



OFFICE of  
**INSPECTOR GENERAL**  
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UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# HUD Did Not Pursue Repayment for Improper Payments on Claims Without Conveyance of Title

Report Number: 2026-KC-0004

May 19, 2026

## Highlights

### HUD Did Not Pursue Repayment for Improper Payments on Claims Without Conveyance of Title | 2026-KC-0004

#### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) Claims Without Conveyance of Title (CWCOT) program to assess whether HUD was appropriately demanding and collecting improper payments identified for CWCOT loans by its Mortgagee Compliance Manager (MCM). The MCM is HUD's contractor responsible for servicing the CWCOT program and ensuring HUD's interests are protected including its review of all CWCOT cases to identify potential improper claim payments. We selected this review to assist HUD in recovering improper payments and to reduce the risk of losses to the FHA insurance fund.

#### What We Found

HUD has not been making demands for or collecting repayment of improper payments identified by the MCM contractor during its CWCOT reviews. These improper payments included amounts, (1) calculated by the contractor for the categories of CWCOT review findings defined in its contract, (2) related to HUD's property preservation and protection cost requirements that were not included in the MCM contract's CWCOT review scope of work, and (3) for findings related to appraisal issues that the contractor did not monetize. Further, not all findings identified by the MCM contractor were properly tracked and referred. These conditions occurred because HUD did not ensure CWCOT demand-for-repayment processes were ever implemented or provide adequate oversight to its MCM contractor. As a result, HUD paid improper claims and failed to recapture more than \$10.5 million determined to be owed. CWCOT's review is critical for HUD to receive reimbursement from lenders for its improper payments, in turn preserving and protecting the FHA insurance fund.

#### What We Recommend

We recommend HUD's Deputy Assistant Secretary for Single Family Housing to; (1) update and implement processes, procedures, and the MCM contract for CWCOT reviews to fully align with CWCOT requirements going forward; (2) obtain documentation to support that the claims paid in cases where the MCM contractor identified potential findings of more than \$10.5 million were fully eligible or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified; (3) determine the amount owed for improper payments made to lenders for CWCOT cases that the MCM contractor identified as having potential findings related to appraisals and demand and collect repayment for the determined amount; and (4) enhance oversight of the MCM contractor including, but not limited to, reviewing its CWCOT reports for verification and validation and providing the review results for further review, validation, and referral as needed.

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## Background and Objective

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. This insurance allows lenders to bear less risk because FHA will pay a claim in the event of a homeowner default. HUD's Office of Single Family Housing administers the FHA mortgage insurance programs for loans secured by new or existing single-family homes, condominium units, manufactured homes, and homes needing rehabilitation. When a borrower with a loan in default cannot or will not resume and complete mortgage payments, lenders must take steps to acquire the property or see that it is acquired by a third party.

FHA provides the CWCOT program as one of the disposition options to the lender. The CWCOT program, which has been in effect since 1987, encourages third parties to purchase properties at foreclosure sales instead of having lenders convey the property to HUD as is done with other FHA insurance claims. By allowing bids that do not amount to the total debt owed on the property, the program seeks to decrease the number of properties in HUD's inventory. In other words, HUD uses CWCOT sales to reduce the time properties sit vacant, while reducing losses and improving recoveries for FHA's Mutual Mortgage Insurance Fund. HUD also reimburses the lenders for certain costs associated with the foreclosure and sale of the property. HUD's Office of Single Family Asset Management and National Servicing Center oversee the disposition of foreclosed FHA properties through the CWCOT program.

When a property is being considered for the CWCOT program, the lender must use the Commissioner's Adjusted Fair Market Value (CAFMV) for all foreclosure and post-foreclosure sales efforts. The CAFMV is the estimate of the fair market value of the mortgaged property, less adjustments, which may include without limitation, HUD's estimate of holding costs and resale costs that would be incurred if title to the mortgaged property were conveyed to HUD. Further, a mortgage is eligible for CWCOT when the following criteria are met:

- FHA-insured mortgage insurance is active.
- The lender has worked with the borrower to exhaust all applicable home retention options and has determined that the borrower's case does not meet criteria for a home disposition option, or the lender has been unable to locate the borrower, and the property is vacant or has been abandoned by the borrower.
- The property has no surchargeable damage.

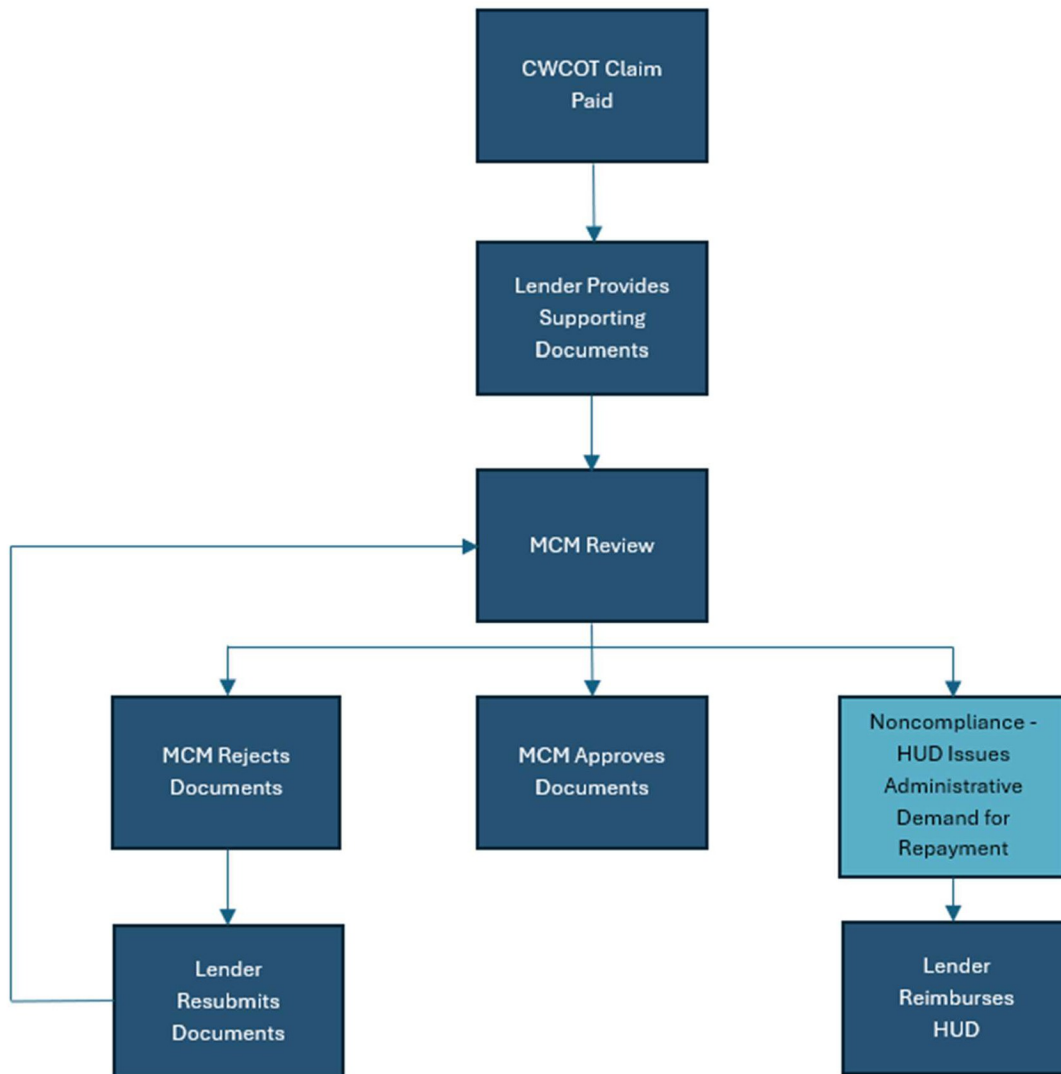
HUD uses an MCM contractor to service the CWCOT program and ensure HUD's interests are protected. The MCM contractor is responsible for pre-conveyance and post-conveyance activities associated with claims, acquisition, and disposition of FHA-insured assets. For HUD's CWCOT program, it reviews 100 percent of CWCOT cases for type of appraisal, CAFMV amount, bid amount, auction fee, and surchargeable damage.<sup>1</sup> If the MCM contractor finds that the supporting documents do not support the

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<sup>1</sup> See appendix C for more detail on the CWCOT review requirements included in HUD's MCM contract.

amount that FHA paid the lender, it is considered an improper payment.<sup>2</sup> In these cases, the MCM contract requires the contractor to pursue administrative remedies including demands for repayment to recover the improper payments. The figure below shows this administrative remedy process.

Figure 1. MCM Administrative Remedy Process



The objective of our audit was to assess whether HUD is appropriately demanding and collecting improper payments identified for CWCOT loans.

<sup>2</sup> According to the Payment Integrity Information Act of 2019, an improper payment is defined as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. See 31 U.S.C. § 3351(4).

## Results of Audit

### HUD Did Not Pursue Repayment for Improper Payments on Claims Without Conveyance of Title

HUD's Office of Single Family Housing had not been pursuing administrative demands for repayment of improper payments it made on CWCOT loans. These improper payments were identified by its MCM contractor and included amounts, (1) calculated by the contractor for the CWCOT review categories of findings defined in its contract, (2) related to HUD's property preservation and protection cost requirements that were not included in the MCM contract's CWCOT review scope of work, and (3) for findings related to appraisal issues that the contractor did not monetize. Further, not all findings identified by the MCM contractor were properly tracked and referred. These conditions occurred because HUD did not ensure CWCOT demand-for-repayment processes were implemented or provide adequate oversight to its MCM contractor. As a result, HUD paid improper claims and failed to recapture more than \$10.5 million determined to be owed, which negatively impacted recoveries to the FHA insurance fund.

### HUD's MCM Contractor Identified Improper Payments for CWCOT Loans but HUD Did Not Pursue Repayment

HUD did not pursue repayment of more than \$10.5 million identified by its MCM contractor related to 1,758 findings on CWCOT cases it reviewed during the 2-year audit period of March 2023 through February 2025.<sup>3</sup> In addition, HUD did not provide guidance on how to calculate repayment amounts for appraisal-type findings on loans with \$7.5 million in total claims, therefore, the total improper payment amount is likely more than the approximately \$10.5 million identified. The figure below provides a summary of the contractor's findings of these improper payments categorized by review category.

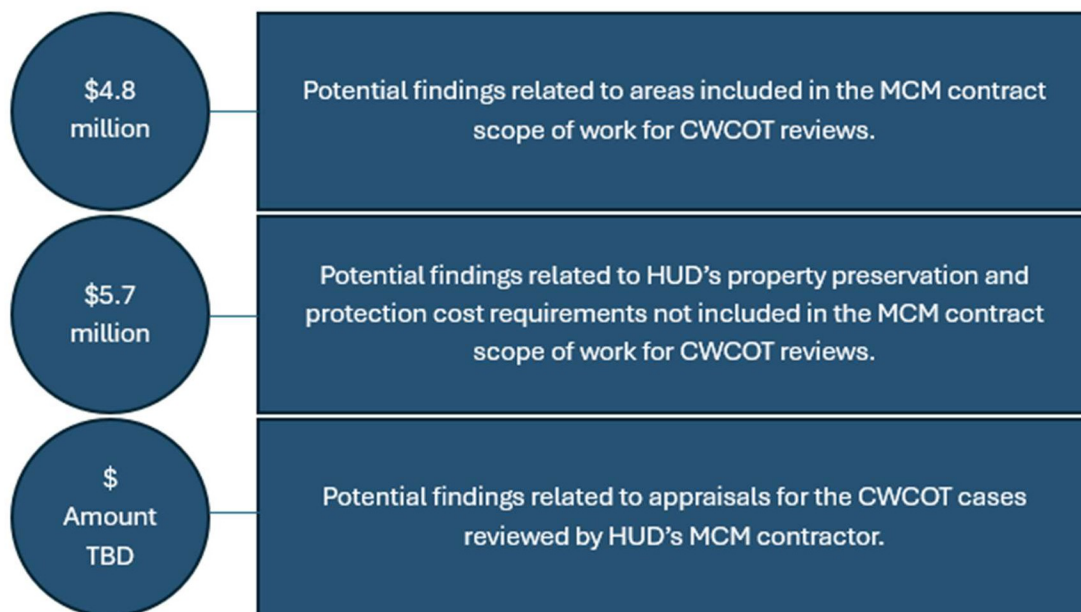
Figure 2. Summary of Improper Payment Findings by Review Category

Review Category	# of Findings	Potential Improper Payments
CAFMV Calculation	71	\$2,456,294
Auction Fee	16	\$31,062
Surchargeable Damage	170	\$2,350,444
Property Preservation and Protection Costs	1,270	\$5,673,474
Appraisal Type	231	\$0
<b>Total</b>	<b>1,758</b>	<b>\$10,511,274</b>

<sup>3</sup> We selected a statistical sample of 78 CWCOT cases from the 1,758 findings for review to validate the contractor's work. Review of the initial 17 sample CWCOT cases did not identify any substantive validation issues with the data and thus, we determined that we could rely on the contractor's findings. See the Scope and Methodology for more details on the sampling.

The 1,758 findings identified by HUD’s contractor consisted of improper payments related to (1) areas included in the MCM contract scope of work, (2) HUD’s property preservation and protection cost requirements not included in the MCM contract scope of work, and (3) appraisal issues that the contractor did not monetize. The figure below shows the breakdown of the potential improper payment amounts for these three categories of improper payments.

Figure 3. Improper Payments Identified by the MCM Contractor



### Improper Payments Related to Areas Included in the MCM Contract Scope of Work

HUD did not pursue administrative remedies for 257 findings totaling more than \$4.8 million that related to areas included in the MCM contract scope of work for CWCOT reviews. As part of its contract with HUD, the MCM contractor reviews every CWCOT loan once the claim is filed and paid through FHA. Specifically, the MCM is required to review the CAFMV amount, the auction fee charged to HUD, the bid amount, and any unrepaired surchargeable damage for all CWCOT loans.

HUD’s Single Family Housing Policy Handbook 4000.1 provides specific requirements for CWCOT that relate to these areas included in HUD’s MCM contract scope of work. Specifically, the Handbook states the following:

- Lenders must access the CAFMV link in HUD’s FHA Connection<sup>4</sup> system to determine a property’s CAFMV, using the appropriate appraisal for the CAFMV calculation.

<sup>4</sup> FHA Connection is an internet-based system that provides FHA business partners and vendors secure interaction with HUD mainframe systems. Authorized employees of a lender should visit <https://entp.hud.gov/clas/index.cfm> to determine a property’s CAFMV.

- Lenders are only authorized to bill HUD at a maximum of 5 percent of the sales price for the auction fee.
- Lenders must use the correct bid amount, depending if the lender or a third-party is bidding and winning the auction.
- There cannot be any unrepaired surchargeable damage.

According to the MCM contract, if any of these above requirements are not met, the MCM contractor is to pursue an administrative remedy against the lenders for the corresponding improper overpayment(s) including demand for repayment.

In its review of CWCOT loans during our review period, the MCM contractor found that lenders were potentially in violation of the handbook requirements above and were likely overpaid by more than \$4.8 million in 257 cases, as a result. More specifically, in Figure 2 above, we identified 71 potential overpayments when the incorrect CAFMV was used totaling \$2,456,294, 16 potential overpayments when the auction fee was higher than the allowed 5 percent, totaling \$31,062, and 170 potential overpayments when there was unrepaired surchargeable damage totaling \$2,350,444. However, HUD or its contractor did not notify the lenders of these findings or pursue repayment for the amounts.

### **Improper Payments Related to Property Preservation and Protection Costs Not Included in the MCM Contract Scope of Work**

Property preservation and protection actions are maintenance, security, and repair work required by HUD to ensure that a property meets HUD's condition standards. The MCM contractor was not required in the contract scope of work to look for property preservation and protection overpayments. Even though the MCM contractor was not required to look for these overpayments, HUD nevertheless requires a lender to repay unnecessary or excessive expenses that were outside the scope of property preservation and protection actions, were not performed properly or completely, or exceeded the maximum cost allowance of \$5,000 per property. Despite HUD's contract not including the requirement to look for property preservation and protection overpayments, in March 2023, HUD's Contracting Officer Representative (COR) instructed its MCM contractor to review CWCOT loans for these potentially costly overpayments.

The MCM contractor's CWCOT reviews during our 2-year review period identified 1,270 potential overpayments related to HUD's property preservation and protection cost requirements. This represented more than 72 percent of the 1,758 findings identified by HUD's MCM contractor during the period and totaled \$5,673,474. Although these costs are included in HUD's requirements for claims and HUD's COR instructed the MCM contractor to review them for related overpayments, it chose not to include this area in the MCM contract scope of work for CWCOT reviews. Likewise, HUD or its contractor did not notify the lenders of these findings or pursue repayment for the amounts.

### **Improper Payments Related to Appraisals Without Corresponding Dollar Amounts Calculated**

During our review period, the MCM contractor also identified 231 findings related to the appraisal conducted for CWCOT loans but did not assign improper payment dollar amounts for them due to HUD not providing guidance regarding administrative remedies for this type of finding. HUD's Single Family Housing Policy Handbook 4000.1 states, "unless otherwise directed by HUD, lenders must first obtain, and review for accuracy, an 'As-Is' FHA appraisal, which includes both an interior and exterior evaluation

of the property. If the property is occupied and interior appraisal cannot be obtained, an ‘exterior-only’ appraisal may be used. Appraisals are valid for 180 days from the effective date of the appraisal report.” Accordingly, the lender is required to perform the correct type of appraisal, depending on the occupancy of the property, and the appraisal validity period.

As part of the CWCOT review process, the MCM contractor verifies whether the lender used the correct appraisal type and that the appraisal is still valid. HUD’s MCM contract indicated that the contractor must pursue administrative remedies when the incorrect type of appraisal is used or the appraisal is no longer valid but provided no guidance on what amount is appropriate to demand repayment for in these cases. As a result, the MCM contractor did not assign dollar amounts for these potential findings and HUD, or its contractor did not notify the lenders of these findings or pursue repayment leaving no consequence for noncompliance.

## **HUD Did Not Ensure That Demand Processes Were Implemented or Adequately Oversee its Contractor**

HUD Office of Single Family Housing leadership instructed its Office of Single Family Asset Management and National Servicing Center to begin issuing demands for CWCOT improper overpayments in 2021 but did not ensure that demand processes were ever implemented. During interviews with HUD and MCM contractor officials, we received conflicting information on why demand processes for CWCOT overpayments had not been implemented to date. Although the Office of Single Family Housing’s leadership instructed the Single Family Asset Management team to start the demand process in 2021, during interviews with this team and the MCM contractor, we were told that prior leadership did not want to pursue demands due to possible industry pushback, and concerns that pushback could disrupt a process that was beneficial to HUD.<sup>5</sup> That decision to delay implementation was further supported by minutes from monthly meetings between MCM contractor officials and HUD’s COR from February 2021 through July 2024, where the topic was consistently discussed and each time, the contractor was informed that HUD was still working toward implementing the demand process. The MCM contractor notated on its monthly CWCOT reports to HUD that it was instructed to not make demands on potential CWCOT improper payments identified.

HUD officials also stated delays in implementing a demand process for CWCOT overpayments were caused by system capability issues. HUD had been working on and off during the past few years to resolve these system issues to make demands; however, there was no evidence that it pursued non-automated options to notify lenders of the findings and pursue repayment for the potential improper payments identified by its contractor while waiting for these system improvements. Further, the MCM contractor indicated that it was already making demands for repayment for other types of claims and that the industry was aware that demands could be made for improper overpayments on CWCOT loans.

In early 2025, HUD issued demand letters on a few test cases, but then again instructed the MCM contractor to put the CWCOT demand process on hold until directed otherwise. During our audit, HUD acknowledged that demands for repayment needed to be made, and that they were beginning the process with the MCM contractor to pursue administrative remedies for potential CWCOT improper

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<sup>5</sup> The CWCOT program had been an efficient way to dispose of FHA properties, prevented vacant properties from sitting on the market for a long time, and saved HUD holding costs.

payments. In June 2025, HUD provided email communication to the contractor about formally starting the process to make CWCOT demands for repayment.

### **HUD Did Not Provide Adequate Oversight for Its MCM Contractor**

In addition to not pursuing improper payments that the contractor identified, HUD did not monitor the contractor to ensure findings were properly tracked and referred. According to HUD guidance, the MCM contractor conducts an initial review of CWCOT cases monthly, with results forwarded to HUD's Contracting Officer Representative (COR). These reviews are performed after the claim has already been filed and paid through FHA. It is the responsibility of the COR and HUD management to verify and validate the contractor's findings. Further, HUD's guidance states that the COR sends the results to the relevant Homeownership Center (HOC) for further review and validation and once the HOC validates the MCM contractor's results, the MCM contractor initiates the administrative remedy process. The COR is also to refer significant patterns of noncompliance or serious individual violations to HUD's Office of Single Family Housing Quality Assurance Division (QAD). In the case of fraud or material misrepresentation, the COR is to refer the information to the HUD Office of Inspector General (OIG).

There was no evidence that the COR and HUD management verified and validated the MCM contractor's CWCOT findings or that these findings were referred to HOCs, QAD, or OIG. Further, we identified some inconsistencies in the data. Specifically, we found duplicate CWCOT case numbers in the data, indicating that the same CWCOT cases were sometimes reviewed multiple times on different dates in one or more review categories. A comparison of CWCOT data from HUD's Single Family Data Warehouse and the contractor's data also showed delays ranging from a few months to several years between the initial date the claim was processed by HUD and the date the MCM contractor reviewed it. HUD was unable to explain why these duplicate reviews and delays occurred.

## **Conclusion**

HUD did not ensure that CWCOT demand-for-repayment processes were ever implemented, and its oversight of the contractor was inadequate, which undermined the integrity of the program and contributed to the misuse of taxpayer funds. HUD potentially paid improper claims of more than \$10.5 million and failed to demand repayment for these improper payments on CWCOT loans. Pursuing administrative remedies for CWCOT overpayments will help protect and preserve the FHA insurance fund and deter lenders from submitting improper requests in the future.

## **Recommendations**

We recommend that the Deputy Assistant Secretary for Single Family Housing

- 1A. Update and implement processes, procedures, and the MCM contract for CWCOT reviews to fully align with CWCOT requirements going forward including, but not limited to, (1) notifying lenders of and making demands and collections for findings identified during CWCOT reviews; (2) developing detailed guidance on the CWCOT review process, potential demand calculation, and acceptable amounts to demand for each finding category; and (3) ensuring that CWCOT reviews cover all CWCOT requirements, including those related to property preservation and protection costs.

1B. Obtain documentation for the \$5,673,474 in potential findings related to property preservation and protection costs identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

1C. Obtain documentation for the \$2,456,294 in potential findings related to use of the Commissioner's Adjusted Fair Market Value identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

1D. Obtain documentation for the \$2,350,444 in potential findings related to surchargeable damage costs identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

1E. Obtain documentation for the \$31,062 in potential findings related to auction fees identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

1F. Determine the amount owed for improper payments made to lenders for CWCOT cases that the MCM contractor identified as having potential findings related to appraisals. Further, demand and collect repayment from the lenders for the determined amount of the improper payments.

1G. Enhance oversight of the MCM contractor including, but not limited to, reviewing its CWCOT reports for verification and validation, providing the review results to its HOCs for further review and validation as needed, and referring items to QAD and OIG, as needed.

## Management Response

Office of Single Family Housing management generally agreed with OIG's recommendations with the exception of recommendation 1C. 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.

Office of Single Family Housing management disagreed with taking any action under recommendation 1C and stated that it exercised its enforcement discretion for any violation involving a servicer bidding total debt instead of CAFMV on foreclosure and post-foreclosure sales that occurred prior to July 24, 2025, which was after issuance of FHA INFO 2025-36, Reminder Guidance for FHA-Approved Mortgagees Regarding Claims Without Conveyance of Title Bidding Policy. The Office of Single Family Housing made this decision due to conflicting instructions it previously provided to mortgage servicers and industry participants. It will review the identified claims to determine if the CAFMV was used but does not anticipate taking any action unless the review reveals a violation that does not involve a total debt bid.

Management's full response is included in Appendix B.

## 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. Regarding recommendation 1C, although the Office of Single Family Housing does not anticipate taking any action, OIG appreciates its commitment to review the identified claims to determine whether the CAFMV was used, as recommended in this report. OIG also acknowledges the Office of Single Family Housing's explanation of the enforcement discretion it applied to cases involving total debt bids prior to the issuance of FHA INFO 2025-36 and the historical inconsistencies in guidance that contributed to these circumstances. OIG will work together with the Office of Single Family Housing through the audit resolution process to fully address this issue, ensure alignment on the applicable requirements, and determine any next steps needed to resolve the recommendation.

During the audit resolution process, OIG will continue to work with the Office of Single Family Housing to enhance its CWCOT demand-for-repayment processes and oversight of its MCM contractor to resolve the recommendations included in this report.

## Scope and Methodology

We conducted our audit work from May through December 2025. We conducted field work for this audit offsite and onsite in Oklahoma City, OK. Our audit period covered March 2023 through February 2025.

To accomplish our objective, we:

- Reviewed relevant HUD policies, procedures, handbooks, mortgagee letters, and other documentation to obtain sufficient background information.
- Interviewed HUD Office of Single Family Housing officials to determine if and how HUD is collecting on CWCOT improper payments.
- Interviewed MCM contractor officials to obtain an understanding of its CWCOT review processes.
- Interviewed HUD QAD officials to determine its role, if any, in collecting CWCOT improper payments.
- Reviewed the MCM contractor's monthly Mortgagee Compliance Manager Reports and MCM CWCOT Reports, which included its potential findings.
- Reviewed HUD's contract with its MCM contractor including the Performance Work Statement (PWS) outlining CWCOT review requirements.
- Reviewed the MCM contractor's policies and procedures.
- Identified and reviewed prior HUD OIG work related to our audit objective including audit reports.
- Selected and reviewed a statistical sample of potential CWCOT findings identified by HUD's MCM contractor, including documentation supporting its determination, to validate the contractor's work.

We selected a statistical sample of potential CWCOT findings identified by HUD's MCM contractor for review to validate the contractor's work. The universe consisted of 1,697 CWCOT cases reviewed by the contractor during our review period of March 2023 through February 2025 representing \$10,511,293 in potential improper payments identified on 1,758 findings. Within these 1,697 CWCOT cases, the potential findings identified were 231 with an appraisal deficiency; 71 with an incorrect Commissioner's Adjusted Fair Market Value (CAFMV) calculation; 16 overbilled for the auction fee; 170 with surchargeable damage; and 1,270 related to property preservation and protection costs. We designed the sample to be dual purpose to (1) validate the contractor's work so we could use their calculations to determine the amount of improper payments and (2) project the amount of improper payments that were made and not repaid to HUD during our review period in the event incorrect items were found during our validation. We selected a stratified sample of 78 records from the universe.

We were unable to obtain the supporting documents for many of our sample CWCOT cases. Specifically, 61 of the sample cases had findings related to property preservation and protection costs, which were not within the scope of HUD's MCM contract, or to surchargeable damage, for which HUD was unable to provide documentation for. Therefore, the results of our sample review could not be projected to the universe. However, based on our review of the 17 sample CWCOT cases for which we were able to gather documentation, we did not find any substantive validation issues with the data. We concluded that, if the number of records reviewed expanded, it was unlikely that we would identify any records that

would be considered deficient. Therefore, although the documentation issues prevented us from verifying all 78 and projecting our results, we determined that the computer-processed data were sufficiently reliable to achieve our audit objective.

We also obtained an understanding of HUD's internal controls relevant to the audit objective. Specifically, we reviewed HUD's controls related to its MCM contract and policies and procedures or requirements for its contractor.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Appendices

## Appendix A – Schedule of Questioned Costs

Recommendation Number	Unsupported 1/
1B	\$5,673,474
1C	\$2,456,294
1D	\$2,350,444
1E	\$31,062
<b>Total</b>	<b>\$10,511,274</b>

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

# Appendix B – Management Response

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

OFFICE OF HOUSING

May 8, 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 Pursue Repayment for Improper Payments on Claims Without Conveyance of Title *OIG Audit Report Number: 2026-KC-XXXX*

The Office of Inspector General (OIG) audited the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) Claims Without Conveyance of Title (CWCOT) program to assess whether HUD was appropriately demanding and collecting improper payments identified for CWCOT loans by its Mortgagee Compliance Manager (MCM). The OIG selected this review and program to assist HUD in recovering improper payments and to reduce the risk of losses to the FHA Mutual Mortgage Insurance fund. The OIG provided a draft audit report to the Office of Single Family Housing (Single Family) for comment.

### Recommendation 1A

Update and implement processes, procedures, and the MCM contract for CWCOT reviews to fully align with CWCOT requirements going forward including, but not limited to, (1) notifying lenders of and making demands and collections for findings identified during CWCOT reviews; (2) developing detailed guidance on the CWCOT review process, potential demand calculation, and acceptable amounts to demand for each finding category; and (3) ensuring that CWCOT reviews cover all CWCOT requirements, including those related to property preservation and protection costs.

Single Family agrees with Recommendation 1A.

### Recommendation 1B

Obtain documentation for the \$5,673,474 in potential findings related to property preservation and protection costs identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

Single Family generally agrees with Recommendation 1B.

[www.hud.gov](http://www.hud.gov)

Recommendation 1C

Obtain documentation for the \$2,456,294 in potential findings related to use of the Commissioner's Adjusted Fair Market Value identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

The Office of Housing disagrees with taking any action under this Recommendation. Housing exercised its enforcement discretion with respect to any violation involving a servicer bidding total debt instead of Commissioner's Adjusted Fair Market Value on foreclosure sales and post foreclosure sales that occurred prior to July 24, 2025. Single Family made this decision due to conflicting instructions provided in HUD's 2016 Webinar on CWCOT and subsequent conflicting staff statements to mortgage servicers and industry participants. This affects all post claim review findings from all pending reviews for cases where foreclosure sales and post foreclosure sales occurred prior to the issuance of FHA INFO 2025-36, Reminder Guidance for FHA-Approved Mortgagees Regarding Claims Without Conveyance of Title Bidding Policy.

Single Family will review the identified claims to determine if the CAFMV was used but does not anticipate taking any action unless the review reveals a violation that does not involve a total debt bid.

Recommendation 1D

Obtain documentation for the \$2,350,444 in potential findings related to surchargeable damage costs identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified.

Single Family generally agrees with Recommendation 1D.

Recommendation 1E

Obtain documentation for the \$31,062 in potential findings related to auction fees identified by the MCM contractor to support that the claims paid were fully eligible, or demand and collect repayment from the lenders for the amount of improper CWCOT payments identified

Single Family generally agrees with Recommendation 1E.

Recommendation 1F

Determine the amount owed for improper payments made to lenders for CWCOT cases that the MCM contractor identified as having potential findings related to appraisals. Further, demand and collect repayment from the lenders for the determined amount of the improper payments.

Single Family generally agrees with Recommendation 1F.

Recommendation 1G

Enhance oversight of the MCM contractor including, but not limited to, reviewing its CWCOT reports for verification and validation, providing the review results to its HOCs for further review and validation as needed, and referring items to QAD and OIG, as needed.

Single Family generally agrees with Recommendation 1G.

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 C – Criteria

### 3.0 Mortgagee Compliance Manager (MCM) Contract

#### Section 5.2.4 CWCOT Claim Review

The Contractor shall review, verify and confirm that Mortgage Lenders are in compliance with Mortgagee Letters that are related to the following CWCOT claim criteria:

- Type of Appraisal - The Contractor will determine if the lender ordered the correct type of appraisal. If the property is occupied at the time of the appraisal, then an exterior only appraisal is required. If the property is vacant at the time of the appraisal, then an interior/exterior appraisal is required. If the lender fails to secure the correct type of appraisal, then the Contractor shall take the appropriate Administrative Remedy as outlined in the PWS.
- Discount after the property's appraised value has been established, employees of a mortgagee authorized to access the Commissioners Adjusted Fair Market Value (CAFMV) link in FHA Connection should visit <https://entp.hud.gov/clas/index.cfm> to determine a property's CAFMV. The Contractor is to verify the correct discount was applied. If the lender fails to apply the correct discount for the property's location, then the Contractor shall take the appropriate Administrative Remedy as outlined in the PWS.
- Bid Amount - The Contractor is to verify based on the appraised value and the correct discount if the lender bid the correct amount at the third party sale. If the lender fails to make the correct bid, then the Contractor shall take the appropriate Administrative Remedy as outlined in the PWS.
- Auction Fee - The Contractor is to verify the auction fee was no more than five percent of the sales price. If the lender fails to ensure the correct auction fee is charged, then the Contractor shall take the appropriate Administrative Remedy as outlined in the PWS.
- Surchargeable Damage - The Contractor is to verify the property condition of the appraisal to determine if there was any unrepaired surchargeable damage. If there is unrepaired surchargeable damage, then the Contractor shall take the appropriate Administrative Remedy as outlined in the PWS.

### Relevant Sections of HUD Single Family Housing Policy Handbook 4000.1

#### II.A.2.s.iii. Claims Without Conveyance of Title (07/12/2022)

**(A) Definitions:** A Claim 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.

#### **(B) Qualification Criteria for Use of Commissioner's Adjusted Fair Market Value**

**(1) Definition:** The Commissioner's Adjusted Fair Market Value (CAFMV) is the estimate of the FMV of the mortgaged Property, less adjustments, which may include without limitation, HUD's estimate of holding costs and resale costs that would be incurred if title to the mortgaged Property were conveyed to HUD.

**(2) Standard:** Mortgagees must use the CAFMV for all foreclosure sales and post-foreclosure sales efforts associated with defaulted FHA-insured Mortgages when eligible for CWCOT. 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.

### **(C) 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. 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.

### **(2) Determining the CAFMV**

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. In jurisdictions where the Mortgagee is required to bid a specific amount at foreclosure, that amount will be deemed to be the CAFMV for purposes of the initial foreclosure; however, the Mortgagee’s authorized employees must access the CAFMV link in FHAC to determine a Property’s CAFMV for use in any post foreclosure sales efforts.

### **(D) Independent Third-Party Providers**

**(2) Standard:** 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.

### **(E) CWCOT Bidding at the Foreclosure Sale**

The CAFMV is multi-tiered:

- at the foreclosure sale, the Mortgagee must bid the CAFMV which is the FHA calculation or the state-mandated foreclosure price, if applicable; and
- at post-foreclosure sales opportunities, the CAFMV is the FHA calculation, which may be adjusted if the Property had an exterior-only appraisal and is vacant after the foreclosure sale.

### **(3) 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 FHA insurance 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(B) Mortgagee Property Preservation and Protection Action (11/07/2023)**

#### **(1) Definitions**

Property Preservation and Protection (P&P) actions are maintenance, security, and repair work required by HUD in order to ensure that the Property meets HUD's conveyance condition standards.

Mortgagee Neglect refers to the Mortgagee's failure to take action to preserve and protect the Property from the time it is determined (or should have been determined) to be vacant or abandoned, until the time it is conveyed to HUD.

#### **(2) Standard**

The Mortgagee must preserve and protect Properties that are the security for FHA-insured Mortgages that are in Default or presently in foreclosure. The Mortgagee is responsible for the management, scheduling, and execution of all activities and actions taken to preserve, secure, maintain and protect the Property, regardless of the amount that HUD may reimburse.

Mortgagees may use any qualified individual or business to perform P&P services on Properties that were secured by FHA-insured Mortgages; however, the Mortgagee remains fully responsible to HUD for its actions and the actions of its agents, individuals, and firms that performed such services.

The Mortgagee remains responsible for property damage or destruction to a vacant or abandoned Property resulting from Mortgagee Neglect. Such neglect includes, but is not limited to:

- failure to adequately and accurately verify the occupancy status of a Property;
- failure to complete timely and accurate property inspections;
- failure to promptly and appropriately secure and continue to preserve and protect all vacant Properties according to HUD standards; and
- failure to promptly notify the MCM of receipt of code violations and demolition notices and/or take appropriate action.

HUD requires repayment of all or part of any claim reimbursement if it is determined that expenses claimed and paid were unnecessary or excessive, or that services claimed were not performed or were performed improperly or incompletely. The Mortgagee will not be reimbursed for the costs of protecting, operating, or preserving the Property, or removing debris from the Property after the time the Property should have been conveyed to HUD (24 CFR § 203.402(g)).

#### **(5) Property Preservation Allowances**

##### **(a) Definition**

The Maximum Property Preservation Allowance is a pre-approved reimbursement for the aggregate of all property preservation expenses that do not exceed the line item allowances listed in HUD's Property Preservation Allowances and Schedules.

**(b) Standard**

The Maximum Property Preservation Allowance is \$5,000 per Property.

**(c) Requests for Exceeding Maximum Property Preservation Allowances**

**(i) Standard**

The Mortgagee must request approval for expenses that exceed the Maximum Property Preservation Allowances from the MCM via P260 when:

- the aggregate of all Property P&P expenses (excluding those not included in the \$5,000 maximum cost limit) exceeds the Maximum Property Preservation Allowance;
- a Property P&P cost will exceed the maximum line item allowance listed in the Property Preservation Allowances and Schedules; or
- there is no specific line item allowance stated in the schedule for the expense.