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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

HUD Did Not Correctly Service all Due and Payable Partial Claims

Report Number: 2026-KC-0005

June 25, 2026

Highlights

HUD Did Not Correctly Service all Due and Payable Partial Claims | 2026-KC-0005

What We Audited and Why

We audited the U.S Department of Housing and Urban Development (HUD) National Servicing Center's (NSC) tracking and collection of FHA partial claims. We initiated the audit to assess HUD's implementation of the corrective actions from HUD OIG audit report 2016-KC-0001, *HUD Did Not Collect an Estimated 1,361 Partial Claims Upon Termination of Their Related Federal Housing Administration (FHA)-Insured Mortgages*; however, we determined based on a referral from HUD OIG's Financial Audits Division that there was an issue with the collection of partial claims, and the corrective actions from the prior audit did not fix the condition. Our objective was to determine whether the NSC serviced all due and payable partial claims in accordance with HUD rules, regulations, policies, and procedures.

What We Found

HUD's NSC did not service all due and payable partial claims in accordance with HUD rules, regulations, policies, and procedures. Specifically, we identified that 74 of 81 statistically sampled FHA loan files involved servicing or collection discrepancies including missing loan documents, demand letters not being sent, and untimely delivery and upload of loan documents. These conditions occurred because of an increased volume of partial claims and inadequate oversight of the Loan Servicing Contractor (LSC), including a lack of well-defined partial claims tracking and collection performance requirements in the LSC contract. Further, the NSC relied on manual processes to handle the execution, servicing, and termination of partial claims. As a result, there is an increased risk that FHA will not collect the debts, ultimately impacting the FHA insurance fund.

What We Recommend

We have made recommendations in this report to address the improvements needed in HUD's partial claims servicing. Specifically, we recommend that HUD's Office of Single Family Housing, (1) develop procedures to ensure that borrowers are notified of outstanding partial claim amounts and their obligation to make payment when due; (2) work with the Office of the Chief Procurement Officer to develop, implement, and maintain formal procedures for monitoring the LSC including, but not limited to, deliverable performance metrics in the contract; and (3) make enhancements to its partial claim tracking systems including, but not limited to, interfacing with its Single Family Insurance System, automating letters, and developing better timelines to ensure better tracking.

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Background and Objective

The Federal Housing Administration (FHA), a part of HUD, provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. The FHA insurance program is one of the largest insurers of mortgages in the world, insuring more than 50 million mortgages since its inception in 1934. FHA mortgage insurance provides lenders with protection against losses as the result of homeowners defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default. Loss mitigation is critical to FHA because it helps borrowers in default keep their homes while reducing the economic impact on the insurance fund.

The FHA partial claim is a loss mitigation tool that helps borrowers keep their homes by HUD advancing funds on behalf of the borrowers to reinstate delinquent FHA-insured mortgages. The borrowers execute promissory notes and mortgages payable to HUD when they accept the advances. A partial claim note does not accrue interest and is not due and payable until the related first mortgage has been paid off, has matured, or has been refinanced with a non-FHA-insured mortgage or the borrower sells the property. HUD paid more than 1.8 million partial claims since the program began in 1997. During the last 5 years, the number of terminated FHA-insured mortgages with associated partial claims has increased. Between fiscal years 2021 and 2024, 343,801 partial claims valued at more than \$7.7 million were associated with terminated FHA mortgages.

HUD's National Servicing Center (NSC) helps FHA homeowners by working with lenders to administer the FHA loss mitigation programs. The NSC contracts the servicing, collecting, and managing of partial claims to its national Loan Servicing Contractor (LSC). Partial claim notes become due and payable when their related FHA-insured mortgages are terminated. In some cases, a lender or title company remits a portion of the proceeds from the sale or refinance of the property to the LSC to pay off the partial claim. In other cases, the LSC transfers the unpaid partial claim debt to HUD's Financial Operations Center (FOC) to take collection action against the borrower. This action includes referring the delinquent debts to the U.S. Department of the Treasury. HUD's FOC is responsible for servicing and collecting a variety of debts and receivables that are transferred from other organizations within HUD. 31 CFR 901.1 requires Federal agencies to aggressively collect all debts arising from activities of that agency. This requirement mandates that debt collection actions be taken promptly once it is determined that a debt is owed.

The NSC uses the Single Family Mortgage Asset Recovery Technology (SMART) system to track partial claims. The SMART system provides accounting level detail on primary and secondary mortgages, including its case-tracking ability; report generating capability; query functions; and database management, analyzing, processing, and tracking of FHA-insured and HUD Secretary-held first, second, and subordinate note and mortgage loan servicing functions. It is used to provide servicing for 8 different types of loans, including partial claims. Partial claim data from HUD's Single Family Claims Subsystem are automatically loaded into the SMART system. When the recorded mortgage and note documents are received from the lender, they are scanned and entered into the SMART system.

Our objective was to determine whether the NSC serviced all due and payable partial claims in accordance with HUD rules, regulations, policies, and procedures.

Results of Audit

HUD Did Not Correctly Service all Due and Payable Partial Claims

HUD's NSC did not service all due and payable partial claims in accordance with HUD rules, regulations, policies, and procedures. This condition occurred because of an increased volume of partial claims and inadequate oversight of the LSC, including a lack of well-defined partial claims tracking and collection performance requirements in the LSC contract. Further, the NSC relied on manual processes to handle the execution, servicing, and termination of partial claims. As a result, there is an increased risk that FHA will not collect the debts, ultimately impacting the FHA insurance fund.

HUD Did Not Consistently Follow its Policies and Procedures

We reviewed a statistical sample of 81 partial claims associated with FHA-insured mortgages that were terminated in fiscal years (FYs) 2021 through 2024. HUD's LSC did not correctly service 74 of the 81 loan files according to the applicable policies and procedures. Specifically, the LSC did not consistently send demand letters for loan documents; reclaim incentive fees from lenders when loan documents were not delivered in the allotted time frames; maintain complete and accurate physical and electronic servicing files; process all payments received as required; file Proof of Claim in cases of bankruptcy; or prepare, execute, and submit for recordation all satisfaction of liens within the allotted time frame. The table below summarizes the main discrepancies found in our sample loan files and the number of loans included (see appendix B for a breakdown of all the discrepancies).

Discrepancy	Number of Loans
Demand letter not sent or delayed	9
Incentive fees not reclaimed	9
Complete and accurate servicing files not maintained	72
Untimely deposit of payoff check	14
Untimely proof of claim filing	3
Delayed lien release recordation	37

Demand Letter

HUD policy requires loan documents be delivered within 60 days for the promissory note and 6 months for the subordinate mortgage unless otherwise stated in policy.¹ If the lender does not deliver the loan documents within the allotted time frame, the NSC is required to send a demand letter for the loan document(s) and seek reimbursement of the incentive fees and the full amount of the partial claim if the documents are still not provided. The NSC's procedure requires that 61-day and 91-day demand letters are sent to the lender for missing promissory notes as notification that they are required to reimburse the partial claim payment and incentive fee (if applicable) for the subject loan if the documents are not

¹ See Appendix C FHA Handbook 4000.1

received.² If the servicer fails to submit the missing documents by expiration of the deadline date, a referral to HUD's Office of Program Enforcement is required for resolution. We observed that 9 of the 81 sample loan files reviewed (11.1 percent) included discrepancies relating to demand letters for documents either not sent or sent several months after the allotted delivery time frame. For example, in two loan files, the 61-day letters were sent 251 days and 277 days after the execution of the partial claim, respectively. A referral to the Office of Program Enforcement for reimbursement of the partial claim amount should have been initiated for the two loans and the partial claim amounts reclaimed from the lender.

Incentive Fee

The lender may include a \$500 incentive fee in their claim if it is submitted correctly and completely to HUD within the required time frame from the execution date of the partial claim. When the lender fails to provide HUD with the partial claim promissory note and subordinate mortgage within the required time frames, HUD may require reimbursement of the full amount of the partial claim and the incentive fee. We observed that 9 of the 81 sample loan files reviewed (11.1 percent) included discrepancies relating to incentives fees not recorded in the SMART system or not reclaimed from the lender when they did not submit documents timely.

Claim Servicing Files

The NSC's procedures require that the LSC maintain complete and accurate physical and electronic servicing files.³ All correspondence received shall be date-stamped upon receipt, imaged, and attached at loan level in the SMART system within 5 days of receipt. We observed that 72 of the 81 sample loan files reviewed (88.9 percent) included discrepancies related to untimely upload of loan documents, missing loan documents, missing date stamps on documents, and missing images of payoff checks. A complete and accurate servicing file is essential for HUD to monitor the LSC's duties and responsibilities and for the collection of the loan amount when due. The FOC requires that the loan files transferred from the NSC for collection be complete and accurate. Otherwise, the FOC will return the loan file to the NSC for missing documentation, which ultimately delays the collection of the loan amount, potentially rendering it uncollectable if enough time passes.

Payment Processing Delay

The LSC is required to process all payments received to the designated lockbox, by cash, by wire transfer, through pay.gov, or by scan to the U.S. Department of the Treasury not later than the next business day after receipt according to HUD's internal procedures and the LSC's contract.⁴ We observed that 14 of the 81 sample loan files reviewed (17.3 percent) included discrepancies related to untimely processing of the payoff check, and in 1 additional loan file reviewed, the payoff check did not have a date stamp, which made it difficult to determine the timeliness of the processing. Payment processing for the 14 loan files ranged from 2 to 25 business days with no information in the system for the delay.

² See Appendix C Single Family Mortgage Notes Process Narrative

³ See Appendix C Single Family Mortgage Notes Process Narrative – Document Custodian

⁴ See Appendix C Single Family Mortgage Notes Process Narrative – Payment Processing

Proof of Claim Filing

In cases of bankruptcy, HUD procedures requires that the LSC prepare and file Proof of Claim not later than 5 business days from notification of the bankruptcy filing.⁵ The Proof of Claim shall be imaged upon receipt of proof of filing. We observed that 3 of the 81 sample loan files reviewed (3.7 percent) included discrepancies related to missing notices of bankruptcy filing which resulted in the LSC not filing the Proof of Claim.

Lien Releases

The payoff of the partial claim or termination of the FHA insurance on the loan and subsequent payoff of the partial claim triggers a payoff release in the partial claim collection system. HUD's procedures require that the LSC prepare, execute, and submit for recordation all satisfaction of liens (releases) within 10 business days of notification a release is needed.⁶ We observed that in 37 of the 81 sample loan files reviewed (45.7 percent), the LSC did not send the payoff releases for recording timely. The delays ranged from 11 to 594 business days. A lien release is important to the borrower to close on the sale or refinance of the property, and a delay in recording the release may end up costing the borrower the sale or refinance opportunity.

HUD Had Inadequate Processes and Controls to Track and Collect the Partial Claims

The identified discrepancies occurred because there was an increase in the volume of executed partial claims, as well as due and payable events, during and after the COVID-19 pandemic. This resulted in a backlog of partial claims awaiting transfer to the FOC for collection, as well as a backlog in the recordation of the lien releases for partial claims that had been paid off. The prior LSC experienced a backlog until the end of their contract in October 2021. The current LSC began work in October 2021 and worked to catch up on the backlog while also processing new due and payable partial claims; however, we found both contractors contributed to the identified discrepancies. At least 35 of the 81 loan files reviewed had discrepancies during the execution, termination, or both that related to the current LSC.

In addition, HUD did not adequately provide oversight of the LSC. HUD's Contracting Officer Representative (COR) conducted quarterly monitoring reviews of the LSC's servicing functions under the contract. The major functions performed include, document custodianship, accounting and cash management, issuing payoffs, applying payoffs, mortgage releases, securing HUD interest in bankruptcies and foreclosures, mortgage subordinations, audit support, and collecting missing security instruments from lenders. In our review of the quarterly monitoring reports between October 2021 and February 2025, the COR did not cite any discrepancies or issues with the servicing of the partial claims. Also, the LSC's contract did not have well-defined partial claims tracking and collection performance requirements as deliverables. Specifically, the contract modification did not specify how many partial claims the LSC was expected to process in a given period or the time frame for resolution of the backlog required of the contractor.

Further, until January 2025, the NSC relied on manual processes to handle the execution, servicing, and termination of partial claims, and most, if not all, of the processes were disrupted during the COVID-19

⁵ See Appendix C Single Family Mortgage Notes Process Narrative – Proof of Claim Filing

⁶ See Appendix C Single Family Mortgage Notes Process Narrative – Releases

pandemic. During the pandemic, the NSC could not transfer due and payable partial claims to the FOC since there was no one in the office to complete the process at both ends. However, the FOC stated that it was not out of the office for too long and resumed business as usual, which was not known to the NSC who paused transfers to the FOC for an extended period. Additionally, the courts were closed in most states, and the recordation of releases could not be processed.

Conclusion

HUD did not correctly service all due and payable partial claims because of an increase in the volume of partial claims, lack of well-defined deliverable performance metrics in the LSC contract, and lack of automated processes, which resulted in the continuous backlog of partial claims. As such, it may not be able to ensure that the partial claim servicing files are complete and accurate when a due and payable event occurs, which could impact the timely transfer and collection of partial claims and ultimately the FHA insurance fund.

Recommendations

We recommend HUD's Deputy Assistant Secretary for Single Family Housing:

- 1A. Develop procedures to ensure that borrowers are notified of outstanding partial claim amounts and their obligation to make payment when due.
- 1B. Work with the Office of the Chief Procurement Officer to develop, implement, and maintain formal procedures for monitoring the LSC including, but not limited to, deliverable performance metrics in the contract.
- 1C. Make enhancements to partial claim tracking systems including, but not limited to, interfacing with its Single Family Insurance System, automating letters, and developing better timelines to ensure better tracking.

Management Response

Pursuant to funding resources, the Office of Single Family Housing management agreed with OIG's recommendations. The Office of Single Family Housing will propose and submit management decisions to respond to the audit recommendations. After the issuance of the final audit report, it will provide action plans and final action target dates in its management decisions.

Management's full response is included in Appendix A.

OIG Evaluation of Management Response

OIG appreciates the Office of Single Family Housing's willingness to take actions to fully address the recommendations cited in the report.

During the audit resolution process, OIG will continue to work with the Office of Single Family Housing to enhance its (1) partial claims tracking and collection processes and (2) oversight of its Loan Servicing Contractor to resolve the recommendations included in this report.

Scope and Methodology

We performed our audit work from April 2025 to March 2026. We conducted our fieldwork off site at the Kansas City, KS HUD-OIG field office, and we reviewed HUD's Office of Single Family Housing National Servicing Center. Our audit period covered FYs 2021 through 2024.

To accomplish our objective, we:

- Reviewed relevant laws, regulations, and HUD guidance;
- Reviewed HUD policies and procedures;
- Obtained an understanding of the partial claims tracking and collection process;
- Reviewed 11 prior HUD OIG audit reports related to partial claims;
- Interviewed HUD Officials from the NSC and FOC, along with the LSC's management;
- Obtained access to Neighborhood Watch and SMART systems to review FHA loan files with associated partial claims; and
- Selected and reviewed a statistical sample of partial claims.

We relied on data and documentation in HUD's Single Family Data Warehouse (SFDW), Neighborhood Watch, and the Single Family Mortgage Asset Recovery Technology (SMART) system to achieve our audit objective. Specifically, we relied on the systems to identify the universe and pull a sample of partial claims that became due and payable during our scope, obtain information on the status of sampled loans, and document support for the partial claims. To assess the data, we compared data attributes from the sample item with supporting information found in the systems. Although we did not perform a detailed assessment of the reliability of the data, we determined the data was sufficiently reliable for the purposes of our review, because the data in the sampled items were corroborated by the supporting documentation from the HUD systems.

Our audit universe consisted of 343,801 partial claims, valued at more than \$7.7 million. The 343,801 partial claims were associated with FHA mortgages that terminated between FYs 2021 and 2024 due to refinance, nonconveyance claim, voluntary termination of mortgage insurance, or full repayment of the loan.⁷ We identified a stratified sample of 81 FHA mortgages among the universe.

We reviewed the statistical sample to determine whether HUD correctly tracked and collected the partial claims. For each sampled partial claim, we reviewed, as applicable, the:

- Partial claim subordinate note,
- Partial claim subordinate mortgage,
- Partial claim payoff instructions,
- Neighborhood Watch case details,
- Evidence supporting partial claim collection, and
- Single Family Mortgage Asset Recovery Technology system notes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that

⁷ A nonconveyance claim is a procedure under which the lender 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.

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Follow up on Prior Audits

HUD Did Not Always Identify and Collect Partial Claims Out of Surplus Proceeds From Nonconveyance Foreclosures, 2018-KC-0004

Recommendation #	Findings and Recommendations	Status
2018-KC-0004-001-A	<p>Finding: HUD did not always identify and collect partial claims out of surplus proceeds from nonconveyance foreclosures. Of the 81 foreclosures reviewed, 32 had nearly \$768,000 in surplus proceeds that HUD did not recover. We project that HUD failed to recover surplus proceeds from 353 properties with insurance that terminated in 2017 which amounts to \$5,690,000.</p> <p>Recommendation: Pursue the collection of the \$5,690,000 in surplus proceeds that HUD was entitled to receive from 2017 loan terminations.</p>	Open
2018-KC-0004-001-C	<p>Finding: HUD's insurance fund did not receive the benefit of nearly \$6.8 million, various third parties benefited at HUD's expense, and the unclaimed funds sat dormant with the custodians.</p> <p>Recommendation: Redesign the partial claim program to eliminate its weaknesses and ensure that partial claims benefit from a stronger lien position to put \$6,770,000 to better use.</p>	Open

HUD Did Not Have Adequate Controls To Ensure That Partial Claim Notes for FHA Loans Were Properly Tracked for Future Collection, 2018-LA-0005

Recommendation #	Findings and Recommendations	Status
2018-LA-0005-001-B	<p>Finding: NSC had inadequate controls over its boarding process to ensure that all partial claim notes were entered into SMART. Although NSC received reports of manually paid partial claims from the Claims Branch, it chose not to board these manually paid partial claims into SMART due to discrepancies in the partial claim note amounts received from the Claims Branch. Therefore, nearly \$2.3 million in partial claim notes that were manually paid for 350 loans were not boarded into SMART.</p> <p>Recommendation: Coordinate with the Deputy Assistant Secretary for Finance and Budget to board 350 manually paid partial claims that were not boarded into SMART, resulting in funds to be put to better use in the amount of \$2,297,706.</p>	Open
2018-LA-0005-001-D	<p>Finding: There were at least 33 loans in which the mortgage document was missing or did not indicate that it had been recorded at the appropriate</p>	Open

	<p>county recorder's office and at least 40 loans in which the note document was missing. Without these documents, the collectability of \$644,767 in partial claim notes was put at risk.</p> <p>Recommendation: Obtain the missing mortgage documents for 33 loans and the missing note documents for 40 loans, totaling \$644,767 in partial claim notes, and require any unrecorded mortgage documents to be recorded at the appropriate county's office to ensure that HUD's interests are protected. For any missing documents that cannot be obtained, the Deputy Assistant Secretary should require the lender to reimburse HUD for the partial claim note.</p>	
2018-LA-0005-001-F	<p>Finding: NSC was not aware of the lender payments received for 139 loans. When NSC was aware of the lender payments received, they were not recorded in a timely manner. Therefore, the balances owed on the partial claim notes shown in SMART were not always accurate.</p> <p>Recommendation: Coordinate with the Deputy Assistant Secretary for Finance and Budget to record lender payments to update the balances for 139 loans in SMART, resulting in funds to be put to better use in the amount of \$1,055,113.</p>	Open

FHA Improperly Paid Partial Claims That Did Not Reinstate Their Related Loans, 2019-KC-0001

Recommendation #	Finding and Recommendation	Status
2019-KC-0001-001-B	<p>Finding: FHA had no controls to ensure that partial claims resulted in curing the loan's delinquency.</p> <p>Recommendation: Design controls to protect the insurance fund from improper partial claims that did not reinstate the loans to put \$27.1 million to better use.</p>	Open

Appendices

Appendix A – Management Response

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

OFFICE OF HOUSING

6/10/2026

MEMORANDUM TO: Kilah S. White, Assistant Inspector General for Audit, GA

FROM: 
Matthew Jones, Deputy Assistant Secretary for Single
Family Housing, HU

SUBJECT: Discussion and Comments on Draft Audit: HUD Did Not
Correctly Service all Due and Payable Partial Claims
OIG Audit Report Number: 2026-KC-000X

The Office of Inspector General (OIG) audited the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration's (FHA) tracking and collection of partial claims. The audit objective was to determine whether the National Servicing Center serviced all due and payable partial claims in accordance with HUD rules, regulations, policies, and procedures. The OIG provided a draft audit report to the Office of Single Family Housing (Single Family) for comment.

The following is Single Family's response to audit recommendations 1A, 1B and 1C.

Recommendation 1A

Develop procedures to ensure that borrowers are notified of outstanding partial claim amounts and their obligation to make payment when due.

Single Family agrees with Recommendation 1A. Pursuant to adequate funding resources.

Recommendation 1B

Work with the Office of the Chief Procurement Officer (OCPO) to develop, implement, and maintain formal procedures for monitoring the Loan Servicing Contractor (LSC) including, but not limited to, deliverable performance metrics in the contract.

Single Family agrees with Recommendation 1B. Pursuant to adequate and appropriated funding resources, the Denver Homeownership Center (DHOC) Servicing will: ensure inclusion of applicable authority requirements and establish performance metrics; ensure OCPO incorporates those outstanding and applicable authorities and metrics into the contract; develop an Internal Quality Control (IQC) process for the Contracting Officer's Representative (COR); and create and/or review a contractor scorecard.

Accordingly, key contractor performance requirements will include:

- Issuing demand letters for missing loan documents.

www.hud.gov

- Recovering incentive fees from lenders when loan documents are not provided within required timeframes.
- Maintaining complete and accurate physical and electronic servicing files.
- Processing all payments in accordance with established requirements.
- Filing Proofs of Claim in bankruptcy cases.
- Preparing, executing, and recording lien satisfactions within required timeframes.

Recommendation 1C

Make enhancements to partial claim tracking systems including, but not limited to, interfacing with its Single Family Insurance System, automating letters, and developing better timelines to ensure better tracking.

Single Family agrees with Recommendation 1C. Pursuant to funding resources.

Single Family will propose and submit a Management Decision to respond to the audit recommendations after the issuance of the final audit report. Single Family will provide action plans and final action target dates in its Management Decision.

Appendix B – Discrepancies Table

FHA Case #	Untimely Upload	Untimely Lien Release Recordation	Missing Image of Payoff Check	Untimely Delivery of Loan Documents	Untimely Deposit of Payoff Check	Demand Letter Not Sent/Delayed	Incentive Fee Not Reclaimed	Missing Date Stamp	Missing Loan Documents	Missing Notice of Bankruptcy Filing	Proof of Claim Not Filed	No/Late FOC Referral	No Discrepancy
264-198XXXX	X	X								X			
566-147XXXX	X	X											
053-033XXXX	X												
105-403XXXX	X	X	X	X				X					
156-406XXXX	X												
372-379XXXX	X									X			
441-581XXXX	X	X					X			X	X		
493-950XXXX	X	X	X		X								
093-834XXXX	X	X	X	X	X	X							
387-133XXXX	X												
023-746XXXX	X											X	
106-120XXXX	X	X			X								
198-086XXXX													X*
291-339XXXX	X			X			X	X					
461-694XXXX	X												

FHA Case #	Untimely Upload	Untimely Lien Release Recordation	Missing Image of Payoff Check	Untimely Delivery of Loan Documents	Untimely Deposit of Payoff Check	Demand Letter Not Sent/Delayed	Incentive Fee Not Reclaimed	Missing Date Stamp	Missing Loan Documents	Missing Notice of Bankruptcy Filing	Proof of Claim Not Filed	No/Late FOC Referral	No Discrepancy
513-184XXXX	X	X		X									
023-665XXXX	X												
351-480XXXX	X	X		X			X						
091-425XXXX	X												
105-310XXXX	X		X					X					
156-229XXXX	X			X		X	X						
249-660XXXX	X	X	X										
411-471XXXX	X	X	X										
482-314XXXX	X		X	X	X		X						
514-107XXXX	X	X			X								
262-240XXXX	X	X											
581-448XXXX	X	X											
061-356XXXX	X	X	X	X		X							
105-221XXXX	X				X								
156-430XXXX	X				X								
361-324XXXX	X	X											

FHA Case #	Untimely Upload	Untimely Lien Release Recordation	Missing Image of Payoff Check	Untimely Delivery of Loan Documents	Untimely Deposit of Payoff Check	Demand Letter Not Sent/Delayed	Incentive Fee Not Reclaimed	Missing Date Stamp	Missing Loan Documents	Missing Notice of Bankruptcy Filing	Proof of Claim Not Filed	No/Late FOC Referral	No Discrepancy
442-310XXXX		X							X				
512-088XXXX	X			X			X						
181-296XXXX	X												
512-300XXXX													X
048-935XXXX	X												
094-553XXXX				X		X			X				
105-889XXXX	X	X	X										
249-668XXXX	X												
351-568XXXX	X		X		X								
387-103XXXX	X		X	X		X	X						
461-509XXXX	X												
566-204XXXX	X	X											
095-372XXXX	X	X											
421-541XXXX	X												
042-869XXXX									X				
049-051XXXX													X*

FHA Case #	Untimely Upload	Untimely Lien Release Recordation	Missing Image of Payoff Check	Untimely Delivery of Loan Documents	Untimely Deposit of Payoff Check	Demand Letter Not Sent/Delayed	Incentive Fee Not Reclaimed	Missing Date Stamp	Missing Loan Documents	Missing Notice of Bankruptcy Filing	Proof of Claim Not Filed	No/Late FOC Referral	No Discrepancy
091-628XXXX	X			X	X	X							
106-225XXXX	X				X								
194-082XXXX	X												
244-062XXXX	X	X	X										
264-328XXXX	X												
351-682XXXX	X	X			X								
374-463XXXX	X		X										
483-583XXXX	X			X		X							
514-055XXXX	X	X											
561-898XXXX	X	X			X								
053-022XXXX	X												
352-845XXXX	X	X		X		X							
044-540XXXX	X	X											
106-210XXXX	X												
197-881XXXX	X												
251-601XXXX		X											

FHA Case #	Untimely Upload	Untimely Lien Release Recordation	Missing Image of Payoff Check	Untimely Delivery of Loan Documents	Untimely Deposit of Payoff Check	Demand Letter Not Sent/Delayed	Incentive Fee Not Reclaimed	Missing Date Stamp	Missing Loan Documents	Missing Notice of Bankruptcy Filing	Proof of Claim Not Filed	No/Late FOC Referral	No Discrepancy
374-786XXXX	X	X											
521-688XXXX	X	X											
197-735XXXX													X*
352-617XXXX	X	X			X								
561-938XXXX	X	X											
048-837XXXX													X
095-398XXXX	X	X	X										
249-534XXXX	X	X	X	X			X						
374-517XXXX	X	X		X		X	X						
374-788XXXX	X												
197-823XXXX	X	X	X										
374-522XXXX													X*
566-254XXXX													X*
048-765XXXX	X	X			X								
197-381XXXX	X							X					
244-100XXXX												X	

FHA Case #	Untimely Upload	Untimely Lien Release Recordation	Missing Image of Payoff Check	Untimely Delivery of Loan Documents	Untimely Deposit of Payoff Check	Demand Letter Not Sent/Delayed	Incentive Fee Not Reclaimed	Missing Date Stamp	Missing Loan Documents	Missing Notice of Bankruptcy Filing	Proof of Claim Not Filed	No/Late FOC Referral	No Discrepancy
352-692XXXX	X	X	X										
374-755XXXX	X												
Total	69	37	17	16	14	9	9	4	3	3	1	2	7

Note: X* refers to partial claims loan files that were still active.

Appendix C – Criteria

24 CFR (Code of Federal Regulations) 203.371, Partial claim

(c) Repayment of the subordinate lien.

The mortgagor must execute a mortgage in favor of HUD with terms and conditions acceptable to HUD for the amount of the partial claim under §203.414(a). HUD may require the mortgagee to be responsible for servicing the subordinate mortgage on behalf of HUD.

(d) Application for insurance benefits.

Along with the prescribed application for partial claim insurance benefits, the mortgagee shall provide HUD with the original credit instrument no later than 60 days after execution. The mortgagee shall provide HUD with the original security instrument, required by paragraph (c) of this section, no later than 6 months following the date of execution. If the mortgagee experiences a delay from the recording authority, it may request an extension of time, in writing, from HUD. If the mortgagee does not provide the original of the note and security instrument within the prescribed deadlines, the mortgagee shall be required to reimburse the amount of the claim paid, including the incentive.

24 CFR 203.414, Amount of payment – partial claims

(a) Claim amount.

Where a claim for partial insurance benefits is filed in accordance with §203.371, the amount of the insurance benefits shall consist of the arrearage not to exceed an amount equivalent to 12 monthly mortgage payments, and any costs prescribed by HUD related to the default.

(b) Servicing fee.

The claim may also include a payment for activities, such as servicing the subordinate mortgage, which HUD may require.

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Delivery of Partial Claim Documents

The Mortgagee must deliver to HUD's Loan Servicing Contractor:

- no later than 60 Days from the execution date, the original Partial Claim promissory Note;
- no later than six months from the execution date, the recorded subordinate Mortgage; and
- with each delivery of Partial Claim documents, the Mortgagee must include a cover letter with the FHA case number for the documents that are being delivered.

Servicing of Partial Claims

The Mortgagee remains responsible for servicing the Partial Claim until the debt and security instruments are legally recorded in the appropriate jurisdiction and delivered to HUD. Mortgagees must notify HUD

when the first Mortgage is being paid in full or refinanced so HUD may provide a payoff figure on a Partial Claim. HUD's Loan Servicing Contractor must be contacted to request a payoff quote on the outstanding Partial Claim.

Failure to Timely Provide Partial Claim Note and Subordinate Mortgage

When the Mortgagee fails to provide HUD with the Partial Claim promissory Note and subordinate Mortgage within the required time frames, HUD may require reimbursement of the full amount of the Partial Claim. When directed by HUD, the Mortgagee must reimburse:

- the full claim amount (insurance benefits consisting of the arrearage, principal deferment, if necessary, and any HUD-allowed costs paid in the Mortgagee's claim for mortgage insurance benefits); and
- the incentive fee.

Single Family Mortgage Notes Process Narrative

Business Processes Tracked in SMART

A. Collection

Homeowners may submit payments to the Single Family Loan Servicing Contractor or Pay.gov for application to the borrower's account. When funds are received by the Servicing Contractor, they are transferred to Treasury via Over-the-Counter.net (OTC). A payoff occurs when sufficient funds are received to pay all amounts owed by the mortgagor on all liens payable to the Secretary. Payments are accepted even if they don't pay off the lien(s) in its entirety. The Servicing Contractor must prepare payoff releases and send them for recording not later than 10 business days of notification that a release is required.

Description of Servicing Contractor Services

A. General Services

Specific loan functions of the servicing contractor include:

1. Document Custodian

The Contractor shall maintain complete and accurate physical and electronic servicing files. All correspondence received shall be date-stamped upon receipt, imaged and attached at loan level in SMART within 5 days of receipt. Hard copies of documents generated by any servicing actions shall be filed in the appropriate servicing file.

3. Payment Processing

The Contractor shall process all payments received as required to the designated Lockbox, by cash, by wire transfer, pay.gov, or by scan to Treasury not later than the next business day after receipt. The Contractor shall also process deposits transferred to HUD's Chief Financial Officer no later than the next business day after receipt.

4. Proof of Claim Filing

Prepare and file Proof of Claim not later than 5 business days from notification of the bankruptcy filing. The Proof of Claim shall be imaged upon receipt of proof of filing.

5. Payoff Requests

Process all payoff requests not later than 2 business days from receipt of request.

6. Releases

Prepare, execute, and submit for recordation all satisfaction of liens (releases) within 10 business days of notification a release is needed.

Missing Documents

A. NSC Functions

2. Document Tracking

Servicers are required to send partial claim original promissory notes to the Servicing Contractor within 60 days of the date of execution, with the recorded mortgage due within six months of the execution date unless otherwise stated in policy. The Servicing Contractor is responsible for tracking the receipt of both the original promissory note and recorded mortgage as well as verifying that these legal instruments are completed in compliance with program requirements and the correct dollar amount matches the claim.

Each month, the Missing Document Report (MDR) is generated. The NSC's Operations and Analytics Branch performs diagnostics on the MDR to ensure the correct Holder and Servicer have been identified and that loans that were included in a Settlement Agreement are not included. The MDR is e-mailed to the appropriate HUD personnel weekly, as well as monthly, by the fifth business day of each month for HUD's review and analysis. Following HUD's analysis, a report is delivered to the General Ledger Division (GLD) identifying all outstanding receivables at last month-end. Each month, the MDR is generated and provided to each Servicer regardless of the claim filing date to alert the Servicers of all outstanding partial claim documents.

Each Holder and Servicer receives a 61-day letter and report that is extracted monthly from the MDR that only includes loans with missing original promissory notes that were not received within 60 days of the execution date. This letter serves as an official notification to the Holder that they will be required to reimburse the partial claim payment and incentive fee (if applicable) for the subject loans if documents are not received.

If the Holder and Servicer do not resolve the missing original promissory notes by the 90th day from the date of execution, a 91-day letter and report is extracted monthly from the MDR that includes loans with missing original promissory notes. This letter serves as an official second, and final, notification to the Holder that they will be required to reimburse the partial claim payment and incentive fee (if applicable) for the subject loans if documents are not received within 30 days.

If the Servicer fails to submit the missing documents (missing original promissory note and/or recorded mortgage) by expiration of the deadline date (six months from execution for non-COVID processes, and nine months from execution for COVID processes), a request for reimbursement of the partial claim and incentive fee is generated. The Reimbursement Request Letter 1 consists of a letter and includes a spreadsheet with the identifying loans with missing original promissory notes and/or recorded mortgages what were due upon the expiration date of six months of the execution date. The Reimbursement Request Letter 1 is issued to each Holder as notification that they have 30 days to provide the missing documents to the Loan Servicing Contractor or reimburse the amount as requested.

Following the expiration of the Reimbursement Request Letter 1, a determination is made as to whether the Servicer has complied, and documents have been received. After review of the monthly generated MDR, any remaining documents not received are compiled and a Reimbursement Request Letter 2 is issued. The Reimbursement Request Letter 2 provides a second, and final, notice to the Holder that HUD has not received either the documents requested or the payment for the loans identified and therefore, the Department will refer the matter to the Office of Program Enforcement (OPE) for administrative actions.