October 28, 2013  MORTGAGEE LETTER 2013-38

To All Approved Mortgagees

Subject Single Family Foreclosure Policy and Procedural Changes for HUD Title II Forward Mortgages and HECM Reverse Mortgages; Reasonable Diligence Requirements; HUD’s Schedule of Allowable Attorney Fees

Purpose The purpose of this Mortgagee Letter is to update:
• HUD’s reasonable diligence timeframes; and
• HUD’s schedule of attorney fees for all jurisdictions.

Effective Date The updated reasonable diligence timeframes will be effective for all cases in which the first legal action to initiate foreclosure occurs on or after November 1, 2013.

The updated Schedule of Attorney Fees will be effective for all cases in which any of the following actions occurs on or after November 1, 2013:
• a first legal action for foreclosure is initiated;
• a bankruptcy clearance is undertaken;
• a possessory action is begun; or
• a deed in lieu of foreclosure is recorded.

Affected Policy The policies set forth in this Mortgagee Letter supersede all prior schedules, including those outlined in Mortgagee Letter 2005-30.

Reasonable Diligence Requirements Pursuant to HUD regulation 24 CFR 203.356(b), when foreclosure of a defaulted loan is necessary, mortgagees “must exercise reasonable diligence in prosecuting the foreclosure proceedings to completion and in acquiring title to and possession of the property.” The regulation also states that HUD will make available to mortgagees a timeframe that constitutes “reasonable diligence” for each state.

See Attachment 1 for details on the first legal action necessary to initiate foreclosure on a mortgage, the typical security instrument used, and the reasonable diligence timeframes for completing foreclosure and acquisition of title in each state. HUD reserves the right to alter these state-specific timeframes to reflect changing foreclosure completion timeframes and local docket conditions.

The reasonable diligence timeframe begins with the first legal action required by the jurisdiction to commence foreclosure and ends with the later date of acquiring good marketable title to and possession of the property.

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**Reasonable Diligence Compliance: Self-Curtailment**

Mortgagees are responsible for self-curtailment of interest on single-family claims when reasonable diligence or reporting requirements are not met. Mortgagees must identify the interest curtailment date on Form HUD-27011, Item 31. See Attachment 2 for examples on calculating the interest curtailment date.

If a mortgagee determines during its quality control review that it failed to self-curtail when submitting the claim, it should remit claim-related payments to HUD through the Claim Remittance feature in FHA Connection. For more information on remitting payments, see “Quick Start Guide: Claims Processing Functions” available at [https://entp.hud.gov/qckstart/sfsclaim.cfm](https://entp.hud.gov/qckstart/sfsclaim.cfm).

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**Reasonable Diligence and the Protecting Tenants at Foreclosure Act**

The Protecting Tenants at Foreclosure Act (PTFA) and recently enacted state and local legislation have extended the time required to complete possessory actions in many jurisdictions. While the PTFA does not apply to former mortgagors, some state or local legislation may apply to all occupants. HUD expects mortgagees to comply with all state and local laws when prosecuting foreclosure and pursuing possessory actions. For more information, see Mortgagee Letter 2012-06, Changes to FHA’s Occupied Conveyance Procedures.

The mortgagee must maintain a thorough audit trail and chronology to support any delay in acquiring possession due to compliance with the PTFA or any state or local law that extends similar protection to property occupants. The time required to comply with such legislation will be excluded when determining compliance with the reasonable diligence requirement.
Delays and Compliance with the Reasonable Diligence Timeframes

When caused by circumstances beyond the mortgagee’s control, delays in completing the foreclosure process may be treated as exceptions to the reasonable diligence timeframes and may be excluded in calculating the time to complete foreclosure. The following are examples of accepted delays:

- Mediation
- Bankruptcy
- Acquiring Possession

The mortgagee must maintain a thorough audit trail and chronology to support any delay in compliance with the reasonable diligence timeframes.

Delay due to Mediation

Where mediation is required after the initiation of foreclosure but before the foreclosure sale, the time required to complete the mediation may be excluded when determining compliance with the reasonable diligence timeframe.

Delay due to Bankruptcy

When a mortgagor files for bankruptcy after the initiation of foreclosure, an automatic extension of the reasonable diligence timeframe for foreclosure and acquisition of the property will be allowed.

- The mortgagee must ensure that all necessary bankruptcy-related legal actions are handled in a timely and effective manner.
- The case must be promptly referred to a bankruptcy attorney after the bankruptcy is filed.
- The mortgagee must monitor the action to ensure that the case is timely resolved.

Mortgagees should note that HUD will only reimburse them for legal expenses related to resolving bankruptcies associated with claims for FHA-insured mortgages, if those legal expenses have not already been included in a loss mitigation option.

The timeframe for completing legal action on a bankruptcy will vary based on the chapter under which the bankruptcy is filed.

- Chapter 7 bankruptcy: a delay in meeting the reasonable diligence requirement must not exceed 90 days from the date of the bankruptcy filing.
- Chapter 11, 12, or 13 bankruptcy: a delay in meeting the reasonable diligence requirement must not exceed 90 days from the date that the payments under the bankruptcy plan became 60 days delinquent.

Any additional delays due to bankruptcy, beyond the 90-day timeframes outlined above, must be supported by documentation showing that the delay was not due to the failure of the mortgagee to timely notify its bankruptcy attorney or by any failure of the mortgagee’s attorney.
Delay due to Legal Action for Acquiring Possession

When a separate legal action is necessary to gain possession following foreclosure, an automatic extension of the reasonable diligence timeframe will be allowed for the actual time necessary to complete the possessory action. This extension is granted if the mortgagee takes the first legal action to initiate the eviction or possessory action within 30 calendar days of:

- the completion of foreclosure proceedings, or
- the expiration of federal or local restrictions on eviction.

The Department is not issuing time frames for the completion of possessory actions because of the potentially wide differences in completion times due to the location of the property and other factors outside of the mortgagee’s control.

Schedule of Attorney Fees

HUD has updated the attorney fee schedule for the purpose of calculating the maximum amount that may be reimbursed in an insurance claim for a foreclosure attorney fee, bankruptcy clearance fee, possessory action fee, and a completion of a deed-in lieu fee (See Attachment 3). The fee schedule reflects the customary legal services performed in regard to mortgage defaults and each amount shown is the total maximum reimbursable fee, instead of an hourly rate. The amount claimed for attorney fees must reasonably relate to work actually performed. Though actual costs for these legal services may potentially exceed the fees shown in the attached fee schedule, HUD will only reimburse mortgagees up to the amounts shown on the schedule.

The fee schedule does not reflect additional expenses incurred due to foreclosure and/or mediation because of the wide differences in costs and lengths of time of completion, depending on the jurisdictions in which the foreclosure actions are taking place. Any additional expenses incurred due to required legal actions such as mediation or probate proceedings are claimable with a documented cost breakdown and written justification retained in the claim review file.

In the event a legal action is stopped for a loss mitigation option, a reinstatement, or a payment in full, the attorney fees to be paid by the mortgagor must be commensurate with the work actually performed to that point. Additionally, the amount charged may not be in excess of the fee that HUD has established as reasonable and customary for claim purposes.

Information Collection Requirements

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0584. In accordance with the Paperwork Reduction Act, 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.
## Questions
Any questions regarding this Mortgagee Letter may be directed to the HUD National Servicing Center at (877) 622-8525. Persons with hearing or speech impairments may reach this number by calling the Federal Information Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers).

## Signature
Carol J. Galante  
Assistant Secretary for Housing-Federal Housing Commissioner
# First Legal Actions to Initiate Foreclosure and Reasonable Diligence Timeframes

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¹ The mortgagee must first obtain a judgment from the Land Court verifying that the mortgagors are not entitled to relief under the Servicemembers Civil Relief Act (SCRA).

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CALCULATING THE INTEREST CURTAILMENT DATE

The following examples illustrate how to calculate the date to which debenture interest can be claimed. This calculation will take into account the date on which the first legal action to initiate foreclosure was taken and the reporting cycle in which the action was properly reported pursuant to 24 CFR 203.356(a). Mortgagees will be considered in compliance with the reporting requirements of 24 CFR 203.356(a) when the case is properly reported to the Single Family Default Monitoring System (SFDMS) for the reporting cycle (or in the following reporting cycle) in which the first legal action required to initiate foreclosure is taken.

If one or more time requirements have been missed, the interest curtailment date will be the date of the earliest missed time requirement. Mortgagees will be responsible for self-curtailment and must identify the appropriate interest curtailment date on Form HUD-27011, Item 31 (Mortgagee reported curtailment date).

Example 1: Mortgagee fails to initiate foreclosure on a timely basis.

<table>
<thead>
<tr>
<th>Event</th>
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<tr>
<td>Deadline to initiate foreclosure</td>
<td>03/01/2013</td>
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<td>First legal action to foreclose</td>
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<td>SFDMS reflects Status 68 for reporting cycle ending</td>
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<td>SFDMS reflects Status 1A for reporting cycle ending</td>
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<td>Date reflected in Item 9 (Date of possession &amp; acquisition of marketable title) of HUD-27011</td>
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Reasonable diligence timeframe for the State is six months.

In this example, the mortgagee did not initiate foreclosure within six months of the date of default as required by 24 CFR 203.355(a). The claim system will automatically curtail interest to March 1, 2013, the deadline to initiate foreclosure six months from the default date.

Example 2: Mortgagee initiates foreclosure on a timely basis but exceeds the State’s reasonable diligence timeframe for completing the action, without a valid documented reason.

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<td>Date of Default</td>
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<td>6-month reasonable diligence timeframe for State</td>
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<td>Date reflected in Item 10 (Date deed or assignment filed for record or date of closing or appraisal)</td>
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1 First Legal Action to Commence Foreclosure
2 Foreclosure Sale Held
Reasonable diligence timeframe for the State is six months.

In this example, the mortgagee initiated foreclosure within six months of the date of default as required by 24 CFR 203.355(a) and properly reported the action to SFDMS with Status 68 within the required reporting cycle. However, the mortgagee did not meet the reasonable diligence requirement for completing the foreclosure in six months (by November 10, 2013, based on the May 10 initiation of foreclosure). This requires a curtailment of interest to November 10, 2013, and that date would have to be reflected on Form HUD-27011, Item 31 (Mortgagee reported curtailment date).

Example 3: A timely initiated foreclosure action is delayed by a mortgagor’s Chapter 7 bankruptcy filing, but the mortgagee takes more than 90 days from the date of bankruptcy filing to resolve the case through dismissal, termination of the automatic stay, or trustee abandonment of all interest in the secured property. The mortgagee does not document that the delay was not due to the failure of the mortgagee to timely notify its bankruptcy attorney or by any failure of the mortgagee’s attorney.

| Date of Default                        | 12/01/2012 |
| First legal action to foreclose        | 04/12/2013 |
| SFDMS reflects Status 68 for reporting cycle ending | 04/30/2013 |
| Date Chapter 7 Bankruptcy filed        | 05/10/2013 |
| Date reflected in Item 21 (Date of release of bankruptcy, if applicable) of HUD-27011 | 09/15/2013 |
| End of authorized 90-day bankruptcy delay | 11/8/2013 |
| SFDMS reflects Status 1A for reporting cycle ending | 12/31/2013 |
| Date reflected in Item 9 (Date of possession & acquisition of marketable title) of HUD-27011 | 01/31/2014 |
| Date reflected in Item 10 (Date deed or assignment filed for record or date of closing or appraisal) | 02/28/2014 |

Reasonable diligence timeframe for the State is four months.

In this example, the mortgagee initiated foreclosure within six months of the date of default as required by 24 CFR 203.355(a) and properly reported the action to SFDMS with Status 68 within the required reporting cycle. However, the reasonable diligence requirement for resolving the bankruptcy case and completing the foreclosure was not met. The State reasonable diligence timeframe for foreclosure completion is four months; without delays, the foreclosure here should have been completed by August 10, 2013. A 90-day extension is authorized for resolving a bankruptcy case, so a foreclosure with a 90-day authorized bankruptcy delay should have been completed by November 8, 2013. The interest curtailment date for claim purposes would therefore be November 8, 2013, and that date would have to be reflected on Form HUD-27011, Item 31 (Mortgagee reported curtailment date).

Example 4: A timely initiated foreclosure action is delayed by a mortgagor’s Chapter 13 bankruptcy filing and the mortgagor subsequently defaults on a confirmed bankruptcy plan. The mortgagee takes more than 90 days from the date that the plan payments become 60 days...
delinquent to resolve the case through dismissal, termination of the automatic stay, or trustee abandonment of all interest in the secured property. The mortgagee does not document that the delay was not due to the failure of the mortgagee to timely notify its bankruptcy attorney or by any failure of the mortgagee’s attorney.

Date of Default 04/01/2013
First legal action to foreclose 09/09/2013
SFDMS reflects Status 68 for reporting cycle ending 09/30/2013
Date Chapter 13 Bankruptcy filed 10/09/2013
Mortgagor’s timely Bankruptcy Plan Payments Nov through Feb advance Date of Default to Bankruptcy Plan Payments become 60 days delinquent 08/01/2013 04/30/2014
Deadline for mortgagee to meet modified reasonable diligence timeframe 07/29/2014
Date reflected in Item 21 (Date of release of bankruptcy) of HUD-27011 09/10/2014
Permissible end of bankruptcy delay (for claims purposes) 11/30/2014
SFDMS reflects Status 1A (Foreclosure Sale Held) for reporting cycle ending 12/31/2014
Date reflected in Item 9 (Date of possession & acquisition of marketable title) of HUD-27011 01/31/2015
Date reflected in Item 10 (Date deed or assignment filed for record or date of closing or appraisal) 02/28/2015

Reasonable diligence timeframe for the State is five months.

In this example, the mortgagee properly initiated foreclosure within six months of the date of default as required by 24 CFR 203.355(a) and reported the action to SFDMS with Status 68 within the required reporting cycle. However, the reasonable diligence requirement for resolving the Chapter 13 bankruptcy case and completing the foreclosure was not met, and the mortgagee did not provide any documentation showing that it was not responsible for the delay; therefore, the mortgagee must self-curtail.

Bankruptcy plan payments, due on the first of each month, became 60 days delinquent on April 30, 2014. Pursuant to HUD policy, the mortgagee had a maximum of 90 days from April 30, 2014, to resolve the bankruptcy because no valid reason for further delay was documented. Accordingly, the bankruptcy should have been resolved no later than July 29, 2014, but in this case, the bankruptcy was released weeks later on September 10, 2014: the mortgagee failed to meet its reasonable diligence requirement.

For purposes of filing a claim, the total authorized delay due to the bankruptcy was 294 days: the amount of time between October 9, 2013 (the bankruptcy filing date) and July 29, 2014 (the end of the reasonable diligence timeframe as based on the bankruptcy-advanced default date). This mortgagee’s timeframe for meeting the reasonable diligence requirement then was the State’s normal foreclosure time period of five months plus the bankruptcy-related 294 days. Because the mortgagee was permitted a reasonable diligence timeframe of five months plus 294 days after filing the first legal action to foreclose, the interest curtailment date for claim purposes here would therefore be November 30, 2014, and that date would have to be reflected on Form HUD-27011, Item 31 (Mortgagee reported curtailment date).
**Example 5:** The mortgagee exercises reasonable diligence in completing foreclosure but does not initiate eviction or possessory action within 30 calendar days of foreclosure completion to qualify for extension of the reasonable diligence timeframe.

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>Date of Default</td>
<td>01/01/2013</td>
</tr>
<tr>
<td>First legal action to foreclose</td>
<td>05/10/2013</td>
</tr>
<tr>
<td>SFDMS reflects Status 68 for reporting cycle ending</td>
<td>06/30/2013</td>
</tr>
<tr>
<td>Foreclosure Completion Date</td>
<td>10/27/2013</td>
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<tr>
<td>Deadline to initiate possessory action</td>
<td>11/26/2013</td>
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<tr>
<td>Possessory action initiated</td>
<td>12/15/2013</td>
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<tr>
<td>SFDMS reflects Status 1E³ for reporting cycle ending</td>
<td>12/31/2013</td>
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<tr>
<td>Date reflected in Item 9 (Date of possession &amp; acquisition of marketable title) of HUD-27011</td>
<td>01/20/2014</td>
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<td>Date reflected in Item 10 (Date deed or assignment filed for record or date of closing or appraisal)</td>
<td>02/16/2014</td>
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</table>

Reasonable diligence requirement for the State is six months.

In this example, the mortgagee met the reasonable diligence requirements for initiating, reporting, and completing the foreclosure action. However, action to acquire possession of the property was not initiated within 30 calendar days of foreclosure completion. The foreclosure was completed on October 27, 2013, so the mortgagee had 30 days—until November 26, 2013—to initiate possessory action. The mortgagee did not initiate possessory action until December 15, 2013, and this delay requires a curtailment of interest to November 26, 2013, and that date would have to be reflected on Form HUD-27011, Item 31 (Mortgagee reported curtailment date).

**Example 6:** Mortgagee fails to convey the property to HUD within 30 calendar days of acquiring possession and marketable title, as required by 24 CFR 203.359.

<table>
<thead>
<tr>
<th>Event</th>
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Reasonable diligence requirement for the State is six months.

In this example, the mortgagee exercised reasonable diligence in prosecuting the foreclosure to completion and in acquiring title to and possession of the property. However, it did not meet the requirement to convey the property to HUD within 30 calendar days of acquiring possession and marketable title as required by 24 CFR 203.359.

³ Eviction started
Title was acquired by the mortgagee on December 29, 2013, and the mortgagee had 30 days from that date—until January 28, 2014—to convey the property to HUD. The mortgagee did not file the deed to HUD for recording until February 28, 2014. Accordingly, the mortgagee’s failure to timely convey the property to HUD requires a curtailment of interest to January 28, 2014, and that date would have to be reflected on Form HUD-27011, Item 31 (Mortgagee reported curtailment date).
<table>
<thead>
<tr>
<th>State</th>
<th>Non-judicial Foreclosure</th>
<th>Judicial Foreclosure</th>
<th>Bankruptcy Clearance</th>
<th>Possessory Action</th>
<th>Deed-in-lieu</th>
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1. Minimum
2. Maximum
3. 2003
4. 2010
5. 2012
6. 2013
7. 2007
8. 2008
9. 2009
10. 2011
11. 2012
12. 2013

<table>
<thead>
<tr>
<th>State</th>
<th>Non-judicial Foreclosure</th>
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<th>Bankruptcy Clearance</th>
<th>Possessory Action</th>
<th>Deed-in-lieu</th>
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<td>$375</td>
<td>$400</td>
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</tbody>
</table>

Footnotes:

1. The fee covers the combined attorney and notary’s fees.
2. This fee applies to strict foreclosures. If the foreclosure orders a Foreclosure by Sale, the fee will be $1,950.
3. The fee covers both the attorney fee and the trustee’s commission (or statutory fee).
4. The fee includes reimbursement of any fee for the attorney’s certificate of title.
5. The fee increases by $100 if foreclosure is achieved by summary judgment.
6. In addition to the allowable foreclosure fee, an auctioneer’s fee of up to $250 is allowed for the services of a state licensed auctioneer requested by the mortgagee and approved by the court.
7. The fee increases to $1,100 for a non-judicial foreclosure for a case in which the attorney provides services for “proceedings subsequent” that involve registered land.
8. The fee includes the notary’s fee. An additional fee of $250 is allowed for an attorney court appearance for a foreclosure hearing.
9. This fee relates to the exercise of the power of sale under a deed of trust.
10. This fee applies to foreclosures other than those conducted in New York City and Long Island. A fee of $2,400 applies to foreclosures conducted in the five boroughs of New York City (Bronx, Brooklyn/Kings, Manhattan, Queens, and Staten Island) and in Long Island (Nassau and Suffolk Counties).
11. The fee covers certain additional legal actions necessary to complete the foreclosure, including motions to postpone or relist a sale and motions to reassess damages.
12. In addition to the allowable foreclosure fee, $150 is allowed for a notary fee for completed foreclosures. However, if a deed of judicial sale cannot be executed simultaneously with the foreclosure sale, $300 is allowed for the notary fee.
13. This fee assumes that all required procedural steps have been completed. The maximum attorney fee varies based on the chapter under which the bankruptcy action is filed.
   - For Chapter 7 bankruptcies, the maximum allowable fee is $650.
   - For Chapter 11, 12 and 13 bankruptcies, the maximum allowable fee is $1,000.