



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

Date: January 29, 2026

Mortgagee Letter 2026-03

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All FHA-Approved Title I Lenders
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Updates to Bidding at Foreclosure and Post-Foreclosure Sales Efforts

Purpose This Mortgagee Letter (ML) updates the requirements for bidding at a foreclosure sale and for utilizing Claims Without Conveyance of Title (CWCOT), including Post-Foreclosure Sales Efforts.

Effective Date The provisions of this ML may be implemented immediately but must be implemented for foreclosure sales scheduled on or after April 29, 2026.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to all FHA-insured Title II Single Family forward mortgage programs, except for Hawaiian Home Lands Mortgages and Insured Mortgages on Indian Land.

Background FHA's CWCOT program allows a Mortgagee to file an insurance claim without transfer of title provided the Property is sold at foreclosure for at least its fair market value. HUD is responsible for determining a Property's fair market value, which may include any adjustments the Secretary deems appropriate. Historically, HUD has adjusted fair market value based on

holding costs and other expenses that HUD would have incurred had the Property been conveyed to HUD. This amount is referred to as the Commissioner's Adjusted Fair Market Value (CAFMV). HUD regularly updates this amount based on market conditions and is continuing efforts to obtain additional information to continually improve and refine those adjustments. As part of the CWCOT program, HUD also established a Post-Foreclosure Sales Efforts procedure, which permits Mortgagees a second attempt to achieve a third-party sale in lieu of conveying the Property to HUD.

The use of CAFMV ensures that this alternative to conveying the Property adequately offsets the losses to the Mutual Mortgage Insurance Fund (MMIF). In many cases, HUD potential losses exceed what a state allows to be included in a credit bid. For example, when the Borrower has received a Partial Claim, the amount of the debt would not be included in the Mortgagee's credit bid, and HUD has limited opportunity to recapture those losses. Nevertheless, HUD recognizes the challenges Mortgagees face when required to bid an amount greater than the credit bid at a foreclosure sale.

Through this ML, HUD is restating its policy that a Mortgagee may only participate in the CWCOT program if the Mortgagee bids CAFMV at the foreclosure sale. HUD is also now permitting Mortgagees to bid below the CAFMV at foreclosure sale and then elect to convey the Property to HUD or forgo filing a claim. In light of this change, HUD is also eliminating the exemption for small servicers because they can convey the Property to HUD instead if they are unable to meet the CAMFV bidding requirement. HUD believes these changes align with HUD's broader goals to safeguard the MMIF in stewardship of taxpayer dollars, making it easier to do business with HUD.

**Summary of
Changes**

This ML:

- replaces Claims Without Conveyance of Title (III.A.2.p.iii) with Foreclosure Sales and Post-Foreclosure Sales Efforts (III.A.2.p.iii);
 - deletes Small Servicer Exception (III.A.2.p.iii(B)(3));
 - updates Reporting Foreclosure/CWCOT Outcomes (III.A.4.a.ii(G)(6));
 - updates Foreclosure and Acquisition Costs – Standard (IV.A.2.a.ii(L)(2));
 - adds Foreclosure and Acquisition Costs (IV.A.2.d.ii(F)); and
 - updates Submission of Claim Form Parts to HUD for CWCOT (IV.A.2.d.iii).
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**FHA Single
Family Housing
Policy
Handbook
4000.1**

**Servicing and
Loss Mitigation**

The policy changes will be incorporated into Handbook 4000.1 as follows:

Foreclosure Sales and Post-Foreclosure Sales Efforts (III.A.2.p.iii)

(A) Property Valuation and Commissioner's Adjusted Fair Market Value

(1) Required Appraisal

Unless otherwise directed by HUD, Mortgagees must first obtain and review for accuracy an "As-Is" FHA appraisal, which includes both an interior and exterior evaluation of the Property. The FHA appraisal must be completed in accordance with the [Claims Without Conveyance of Title Properties](#) (IL.D.11.e.iii(H)) requirements. If the Property is occupied and an interior appraisal cannot be obtained, an exterior-only appraisal may be used.

(a) Appraisal Validity Period

The appraisal must be valid on the date of the foreclosure sale. Appraisals are valid for 180 Days from the effective date of the appraisal report.

(b) Extension to Appraisal Validity Period

HUD provides an automatic 30-Day extension from the appraisal expiration date for delays due to bankruptcy, court delays, or delays outside of the Mortgagee's control. The Mortgagee must request and obtain HUD approval via EVARS for extensions beyond the automatic 30-Day extension.

(c) Subsequent Appraisals for Foreclosure Sales and Post-Foreclosure Sales Efforts

If a Property that had an exterior-only appraisal becomes vacant, the Mortgagee must obtain a new appraisal that includes both an interior and exterior inspection if:

- before foreclosure, any delay due to obtaining a new appraisal will not cause the foreclosure sale to be canceled; or
- after foreclosure, the Mortgagee conducts Post-Foreclosure Sales Efforts.

Mortgagees must use an FHA Roster Appraiser to conduct the new appraisal.

HUD will reimburse the Mortgagee for the cost of one new appraisal following vacancy through the FHA insurance claim.

(d) Damage to the Property after Appraisal

The Mortgagee must request a variance from HUD via EVARS to proceed with the current appraised value if the Mortgagee becomes aware that the Property sustained significant damage, other than damage resulting from Borrower neglect, that may impact the value after the appraisal was completed. If HUD denies this request, additional instructions will be provided with the denial.

(e) Updated Appraisals due to Postponed Foreclosure Sales

If the foreclosure sale does not take place within 180 Days from the effective date of the appraisal, and within such additional time provided under [Extension to Appraisal Validity Period](#), the Mortgagee must request an updated appraisal and obtain an updated Commissioner's Adjusted Fair Market Value (CAFMV).

(f) Required Documentation

Mortgagees must upload the appraisal information and related FHA case number through HUD's system of record (P260) within 30 Days of the date of the appraisal.

(2) Determining the Commissioner's Adjusted Fair Market Value

(a) Definition

The Commissioner's Adjusted Fair Market Value (CAFMV) is HUD's estimate of the Fair Market Value (FMV) of the mortgaged Property and is published in [FHA Connection \(FHAC\)](#).

In cases where the jurisdiction mandates a specific bid at the foreclosure sale, that becomes the CAFMV for the foreclosure sale.

(b) Standard

(i) Foreclosure Sales

After determining the Property's appraised value using the most recent appraisal, the Mortgagee's authorized employees must access the CAFMV link in FHAC to determine a Property's CAFMV. The CAFMV remains valid and in effect for 120 Days from the date of the appraisal. Mortgagees may, but are not required to, update the CAFMV if the CAFMV is updated by

HUD within the 120-Day validity period. If the 120-Day validity period expires, Mortgagees must update the CAFMV.

(ii) Post-Foreclosure Sales Efforts

Prior to listing the Property for Post-Foreclosure Sales Efforts, the Mortgagee must check FHAC. If the CAFMV has been updated, the Mortgagee must use the updated CAFMV for Post-Foreclosure Sales Efforts. In addition, if the Property was valued through an exterior-only appraisal and is vacant following the foreclosure sale, the Mortgagee must obtain a new appraisal that includes both an interior and exterior inspection and update the CAFMV accordingly.

(B) Qualification Criteria for Claims Without Conveyance of Title

(1) Definition

Claims Without Conveyance of Title (CWCOT) is a procedure under which the Mortgagee attempts to secure a third-party purchaser for the mortgaged Property so that conveyance to HUD is not required in exchange for mortgage insurance benefits.

(2) Standard

Mortgagees must use the [Commissioner's Adjusted Fair Market Value \(CAFMV\)](#) for all foreclosure sales and Post-Foreclosure Sales Efforts associated with defaulted FHA-insured Mortgages to utilize the CWCOT procedures.

A Mortgage is eligible for CWCOT when all the following criteria are met:

- the FHA-insured mortgage insurance is still active for the FHA case number;
- the Mortgagee has worked with the Borrower to exhaust all applicable Home Retention Options and has determined that the Borrower's case does not meet the criteria for a Home Disposition Option, or the Mortgagee has been unable to locate the Borrower and the Property is vacant or has been abandoned by the Borrower; and
- the Property has no [Surchargeable Damage](#) (III.A.2.j.ii(E)(1)).

(C) Bidding at the Foreclosure Sale

At the foreclosure sale, the claim and disposition requirements depend on whether the successful bidder is the Mortgagee or a third party and on the bid amount relative to the CAFMV.

The Mortgagee must bid the CAFMV to file a CWCOT claim.

All conveyances must meet the requirements for [Conveyance of Acquired Properties](#) (III.A.2.r).

(1) Mortgagee as Successful Bidder

(a) Amount Equal to the CAFMV

If the Mortgagee is the successful bidder for an amount equal to the CAFMV, the Mortgagee may:

- retain the Property and file a claim for insurance benefits under CWCOT;
- convey the title to the Property to HUD and file a claim for insurance benefits as a conveyance claim; or
- proceed to Post-Foreclosure Sales Efforts.

(b) Amount Less than CAFMV

Where the Mortgagee is the successful bidder at the foreclosure sale for an amount less than the CAFMV, the Mortgagee may either:

- convey the Property to HUD and file a claim for insurance benefits as a conveyance claim; or
- retain title and not file a claim for any insurance benefits.

(c) Amount Greater than CAFMV

Where the Mortgagee's bid exceeds the CAFMV, resulting in the Mortgagee acquiring title to the Property at a foreclosure sale, unless the sheriff or other appropriate local authority has mandated the subject bid as the minimum bid that could be set for the Property, the Mortgagee is deemed to have elected to retain title of the Property, and the Mortgagee's FHA claim for insurance benefits will be calculated in accordance with [24 CFR § 203.401\(b\)](#). The Mortgagee may not utilize Post-Foreclosure Sales Efforts and may not convey title to the Property to HUD.

(2) Third Party as Successful Bidder

(a) Amount Less than CAFMV

Where a third party is the successful bidder at the foreclosure sale for an amount less than the CAFMV, the Mortgagee may not file a claim for any insurance benefits.

(b) Amount Equal to or Greater than CAFMV

Where a third party is the successful bidder at the foreclosure sale for an amount equal to or greater than the CAFMV, the Mortgagee may submit its claim for insurance benefits under CWCOT.

(3) Borrower or Third Party Redemption

Notwithstanding the foreclosure sale, the Borrower or a third party may exercise a legal right and redeem the Property.

Where the Borrower or a third party redeems the Property and acquires title for an amount not less than the CAFMV, the Mortgagee may submit its claim for insurance benefits under CWCOT.

(D) CWCOT Post-Foreclosure Sales Efforts

(1) Definition

Post-Foreclosure Sales Efforts refer to an additional opportunity to attempt to sell a Property at the CAFMV prior to conveying the Property to HUD.

(2) Standard

(a) Eligibility

Mortgagees may participate in Post-Foreclosure Sales Efforts only if the Mortgagee bids the CAFMV at the foreclosure sale.

(b) Requirements for Post-Foreclosure Sales Efforts

To facilitate CWCOT Post-Foreclosure Sales Efforts, the Mortgagee may contribute an additional amount needed to raise a third party's bid to the CAFMV and allow the sale of the Property to such third party. HUD will not reimburse any contribution by the Mortgagee to facilitate the sale through the FHA insurance claim.

The Mortgagee or its third-party provider must indicate that the Property is being sold in an as-is condition, and the condition is unknown and may include defects, possible health or safety hazards, or debris, or the Property is located in a Special Flood Hazard Area (SFHA).

Where the Property is occupied, based on the appraisal or property inspection, the Mortgagee must clearly indicate that the Property is occupied in the auction information.

(c) CWCOT Post-Foreclosure Sales Period

Mortgagees that utilize Post-Foreclosure Sales Efforts must list the Property for sale to all third parties for a 60-Day period.

(d) Extensions of Time Frames to Engage in Post-Foreclosure Sales Efforts

HUD will provide the Mortgagee with an automatic extension of the conveyance time frames to attempt Post-Foreclosure Sales Efforts and commence possessory action, where applicable, for 60 Days from the date the foreclosure deed is filed for recording or the expiration of the redemption period, if applicable, in circumstances where the Mortgagee complied with all foreclosure time frames.

(i) Conveyance Time Frame if Property Does Not Sell

If the Property does not sell through Post-Foreclosure Sales Efforts, the Mortgagee must convey the Property to HUD within 30 Days of the end of the post-foreclosure sales period.

(ii) Extension of Conveyance Time Frame to Allow for Closing

Where a sales contract has been ratified before the expiration of the 60-Day period, HUD will provide the Mortgagee with an additional, automatic 60-Day extension to the deadline for conveyance, from the date the sales contract has been ratified, to allow for closing of the sale.

(e) Preservation and Protection during Post-Foreclosure Sales Periods

The Mortgagee must preserve and protect the Property in accordance with HUD requirements during the post-foreclosure sales periods and throughout any approved extensions to deadlines for conveyance. HUD will reimburse the Mortgagee through the claim for all reasonable preservation, protection, and eviction expenses incurred prior to the expiration of any extension of the deadlines for conveyance, as listed in [Property Preservation Allowances](#) (III.A.2.r.iii(B)(5)).

(f) Third Party as Successful Bidder at Post-Foreclosure Sales Efforts

(i) Amount Less than CAFMV

Where a third party is the successful bidder at Post-Foreclosure

Sales Efforts for an amount less than the CAFMV, including any Mortgagee contribution, the Mortgagee may not file a claim for any insurance benefits.

(ii) Amount Equal to or Greater than CAFMV

Where a third party is the successful bidder at Post-Foreclosure Sales Efforts for an amount equal to or greater than the CAFMV, the Mortgagee may submit its claim for insurance benefits under CWCOT.

(iii) Property Not Sold at Post-Foreclosure Sales Efforts

Where the Property does not sell to a third party at Post-Foreclosure Sales Efforts, the Mortgagee may elect to:

- retain title to the Property and not file a claim for any insurance benefits; or
- convey the title to the Property to HUD and file a claim for insurance benefits as a conveyance claim.

(E) Independent Third-Party Providers

(1) Definition

An Independent Third-Party Provider is a party that conducts the foreclosure sale or Post-Foreclosure Sales Efforts, including marketing efforts in support of such sales under CWCOT procedures, and who is not one of the following:

- an Affiliate or subsidiary of the Mortgagee;
- any entity over which the Mortgagee has significant influence; or
- any entity with which the Mortgagee has a conflict of interest in fact or appearance.

(2) Standard

Where permitted by the jurisdiction, the Mortgagee may utilize an independent third-party provider to market the Property prior to any foreclosure or Post-Foreclosure Sales Efforts or to conduct such sales to ensure maximum competition for both the foreclosure sale and post-foreclosure sales.

The Mortgagee may only use an independent third-party provider that agrees, in writing, to share sales and auction reporting information with the Mortgagee and HUD.

For successful third-party sales, HUD will reimburse expenses relating to the Mortgagee's use of an independent third-party provider to market or conduct the foreclosure sale or Post-Foreclosure Sales Efforts,

provided the Property was marketed for a minimum of 15 Days before each scheduled sale. HUD will reimburse such independent third-party provider expenses incurred for successful third-party sales up to an amount that does not exceed:

- 3 percent of the Property's sales price where the independent third-party provider markets the Property but does not conduct the sale; or
- 5 percent of the Property's sales price where the independent third-party provider markets the Property and conducts the sale.

Closing costs of the sale are to be paid by the third-party purchaser or the Mortgagee. Revenue sharing agreements of the reimbursed fee between the Mortgagee and the independent third-party provider are prohibited.

Reporting Delinquencies to HUD (III.A.4.a.ii(G))

(6) Reporting Foreclosure/CWCOT Outcomes

The Mortgagee must report the DDS Codes that apply to the foreclosure sale, CWCOT, or CWCOT post-foreclosure sale outcomes at the end of each reporting cycle. For Properties marketed post-foreclosure sale, the applicable DDS Code indicating the marketing period must be reported. For all Properties sold, the Mortgagee must report the buyer type.

Mortgagees must report the DDS Codes as follows:

- Status Code 1J – Post-Foreclosure Sales Period
- Status Code 2U – Owner-Occupant Buyer Successful Bidder
- Status Code 2N – Nonprofit Successful Bidder
- Status Code 2G – Governmental Entity Successful Bidder
- Status Code 2I – Investor/Other Successful Bidder
- Status Code 2R – Borrower Successful Bidder
- Status Code 2S – Servicer Successful Bidder

Mortgagees must report one of the existing termination DDS Codes at the conclusion of the Default episode:

- Status Code 46 – Property Conveyed to Insurer; expected to follow 2S, 1J, or 1E when a conveyance claim will be filed with HUD.
- Status Code 48 – Claim without Conveyance of Title; expected to follow 2U, 2N, 2G, 2I, 2R, or 2S when a CWCOT claim will be filed with HUD.
- Status Code 29 – Charge-off; expected after a 2S when a Mortgagee cannot pursue HUD disposition options and will not file any termination claim with HUD, or has elected not to convey a Property to HUD after foreclosure.

- Status Code 30 – Third-Party Sale; expected to follow 2U, 2N, 2G, or 2I when no claim will be filed with HUD.
- Status Code 73 – Property Redeemed; expected to follow 2S when a Borrower redeems the Property, and no claim will be filed with HUD.

**FHA Single
Family Housing
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Handbook
4000.1**

**Claims and
Disposition**

Foreclosure and Acquisition Costs (IV.A.2.a.ii(L))

(2) Standard

The Mortgagee may request reimbursement for fees and costs that are:

- necessarily incurred in foreclosure proceedings; and
- reasonable and customary in the area.

For all Mortgages endorsed prior to February 1, 1998, HUD will reimburse the Mortgagee's foreclosure costs at two-thirds of the foreclosure costs.

For all Mortgages endorsed on or after February 1, 1998, HUD will reimburse the Mortgagee's foreclosure costs based on the [Tier Ranking System \(TRS\) ranking](#) (V.C.2.c) of the Mortgage as of the date the Part B claim is received by HUD as follows:

- for non-Tier 1 Mortgagees, 67 percent of foreclosure costs;
- for Tier 1 Mortgagees, 75 percent of foreclosure costs; and
- for all Mortgagees, the amount actually paid by the Mortgagee over a credit bid necessary to acquire the Property at CAFMV at the foreclosure sale.

HUD will reimburse Mortgagees 100 percent of amounts actually paid by the Mortgagee over the credit bid necessary to acquire the Property at CAFMV at the foreclosure sale. Mortgagees must list the amount in Item 305 of Part D and provide documentation in P260.

HUD will not reimburse the Mortgagee for the following fees and costs:

- fees and costs in excess of reasonable and customary fees and costs, which lack documentation supporting the amount claimed;
- fees and costs unnecessary for the protection, acquisition, or conveyance of the Property, such as courier services, document retrieval, express mail, or property inspection by attorneys;
- Mortgagee's overhead items such as postage, telephone, duplication, or collection services;
- compensation paid to an attorney or trustee who is a salaried employee of the Mortgagee; or
- extra costs incurred in foreclosures that result from defects in the mortgage transaction or foreclosure or defects in the title existing at or before the time the Mortgage was filed for record. HUD may reimburse these costs if the Mortgage was sold by the Secretary or

was executed in connection with the sale of a Property by the Secretary after August 1, 1969.

Claim Type 06 - Claims Without Conveyance of Title – Computation of Claim Amount (IV.A.2.d.ii)

(F) Foreclosure and Acquisition Costs

HUD will reimburse Mortgagees for amounts actually paid by the Mortgagee over the credit bid necessary to acquire the Property at CAFMV at the foreclosure sale. Mortgagees must list the amount in Item 305 of Part D and provide documentation in P260.

Claim Type 06 - Claims Without Conveyance of Title (IV.A.2.d)

iii. Submission of Claim Form Parts to HUD for CWCOT

The Mortgagee must submit Parts A and B simultaneously no later than 30 Days after:

- the date the Mortgagee acquired good marketable title;
- the date a third party acquired good marketable title;
- the date the Borrower or other party redeemed the Property;
- the date the redemption period expires; or
- such other date as required by the FHA Commissioner.

When filing via EDI, FHA Catalyst, or FHAC, the Mortgagee must submit Parts A and B no later than two Days after the date the form was prepared. When submitting via FHA Catalyst, the Mortgagee must also submit Parts C, D, and E.

In all cases, the Mortgagee must also upload into P260:

- all Parts of form HUD-27011;
- the Closing Disclosure or similar legal document for post-foreclosure sales;
- the appraisal;
- appraisal invoices;
- a worksheet reflecting the Mortgagee's application of the CAFMV. The worksheet must include the CAFMV adjustment percentage provided in the instructions on FHAC, any amount paid by the Mortgagee over the credit bid necessary to acquire the Property at CAFMV at the foreclosure sale, and where applicable, the state-mandated foreclosure price; and
- a third-party service fee invoice for auction services, if applicable.

**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 (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD 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.

**Feedback or
Questions**

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Frank Cassidy
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Federal Housing Commissioner
