refund was initiated based on this audit. The number of veterans does not add to 120 due to rounding and because the OIG used more conservative lower limits for making estimates based on the very small sample. The following are examples of (1) the lender discovering the need for a refund and (2) a refund found during this audit.

Example 1

On March 17, 2023, two veterans obtained a joint home loan. One veteran paid a funding fee of $10,753 even though that veteran was listed as exempt on the certificate of eligibility.[33] *The lender did not contact the Loan Guaranty Service to inform them of the error until January 5, 2024. Loan Guaranty Service staff refunded the full fee payment to the veteran on January 12, 2024—216 business days after closing.*[34]

Example 2

On January 16, 2024, two veterans closed on a joint home loan. Both veterans were exempt from paying the funding fee at the time of closing but were charged $6,600 each. One veteran had a disability rating decision issued on August 11, 2023, and the other on February 4, 2019, making both veterans exempt from paying a funding fee at closing. The OIG shared this information with the Loan Guaranty Service, which refunded both veterans their funding fees on January 31, 2025, and February 27, 2025; the delays were 274 business days and 293 business days, respectively.[35]

Loan Guaranty Service staff explained that guidance had been last issued in July 2021 to inform lenders about their responsibility to use due diligence in reviewing the certificate of eligibility and verifying whether a veteran is exempt from a fee, but lenders sometimes still made errors.[36] There are no additional checks that could routinely identify errors in joint loans using dual entitlement; however the Loan Guaranty Service staff should spot when an exempt veteran paid a fee at closing as part of the manual loan guaranty certificate process.

Because the Loan Guaranty Service or the lender identified the majority of funding fee payment errors at closing and veterans received their required refunds, the processes are generally

[33] Funding fees have been rounded to the nearest dollar.

[34] The OIG team used the loan closing date to determine the number of business days the refund was delayed. For this example, the team calculated the number of business days between the loan closing date, March 17, 2023, and the refund issue date, January 12, 2024.

[35] For this example, the audit team calculated the number of business days between the loan closing date, January 16, 2024, and the refund issue dates, January 31, 2025, and February 27, 2025.

[36] VA Circular 26-22-11, *Updated Funding Fee Information for Lenders,* July 15, 2021.

working as intended. The OIG team also found a very small number of missed refunds for exempt veterans who paid them at closing. To address these errors, the Loan Guaranty Service is designing a software application that would allow lenders to validate preclosing loan data.[37] According to Loan Guaranty Service officials, this change will provide lenders with an opportunity to check whether funding fees are accurate and will help ensure compliance with VA loan requirements before closing. In September 2023, this application became available for lenders to test and remained so during this audit. It has not been implemented or required pending a Loan Guaranty Service review of proposed regulatory changes and their potential effect on the use of this application.[38] As a result, the OIG did not make a recommendation for improvement at this time.

Automation Process Did Not Consistently Provide Funding Fee Refunds to all Veterans

Based on the sample results of 36 veterans, the team estimated that about 130 veterans were owed funding fee refunds due to retroactive disability compensation ratings.[39] Table 1 summarizes the estimated number of veterans (based on the team's sample) who paid a funding fee and should have been refunded. The required fee refunds were not identified, initiated, or processed by automation, or they were not identified but were later detected and processed through other methods. The amount of those refunds totaled about $778,000.

Table 1. Veterans Using Dual Entitlements on Joint Loans with Retroactive Disability Ratings

Error type	Estimated number of veterans	Estimated funding fee refunds
Funding fee refunds not identified, initiated, or processed by automation	100	$597,000
Funding fee refunds not identified or initiated by automation but later processed by other methods	>8*	>$45,900*‡

[37] "VA Home Loans" (web page), VBA, accessed May 23, 2025, https://www.benefits.va.gov/HOMELOANS/pre-close.asp.

[38] For 38 C.F.R. §§ 36.4303 and 36.4328, a proposed rule was published in the Federal Register on November 20, 2024, with a public comment period that closed on January 21, 2025. VA received seven comments in conjunction with the rulemaking and is evaluating comments. According to the Loan Guaranty Service's assistant director of regulations, legislation, engagement and training, the Loan Guaranty Service could not provide a more specific timeline at the time of this audit for publishing the final rule that would amend these sections.

[39] Lenders paid funding fees on behalf of five exempt veterans, and those lenders were then owed refunds. The instances found were turned over to VA for corrective action.

Error type	Estimated number of veterans	Estimated funding fee refunds
Total estimated funding fee refunds not identified	130	$778,000‡

Source: VA OIG analysis of Loan Guaranty Service data.

**The lower limit of the one-sided 90 percent confidence interval was used. A lower limit was selected to use a more conservative projection given the small number of veterans.*

‡Due to projections and rounding, the number of veterans and dollar values do not sum to totals.

For an estimated 100 veterans, the automation process did not identify and initiate funding fee refunds. For these veterans, the team estimated that about $597,000 in funding fees were not automatically found. The following example occurred when the funding fee refund was not flagged or processed by the Loan Guaranty Service's automation.

Example 3

On February 27, 2023, two veterans used dual entitlements to secure a VA joint loan. One veteran paid a funding fee of $8,570. That veteran received a disability compensation rating decision on July 21, 2023, that was retroactively effective on February 23, 2023. The Loan Guaranty Service automation process did not identify the need to refund the fee, but after being notified by the OIG team of the error, staff refunded the full amount to the veteran on February 6, 2025. This refund was delayed by 391 business days (excluding the days expected for processing under VBA guidance).[40]

For at least eight veterans, the automation process did not initiate a funding fee refund. Instead, these refunds were initiated another way, either by the veteran, their lender, or instances when Loan Guaranty Service staff detected the error as part of other processes, such as a full file loan review.[41] For these loans, the OIG team estimated that a total of at least $45,900 in funding fee refunds were owed. Example 4 is an instance in which a refund to be paid was initiated by a veteran rather than by the Loan Guaranty Service automation process.

Example 4

On March 7, 2023, two veterans obtained a joint loan. One veteran paid a $4,553 funding fee. Although this veteran's disability compensation rating

[40] For this example, the audit team calculated the number of business days between the date the rating decision was made, July 21, 2023, and the date the refund was issued, February 6, 2025. Based on the guidance in VBA Circular 26-21-28, the audit team subtracted 20 business days for refund processing and excluded weekends and nonbusiness days.

[41] VA Manual 26-1, "Conduct a Review After Guaranty Is Issued," chap. 4, topic 1 in *Guaranteed Loan Processing Manual*, rev. May 23, 2017. A full file loan review is one of two main types of reviews conducted on a sample of loans after VA loans are guaranteed.

decision was made on July 26, 2023, it was effective retroactively on January 31, 2023. The veteran asked for a refund on March 4, 2024, and the fee was refunded on March 5, 2024. The refund was delayed by 146 business days, excluding the standard 20-day processing time set out in VBA guidance.[42]

Delays in identifying these refund errors resulted in an average of 250 business days for refunds to be processed and received per veteran. The refunds in the sample review took anywhere from immediate processing (within the 20-day requirement to process) to about 1.6 years to be issued. If the funding fee refunds had been identified through the automation process, veterans would have received their refunds within days instead of months or years. Although the funding fees were ultimately refunded in examples 3 and 4, the delays could have been prevented if the Loan Guaranty Service automation process had been identifying all refunds without the audit team's assistance and without the veteran contacting the Loan Guaranty Service.

Limitations in the Automation Process Prevented the Loan Guaranty Service from Identifying All Owed Refunds

The report that the Loan Guaranty Service began generating in July 2019 was used as the basis for programming the specifications for an automated process. Although the resulting process identified almost all veterans to whom funding fee refunds were owed, during the team's scope of audit, the automation process did not flag borrowers using dual entitlements on their joint home loans. Joint loans were being handled as exceptions from the automated process and instead were reviewed manually by regional loan center staff. However, not all joint loans were detected by the automation process as exceptions that should be sent for manual processing because Loan Guaranty Service had not established specifications that would identity all joint loans.

The automated process did not identify all joint loans for manual processing for several reasons. First, the Office of Information and Technology staff reported that the automation specifications only identified refunds on loans for a primary borrower (or when a secondary borrower had been a primary borrower on another loan). Second, when the automation process generated reports for the eligible refunds, it then created tasks in FFPS for loan specialists to review and process. However, when the Loan Guaranty Service staff began to review their coding in response to this audit, they noticed that some of the names on the data tables used to create the refund reports did not match the names used in WebLGY. As a result, the specifications may have only identified primary borrowers rather than all borrowers on the loan. According to the Office of Information and Technology staff, the specifications only identify the primary veteran borrowers listed on the

[42] For this example, the audit team calculated the number of business days between the date the rating decision was made, July 26, 2023, and the date the refund was issued, March 5, 2024. Based on the guidance in VBA Circular 26-21-28, the audit team subtracted 20 business days for refund processing and excluded weekends and nonbusiness days.

dual entitlement joint loan who may require a refund. The assistant director of PA&I expressed concern about the data tables that PA&I staff were using as sources and recommended using the original source data instead.

When asked about the missing refunds, Loan Guaranty Service officials stated that the population of veterans using dual entitlement joint loans is small, less than one percent of the total loan population. Based on this, the audit team concluded these types of loans were not considered when developing the specifications to find veterans who may need refunds. Loan Guaranty Service staff confirmed they became aware of joint loans with dual entitlement that were not being identified due to this OIG audit. In addition, as stated previously, the automated process identified almost all veterans to whom funding fee refunds were owed, and it appeared to only exclude those using dual entitlement on their joint home loans. This is based on the audit team's initial tested sample that only found veterans with dual entitlement missing refunds in any significant numbers or with any pattern.

Testing

When Loan Guaranty Service staff began testing in September 2020 to identify veterans eligible for refunds, testing focused on the accuracy of the automated process. In particular, it was designed to associate loans with veterans exempt from paying fees—but not to detect whether the entire population was represented, and distinguishable, such as just veterans using dual entitlement on joint loans. Testing did not focus on whether all proper payments were made. A more detailed testing protocol could have identified this error in the automation from the beginning.

Quality Reviews

Loan Guaranty Service quality control processes, such as special focus and full file loan reviews, have examined whether refunds were processed and paid correctly by loan specialists at regional loan centers. Special focus reviews and full file reviews are quality controls conducted on a sample of loans. Loan Guaranty Service staff conducted a special focus review in February 2025 on the transactional accuracy of individual funding fee refunds. The review identified discrepancies between VA policy and loan specialists' processing of funding fee refund requests at regional loan centers. Loans selected on a monthly basis for full file loan reviews are based on risk factors identified by the Loan Guaranty Service and focus on whether funding fee transactions are accurate.[43] These reviews are not designed to focus on the accuracy of the automation process; they examine the accuracy of loan specialists' manual processing of funding fees.

[43] VA Manual 26-1, "Regional Loan Center Procedures Regarding VA Lenders," chap. 1 and "Selection Criteria," chap. 4, topic 1.c in *Guaranteed Loan Processing Manual*, rev. May 23, 2017.

Conclusion

The audit team found that funding fee refunds were owed to about 140 veterans who were using dual entitlements on their joint VA-guaranteed home loans from October 1, 2021, through September 30, 2024. The estimated total for these refunds is $866,000.[44] The majority of the missing refunds occurred because the Loan Guaranty Service's automated process did not identify veterans who were exempt from paying funding fees due to retroactive disability determinations and who used dual entitlement on their joint loans. If errors in the automated process persist, this group of veterans owed refunds will go undetected. As the recommendations below detail, VBA should search for those veterans who may be owed refunds and have not yet been identified through this audit. The Loan Guaranty Service should also conduct additional testing to be sure that corrections to the automated processes accurately and consistently include veterans using dual entitlement on joint VA home loans. Without corrective actions, the Loan Guaranty Service will be unable to ensure veterans are receiving timely funding fee refunds.

The OIG is not making any recommendations related to the exempt veterans who paid funding fees before or during closings because Loan Guaranty Service staff are developing and implementing a software application that reviews preclosing loan data to address identified problems. The OIG will continue to monitor the Loan Guaranty Service's progress.

Recommendations 1 and 2

The OIG made the following recommendations to the under secretary for benefits:[45]

1. Identify all veterans using dual entitlement on VA-guaranteed joint home loans who were charged funding fees and received a retroactive disability rating that precedes their loan closing date since July 2019 when the veteran refund eligibility list was implemented, and issue required refunds.[46]
2. Update systems to ensure eligible veterans using dual entitlement on joint VA-guaranteed home loans are identified for funding fee refunds and ensure that any system updates are tested to demonstrate that the entire population of eligible veterans is included.

VA Management Comments

The acting principal deputy under secretary for benefits, performing the delegable duties of the under secretary for benefits, concurred with the recommendations in September 2025 and

[44] Appendix C shows the monetary benefits associated with the OIG's analysis.

[45] The recommendations addressed to the under secretary for benefits are directed to anyone in an acting status or performing the delegable duties of the position.

[46] At that time, Loan Guaranty Service staff compiled data to create a veteran refund eligibility list, identifying veterans who were potentially eligible for funding fee refunds due to retroactive disability determinations, and distributed it to regional loan centers for review and refund processing.

provided action plans.[47] For recommendation 1, the acting principal deputy under secretary reported that VBA will initiate action to identify all veterans using dual entitlement on VA-guaranteed joint home loans who were charged funding fees and received a retroactive disability rating that precedes their loan closing since July 2019 and issue required refunds. For recommendation 2, VBA will determine if a system update is required or if the funding fee errors resulted from the way the data were supplied in the system and make the necessary updates. VBA estimated that all action plans will be completed by December 31, 2026. The full management comments are included in appendix D.

OIG Response

The acting principal deputy under secretary's corrective action plans are responsive to the intent of the recommendations. The OIG will monitor VBA's implementation and close the recommendations once sufficient evidence demonstrates necessary actions were completed.

[47] The acting principal deputy under secretary for benefits was confirmed as the principal deputy under secretary for benefits in October 2025.

Appendix A: Scope and Methodology

Scope

The VA Office of Inspector General (OIG) team conducted its work from January 2025 through August 2025. The audit included a sample of 330 VA-guaranteed joint home loans closed from October 1, 2021, through September 30, 2024, from a population of 1,684 loans affecting 3,338 veterans. These veterans used dual entitlements and paid a funding fee. These joint loans included one or more veterans who qualified for disability compensation after the mortgage loan was closed.

Methodology

To accomplish the audit objective, the team identified and reviewed applicable laws, regulations, VA policies, operating procedures, and guidelines related to VA home loan guaranty funding fees and veteran exemptions.

The team examined the sample of 330 VA-guaranteed joint loans that used dual entitlement to assess whether the veterans were eligible for refunds due to receiving retroactive disability ratings and their effective dates, and whether Loan Guaranty Service staff initiated and processed refunds as required. Specifically, the team reviewed the web-enabled Loan Guaranty System (WebLGY) to verify the loan closing date and compared that date to the date of any retroactive disability rating documentation in the Veterans Benefits Management System. The team also reviewed the Funding Fee Payment System (FFPS) to determine whether all eligible refunds had been processed.

The audit team interviewed VA officials and obtained information related to the FFPS and work processes associated with home loan guaranty funding fees from staff at the Loan Guaranty Service (Product Management and Business Systems Solutions, Loan Production, and Oversight), the Office of Information and Technology, and the Office of Performance Analysis and Integrity.

Internal Controls

Generally accepted government auditing standards (Yellow Book) 9.29 requires, when an internal control is significant within the context of the audit objectives, auditors are to report the following:

1. The scope of their work on internal control.
2. Any deficiencies in internal control that are significant based on the audit work performed.

The team assessed internal controls to determine whether they were significant to the audit objective. This included consideration of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.[48] In addition, the team reviewed the principles of internal controls as associated with the objective and identified two components and three principles as significant.[49] The team identified internal control deficiencies during this audit and proposed recommendations to address those listed in table A.1.

Table A.1. VA OIG Analysis of Internal Control Components and Principles Identified as Significant

Component	Principle	Deficiency identified by this report
Control activities	Principle 11: Management should design the entity's information system and related control activities to achieve objectives and respond to risks.	The Loan Guaranty Service's automated processes did not identify all veterans owed refunds who used dual entitlements on VA-guaranteed joint home loans, were charged funding fees, and received a retroactive disability rating.
Monitoring	Principle 16: Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	The Loan Guaranty Service's quality review mechanisms using samples did not consistently identify missed refunds owed to veterans, and insufficient testing impeded processes.
	Principle 17: Management should remediate identified internal control deficiencies on a timely basis.	The Loan Guaranty Service did not update systems to ensure eligible veterans (past and future) using dual entitlement on joint VA-guaranteed home loans can be identified for funding fee refunds.

Source: VA OIG analysis of internal control components and principles. The principles listed are consistent with the Government Accountability Office's Standards for Internal Control in the Federal Government.

Data Reliability

The team used computer-processed data from the Veterans Benefits Administration (VBA) Corporate Data Warehouse. To test for reliability, the team determined whether any data were missing from key fields, including any calculation errors, or were outside the time frame requested. The team also assessed whether the data contained obvious duplication of records,

[48] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

[49] Because the audit was limited to the internal control components and underlying principles identified, it may not have disclosed all internal control deficiencies that could have existed at the time of this audit.

alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements.

Testing disclosed the data were sufficiently reliable for the audit objectives. Comparison of data obtained by the team to information contained in VBA electronic systems (WebLGY, the Veterans Benefits Management System, and FFPS) did not disclose any problems with data reliability.

Government Standards

The OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Appendix B: Statistical Sampling Methodology

Approach

To accomplish the audit objective, the team reviewed a statistical and a judgmental sample of joint loans with veterans who used dual entitlement to pay the funding fee and whose loans had a closing date between October 1, 2021, and September 30, 2024. The purpose of the sample review was to determine the number of joint loans with dual entitlement that had one or more veterans on the loan who had an effective date to receive disability compensation before the loan closing.

Population

The initial audit population included 1,684 joint loans with dual entitlement that were closed between October 1, 2021, and September 30, 2024. One or more veterans on the loan had an effective date to receive disability compensation before the loan was closed. The team examined a sample of 330 of the 1,684 joint VA-guaranteed home loans involving 663 veterans. From the 330 loans, the team found that funding fee refunds were owed for 57 loans, affecting 64 veterans. The team excluded the remaining 273 loans from the sample because the veterans associated with these loans did not require a refund and, therefore, were out of scope. Because the excluded sample loans represent others in the larger population that may also be out of scope, the team estimated the population for this audit to be 200 loans, affecting about 250 veterans.

Sampling Design

The team selected a judgmental sample of 200 loans and a statistical sample of 130 loans from the universe of 1,684 loans with closing dates between October 1, 2021, and September 30, 2024.

Weights

Samples were weighted to represent the population from which they were drawn, and the weights were used in the estimate calculations. The sample size was determined after reviewing the expected precision of the projections based on the sample size, potential error rate, and logistic concerns of the sample review. While precision improves with larger samples, the rate of improvement decreases significantly as more records are added to the sample review.

Projections and Margins of Error

The projection is an estimate of the population value based on the sample. The associated margin of error and confidence interval show the precision of the estimate. If the OIG repeated this audit with multiple sets of samples, the confidence intervals would differ for each sample but would include the true population value about 90 percent of the time.

The OIG statistician employed statistical analysis software to calculate estimates, margins of error, and confidence intervals that account for the complexity of the sample design.

The sample size was determined after reviewing the expected precision of the projections based on the sample size, potential error rate, and logistic concerns of the sample review. While precision improves with larger samples, the rate of improvement decreases significantly as more records are added to the sample review.

Figure B.1 shows the effect of progressively larger sample sizes on the margin of error.

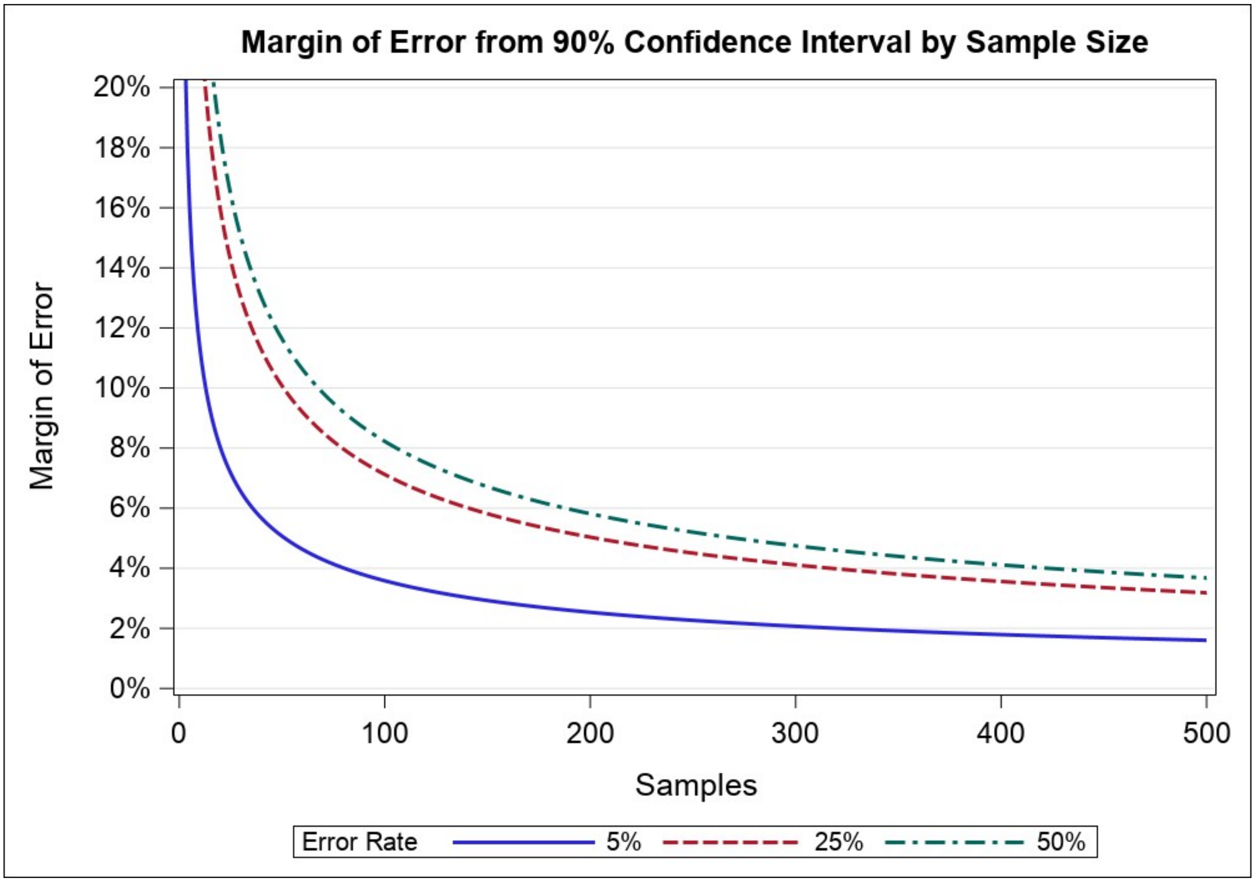

Figure B.1. *Effect of sample size on margin of error.*

Source: VA OIG statistician's analysis.

Projections

The tables show the projections for veterans who used dual entitlement for joint home loans and who may not have always received funding fee refunds. Table B.1 presents the number of veterans eligible for refunds from the OIG's sample of 64 veterans. Table B.2 shows the summary for the number of loans involved for funding fee refunds on joint loans with dual entitlement from the OIG team's sample of 57 loans.

Table B.1. Statistical Projections Summary for Number of Veterans Affected

Estimate name	Estimated number of veterans	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Veterans eligible for refund	248	70	179*	318	64

Source: VA OIG analysis of Loan Guaranty Service data.

** Numbers do not sum precisely due to rounding.*

Table B.2. Statistical Projections Summary of Number of Loans Involved

Estimate name	Estimated number of loans	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Loans with eligible refunds owed	203	62	141	265	57

Source: VA OIG analysis of Loan Guaranty Service data.

Table B.3 depicts the total and average refund amounts for eligible veterans due to either errors at closing or retroactive disability determinations from the OIG team's sample of 64 veterans.

Table B.3. Statistical Projections Summary for Total and Average Refund Amounts for Veterans Paid Funding Fees

Estimate name	Estimated amount of refund due	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Refund amount	$1,521,291	$488,002	$1,033,289	$2,009,292*	64
Average refund amount	$6,122	$836	$5,286	$6,959*	64

Source: VA OIG analysis of Loan Guaranty Service data.

** Numbers do not sum precisely due to rounding.*

Table B.4. displays the projected number of exempt veterans and their payment status from the OIG team's sample of 64 veterans.

Table B.4. Statistical Projections Summary for Number of Exempt Veterans and Their Funding Fee Payment Status

Estimate name	Estimated number	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Exempt veterans that paid a funding fee at closing	120	50	71*	170	28
Veterans with retroactive ratings that became eligible for refunds	128	50	78	178	36

Source: VA OIG analysis of Loan Guaranty Service data.

* *Numbers do not sum precisely due to rounding.*

Table B.5 presents information on who initiated funding fee refund requests for the 28 exempt veterans in the OIG sample who paid a funding fee at closing. Based on those numbers, the OIG projects that 38 more funding fee errors would have been discoverable during an audit of the full population (estimated 248 veterans), with the remaining 82 discoverable by the lender or the Loan Guaranty Service to initiate the refund.

Table B.5. Statistical Projections Summary for How Funding Fee Refunds Were Discovered

Estimate name	Estimated number	Margin of error	Lower limit 90% confidence interval	Upper 90% confidence interval	Sample size
Lender or Loan Guaranty Service's staff (from manual loan guaranty certificate review)	82	41	42	123	21
Funding fee error discoverable during audit	38	n/a	15*	n/a	7

Source: VA OIG analysis of Loan Guaranty Service data.

* *The OIG team used the lower limit of the one-sided 90 percent confidence interval. A one-sided confidence interval can be calculated with either a lower or upper limit. A lower limit was selected because of the large margin of error. For that reason, an upper 90 percent confidence interval is not applicable, as noted.*

Table B.6 provides the statistical projections for the number of veterans and their funding fee payment status based on the 64 sampled veterans. These sampled veterans include the 37 veterans found needing a refund as result of this audit (seven veterans exempted at loan closing and 30 veterans with retroactive disability ratings). The remaining 27 veterans in the OIG sample were repaid their missed refunds by the Loan Guaranty Service (21 veterans exempted at loan closing and six with retroactive disability ratings). Based on the sample, the OIG projects 139 of the 248 total population would be discoverable through an audit and about 109 are expected to have been repaid.

Table B.6. Statistical Projections of How Owed Refunds Would Be Identified

Estimate name	Estimated number of veterans	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Refunds discoverable by audit	139	52	87	192	37
Repayments projected to be issued by the Loan Guaranty Service	109	47	62	156	27

Source: VA OIG analysis of Loan Guaranty Service data.

Table B.7 presents the projected number of refunds owed because automation did not address a retroactive disability rating resulting in fee exemption (based on the 36 veterans in the OIG team's sample). Of the 128 refunds in the population, about 102 required refunds unidentified by automation would be owed to veterans, while an estimated 26 would be identified and processed using manual methods.

Table B.7. Statistical Projections of Veterans with Retroactive Disability Ratings Owed Because Automation Did Not Identify Refunds

Estimate name	Estimated number of veterans	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Funding fee refunds not identified by automation or manually	102	44	58	146	30
Funding fee refunds not identified by automation but later detected and processed manually	26	n/a	8*	n/a	6
Total	**128**	**50**	**78**	**178**	**36**

Source: VA OIG analysis of Loan Guaranty Service data.

** The OIG used the lower limit of the one-sided 90 percent confidence interval. A one-sided confidence interval can be calculated with either a lower or upper limit. A lower limit was selected because of the large margin of error. For that reason, an upper 90 percent confidence interval is not applicable, as noted.*

Table B.8 shows the statistical projections summary for the total refund amount due exempt veterans because of a retroactive disability rating for the 36 veterans in the OIG sample. This is a subset of the sample of 64 veterans that were due refunds discussed in table B.3.

Table B.8. Statistical Projections Summary for Total Refund Amount Owed Because of Retroactive Disability Rating Fee Exemption (Excluding Refunds Owed at Closing)

Estimate name	Estimated amount of total refund due	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Funding fee refunds not identified by automation	$597,489	$297,730	$299,759	$895,219	30

Estimate name	Estimated amount of total refund due	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Funding fee refunds not identified by automation but later processed by manual methods	$180,615*	n/a*	$45,863*	n/a	6
Total	**$778,104**	**$343,324**	**$434,780**	**$1,121,428**	**36**

Source: VA OIG analysis of Loan Guaranty Service data.

** The OIG team used the lower limit of the one-sided 90 percent confidence interval. A one-sided confidence interval can be calculated with either a lower or upper limit. A lower limit was selected because of the large margin of error. For that reason, an upper 90 percent confidence interval is not applicable, as noted. Margin of error not calculated for estimates that use the one-sided lower bound.*

Table B.9 shows the statistical projections summary for the average number of days for refunds to be processed based on the sample of 36 veterans who had a retroactive disability rating.

Table B.9. Statistical Projections Summary for Average Days to Process Refunds

Estimate name	Estimated number of days to process	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Veterans with retroactive disability ratings eligible for refunds	248	71	178	319	36

Source: VA OIG analysis of Loan Guaranty Service data.

Table B.10 shows the projections summary for the total amount due to refunds initiated because of this audit from the 37 veterans in the OIG sample (seven veterans exempted at loan closing and 30 veterans with a retroactive disability rating).

Table B.10. Statistical Projections Summary for Total Refund Amount Initiated Because of Audit

Estimate name	Estimated amount of refund due	Margin of error	Lower limit 90% confidence interval	Upper limit 90% confidence interval	Sample size
Total refund initiated when OIG notified Loan Guaranty Service	$865,815	$370,434	$495,381	$1,236,250	37

Source: VA OIG analysis of Loan Guaranty Service data.

Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs[50]
1	The OIG estimated that from October 1, 2021, through September 30, 2024, VA did not issue about $866,000 in home loan funding fee refunds.	$0	$866,000
	Total	**$0**	**$866,000**

[50] The OIG questions costs when VA action or inaction (such as spending or failure to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the IG Act, report unsupported costs. Unsupported costs are those determined by the OIG to lack adequate documentation at the time of the audit. Of the $866,000 in questioned costs, $0 were unsupported costs.

Appendix D: VA Management Comments, Acting Principal Deputy Under Secretary for Benefits

PRE-DECISIONAL[51]

Department of Veterans Affairs Memorandum

Date: September 11, 2025

From: Under Secretary for Benefits (20)

Subj: Office of Inspector General (OIG) Draft Report – Veterans with Retroactive Disability Determinations Who Used Dual Entitlement on VA Home Loans Are Not Consistently Receiving Funding Fee Returns [Project No. 2025-00824-AE-0042] — [VIEWS 13652769]

To: Assistant Inspector General for Audits and Evaluations (52)

1. Thank you for the opportunity to review and comment on the OIG draft report: Veterans with Retroactive Disability Determinations Who Used Dual Entitlement on VA Home Loans Are Not Consistently Receiving Funding Fee Refunds. The Veterans Benefits Administration (VBA) provides the attached response to the draft report.

The OIG removed point of contact information prior to publication.

(Original signed by)

J. Margarita Devlin

Acting Principal Deputy Under Secretary for Benefits

Performing the Delegable Duties of the Under Secretary for Benefits

Attachment

PRE-DECISIONAL

[51] According to VBA, the pre-decisional marking is for VBA internal use only. Therefore, it does not affect the purpose for which the OIG referenced the document.

Attachment

PRE-DECISIONAL[52]

Veterans Benefits Administration (VBA)

Comments on OIG Draft Report

Veterans with Retroactive Disability Home Loans Who Used Dual Entitlement on VA Home Loans Are Not Consistently Receiving Refunds (Project Number (2025-00824-AE-0042)

The Veterans Benefits Administration (VBA) concurs with OIG's draft report findings and provides no general or technical comments.

VBA provides the following comments in response to the recommendations in the OIG draft report:

Recommendation 1: Identify all veterans using dual entitlement on VA-guaranteed joint home loans who were charged funding fees and received a retroactive disability rating that precedes their loan closing date since July 2019 when the veteran refund eligibility list was implemented, and issue required refunds.

VBA Response: VBA concurs with this recommendation and will initiate this action.

Target Completion Date: June 30, 2026

Recommendation 2: Update systems to ensure eligible veterans using dual entitlement on joint VA-guaranteed home loans are identified for funding fee refunds and ensure that any system updates are tested to demonstrate that the entire population of eligible veterans is included.

VBA Response: VBA concurs with this recommendation. VBA will determine if a system update is required, or if the funding fee errors resulted from the manner in which the data was supplied to the database. VBA will make updates as necessary.

Target Completion Date: December 31, 2026

PRE-DECISIONAL

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

[52] According to VBA, the pre-decisional marking is for VBA internal use only. Therefore, it does not affect the purpose for which the OIG referenced the document.

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