I. Background

VA has promulgated a list of permissible charges and fees a borrower may be charged or may pay incident to obtaining a VA-guaranteed home loan. See 38 CFR 36.4313. In 1948, VA published its rule regulating charges and fees which was codified at the former 38 CFR 36.4312. See 13 FR 7275, Nov. 27, 1948. That rule set forth the costs and expenses that loan proceeds could be used to pay, but was silent on whether a veteran might be allowed to pay such costs and expenses out of his or her own cash reserves. Id. Under the rule, borrowers could use proceeds from the loan to pay any cost or expense normally paid under local lending customs, except for certain brokerage and service charges. Id.

In 1954, VA substantially altered the rule’s regulatory scheme. Instead of permitting lenders to charge costs and expenses normally paid under local lending customs, VA restricted the types of charges and fees veterans were allowed to pay by expressly enumerating the types allowed. See 19 FR 8717, Oct. 19, 1954. VA instituted this rule amendment in order to protect veterans from what are commonly known as “junk fees”.

The current charges and fees rule, now codified at 38 CFR 36.4313, is substantially similar to the 1954 version. While VA has amended the rule to modify the types of permissible charges and fees in the intervening years, the rule still retains the express enumeration scheme established by the 1954 version. In other words, the current rule protects veterans from having to pay any charge or fee not expressly allowed by the schedule codified at 38 CFR 36.4313(d). The rule, however, does allow a lender to charge a veteran, and for the veteran to pay, an origination fee of up to 1 percent of the loan amount, provided that the 1 percent fee be charged in lieu of all other fees permitted by the schedule. See 38 CFR 36.4313(d)(2). Compared with a conventional housing loan transaction, the fees the rule permits to be charged to veterans are relatively limited. Consequently, in transacting a sale with a VA-guaranteed loan borrower, sellers and lenders must bear many of the customary real estate transaction expenses.

Since implementation, the rule has protected many veterans from having to incur unreasonable closing costs. However, the home buying process has changed significantly since VA last implemented substantive changes to the permissible fee schedule. In recent years, some veterans and their representatives have complained to VA that certain provisions of the rule can be detrimental to veterans’ bargaining position during real estate negotiations. These parties have asserted that VA-guaranteed loan borrowers are sometimes unable to compete with other offers whose financing options are not restricted by similar regulatory constraints. VA recognizes that these constraints can contribute to sellers’ decisions to accept other offers or lead lenders to charge higher interest rates to offset losses.

VA will continue to safeguard the best interests of veteran homebuyers by protecting them from excessive and unreasonable closing costs. However, VA recognizes that an overly restrictive list of permissible charges and fees might, in certain circumstances, motivate market participants to avoid financing or selling homes to veterans.

II. Questions for Comment

In order to strike the appropriate balance between making it easier for veterans to utilize their home loan benefits and protecting them from unreasonable charges and fees, VA is considering ways to revise the list of acceptable charges and fees specified by the schedule codified at 38 CFR 36.4313(d). VA invites responses to the following questions:

1. What are ways that VA can protect veterans from incurring excessive closing costs, without being overly restrictive?

2. Under the current rule, VA distinguishes between a “fee” and a “charge” but does not define the terms. VA invites comments as to whether the public finds the distinction meaningful. Should VA eliminate the distinction? If not, how should VA define the terms?

3. Does the term “origination fee” accurately reflect what a borrower would pay to a lender in order to originate a loan? What do veterans and lenders view as the purpose of an origination fee?

4. How should VA identify which closing costs are acceptable for the veteran to pay, which are acceptable for another party but not a veteran to pay, and which, if any, should be prohibited?

5. To what extent, if at all, should VA limit third-party charges or fees to the actual costs of the service provided? Alternatively, should VA permit borrowers, sellers, and lenders to negotiate their own bargains?
6. To what extent, if at all, should local real estate customs affect (i) the types and amounts of closing costs that VA allows and (ii) which party is responsible for paying such costs?
7. In a non-VA-guaranteed loan transaction, how are attorneys’ fees usually paid when the attorney is not representing the veteran? Should VA allow a borrower to pay an attorney fee if the attorney does not have a fiduciary duty to the borrower?
8. Should VA allow lenders to charge veterans differently depending upon the type of transaction (e.g., purchase, cash-out refinance, streamlined refinance, etc.)? If so, what are the justifications for the different pricing?
9. What other lending programs, whether public or private, might VA consider as models in considering amendments to VA’s charges and fees rule? What characteristics make these programs useful analogs to the VA-guaranteed loan program?
10. What other information should VA consider in determining the types of expenses a veteran should be expected to pay to close a VA-guaranteed loan?
11. What charges or fees should VA allow veterans to pay in order to close a construction or rehabilitation/renewal loan?

**Signing Authority**

The Secretary of Veterans Affairs, or designee, approved this document and authorized the undersigned to sign and submit the document to the Office of the Federal Register for publication electronically as an official document of the Department of Veterans Affairs. Gina S. Farrisee, Deputy Chief of Staff, Department of Veterans Affairs, approved this document on March 17, 2017, for publication.

Dated: March 17, 2017.

Jeffrey Martin,
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**ENVIRONMENTAL PROTECTION AGENCY**


**Evaluation of Existing Regulations**

**AGENCY:** Environmental Protection Agency (EPA).