



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

1 **Date:** XXXX, 2024

2 **Mortgagee Letter** 2024-XX

3 **To:** All FHA-Approved Mortgagees
4 All Direct Endorsement Underwriters
5 All Eligible Submission Sources for Condominium Project Approvals
6 All FHA Roster Appraisers
7 All FHA-Approved 203(k) Consultants
8 All FHA-Approved Title I Lenders
9 All HUD-Certified Housing Counselors
10 All HUD-Approved Nonprofit Organizations
11 All Governmental Entity Participants
12 All Real Estate Brokers
13 All Closing Agents

14 **Subject** Establishment of the Optional Reimbursement Claim Alternative (ORCA)

15 **Purpose** This Mortgagee Letter (ML) establishes the ORCA to provide Mortgagees
16 compensation for property tax and insurance payments on defaulted
17 Mortgages prior to final claim payment.

18 **Effective Date** The provisions of this ML are effective on XXXX.
19 All updates will be incorporated into a forthcoming update of the HUD
20 Handbook 4000.1, *FHA Single Family Housing Policy Handbook*
21 (Handbook 4000.1).

22 **Affected** The provisions of this ML apply to FHA-insured Title II forward
23 **Programs** Mortgages.

24 **Background** Mortgagees are required to pay taxes and insurance on defaulted Mortgages
25 while attempting loss mitigation. These costs are ultimately reimbursed
26 when a final claim is paid, if not otherwise recouped by the Mortgagee.
27 Currently, the extended time period between a Mortgage Default and final
28 resolution can result in significant capital outlays for Mortgagees. While the
29 number of defaulted Mortgages has declined to pre-pandemic levels,
30 Mortgagees are facing growing liquidity challenges in advancing funds due

1 to higher interest rates and elevated borrowing costs. Therefore, HUD is
2 establishing the Optional Reimbursement Claim Alternative (ORCA) for
3 Mortgagees who elect to submit early claims for reimbursement of taxes and
4 insurance costs paid prior to final claim payment.

5 **Summary of**
6 **Changes**

This ML:

- updates Claim Filing Instructions when an ORCA is filed for:
 - Claim Type 01 – Conveyances (IV.A.2.a);
 - Claim Type 02 – Assignment or Single Family Loan Sale Program (IV.A.2.b);
 - Claim Type 06 – Claims Without Conveyance of Title (IV.A.2.d);
 - Claim Type 07 – Pre-Foreclosure Sales (IV.A.2.e);
 - Claim Type 32 ** – FHA-HAMP Loan Modification (IV.A.2.g);
 - Claim Type 33 ** – FHA-HAMP Partial Claim (IV.A.2.h);
 - Claim Type 33 – Disaster Standalone Partial Claim (IV.A.2.i);
 - Claim Type 33 – National Emergency Standalone Partial Claim (IV.A.2.j);
 - Claim Type 32 – COVID-19 Recovery Modification or COVID-19 Advance Loan Modification (IV.A.2.k); and
 - Claim Type 33 – Payment Supplement (IV.A.2.l); and
 - establishes Claim Type XX – the Optional Reimbursement Claim Alternative (ORCA) Claim (IV.A.2.m).
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23 **FHA Single**
24 **Family Housing**
25 **Policy**
26 **Handbook**
27 **4000.1**

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

Claim Types (IV.A.2)

Claim Type 01 – Conveyances (IV.A.2.a)

i. Computation of Interest

(E) Debenture Interest for Optional Reimbursement Claim Alternative

The Mortgagee is not permitted to claim debenture interest on amounts advanced by the Mortgagee where the Mortgagee has previously been compensated for the advances through an Optional Reimbursement Claim Alternative (ORCA).

1 **ii. Computation of Claim Amount**

2 **(R) ORCA Reconciliation**

3 If the Mortgagee filed an ORCA for Mortgagee advances of property
4 taxes, Hazard Insurance or Flood Insurance, the Mortgagee must
5 adhere to the requirements as listed under Reconciliation and
6 Reimbursement of ORCA – Property Disposition Claims
7 (IV.A.2.1.vi(F)).

8 **Claim Type 02 – Assignment or Single Family Loan Sale Program**
9 **(IV.A.2.b)**

10 **i. Hawaiian Home Lands Mortgages (Section 247 Mortgages)**
11 **Claims**

12 **(A) Computation of Interest**

13 **(1) Debenture Interest for Optional Reimbursement Claim**
14 **Alternative**

15 The Mortgagee is not permitted to claim debenture interest on
16 amounts advanced by the Mortgagee where the Mortgagee has
17 previously been compensated for the advances through an
18 Optional Reimbursement Claim Alternative (ORCA).

19 **(B) Computation of Claims**

20 **(3) ORCA Reconciliation**

21 If the Mortgagee filed an ORCA for Mortgagee advances of
22 property taxes, Hazard Insurance or Flood Insurance, the
23 Mortgagee must adhere to the requirements as listed under
24 Reconciliation and Reimbursement of ORCA – Property
25 Disposition Claims (IV.A.2.1.vi(F)).

26 **ii. Insured Mortgages on Indian Land (Section 248 Mortgages)**
27 **Claims**

28 **(A) Computation of Interest**

29 **(1) Debenture Interest for Optional Reimbursement Claim**
30 **for Advances**

31 The Mortgagee is not permitted to claim debenture interest on
32 amounts advanced by the Mortgagee where the Mortgagee has
33 previously been compensated for the advances through an
34 Optional Reimbursement Claim Alternative (ORCA).

1 (B) Computation of Claims

2 (3) ORCA Reconciliation

3 If the Mortgagee filed an ORCA for Mortgagee advances of
4 property taxes, Hazard Insurance or Flood Insurance, the
5 Mortgagee must adhere to the requirements as listed under
6 Reconciliation and Reimbursement of ORCA – Property
7 Disposition Claims (IV.A.2.1.vi(F)).

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

9 i. Computation of Interest

10 (E) Debenture Interest for Optional Reimbursement Claim
11 Alternative

12 The Mortgagee is not permitted to claim debenture interest on
13 amounts advanced by the Mortgagee where the Mortgagee has
14 previously been compensated for the advances through an Optional
15 Reimbursement Claim Alternative (ORCA).

16 ii. Computation of Claim Amount

17 (F) ORCA Reconciliation

18 If the Mortgagee filed an ORCA for Mortgagee advances of property
19 taxes, Hazard Insurance or Flood Insurance, the Mortgagee must
20 adhere to the requirements as listed under Reconciliation and
21 Reimbursement of ORCA – Property Disposition Claims
22 (IV.A.2.1.vi(F)).

23 Claim Type 07 – Pre-Foreclosure Sales (IV.A.2.e)

24 i. Computation of Interest

25 (C) Debenture Interest for Optional Reimbursement Claim
26 Alternative

27 The Mortgagee is not permitted to claim debenture interest on
28 amounts advanced by the Mortgagee where the Mortgagee has
29 previously been compensated for the advances through an Optional
30 Reimbursement Claim Alternative (ORCA).

1 **Claim Type 33 – Disaster Standalone Partial Claim (IV.A.2.i)**

2 **i. Debenture Interest for Optional Reimbursement Claim**
3 **Alternative**

4 The Mortgagee is not permitted to claim debenture interest on amounts
5 advanced by the Mortgagee where the Mortgagee has previously been
6 compensated for the advances through an Optional Reimbursement
7 Claim Alternative (ORCA).

8 **ii. ORCA Reconciliation**

9 If the Mortgagee filed an ORCA for Mortgagee advances of property
10 taxes, Hazard Insurance or Flood Insurance, the Mortgagee must adhere
11 to the requirements as listed under Reconciliation and Reimbursement of
12 ORCA – Mortgage Is Reinstated With a Partial Claim or Payment
13 Supplement (IV.A.2.1.vi(B)).

14 **Claim Type 33 – National Emergency Standalone Partial Claim**
15 **(IV.A.2.j)**

16 **i. Debenture Interest for Optional Reimbursement Claim**
17 **Alternative**

18 The Mortgagee is not permitted to claim debenture interest on amounts
19 advanced by the Mortgagee where the Mortgagee has previously been
20 compensated for the advances through an Optional Reimbursement
21 Claim Alternative (ORCA).

22 **ii. ORCA Reconciliation**

23 If the Mortgagee filed an ORCA for Mortgagee advances of property
24 taxes, Hazard Insurance or Flood Insurance, the Mortgagee must adhere
25 to the requirements as listed under Reconciliation and Reimbursement of
26 ORCA – Mortgage Is Reinstated With a Partial Claim or Payment
27 Supplement (IV.A.2.1.vi(B)).

28 **Claim Type 32 – COVID-19 Recovery Modification or COVID-19**
29 **Advance Loan Modification (IV.A.2.k)**

30 **i. Debenture Interest for Optional Reimbursement Claim**
31 **Alternative**

32 The Mortgagee is not permitted to claim debenture interest on amounts
33 advanced by the Mortgagee where the Mortgagee has previously been
34 compensated for the advances through an Optional Reimbursement
35 Claim Alternative (ORCA).

1 **ii. ORCA Reconciliation**

2 If the Mortgagee filed an ORCA for Mortgagee advances of property
3 taxes, Hazard Insurance or Flood Insurance, the Mortgagee must adhere
4 to the requirements as listed under Reconciliation and Reimbursement of
5 ORCA:

- 6 • Mortgage Is Reinstated With a Partial Claim or Payment
7 Supplement (IV.A.2.1.vi(B)), if the COVID-19 Recovery
8 Modification includes a Partial Claim; or
- 9 • Mortgage Is Reinstated With a Standalone Loan Modification or
10 Without Loss Mitigation (IV.A.2.1.vi(C)).

11 **Claim Type 33 – Payment Supplement (IV.A.2.l)**

12 **ii. Debenture Interest for Optional Reimbursement Claim**
13 **Alternative**

14 The Mortgagee is not permitted to claim debenture interest on amounts
15 advanced by the Mortgagee where the Mortgagee has previously been
16 compensated for the advances through an Optional Reimbursement
17 Claim Alternative (ORCA).

18 **iii. ORCA Reconciliation**

19 If the Mortgagee filed an ORCA for Mortgagee advances of property
20 taxes, Hazard Insurance or Flood Insurance, the Mortgagee must adhere
21 to the requirements as listed under Reconciliation and Reimbursement of
22 ORCA – Mortgage Is Reinstated With a Partial Claim or Payment
23 Supplement (IV.A.2.1.vi(B)).

24 **Claim Type XX – Optional Reimbursement Claim Alternative**
25 **(IV.A.2.m)**

26 **i. Definition**

27 The Optional Reimbursement Claim Alternative (ORCA) provides
28 compensation to Mortgagees for advances made by the Mortgagee for
29 payments of property taxes, Hazard Insurance, and Flood Insurance, if
30 applicable, for a Mortgage in Default.

31 **ii. Standard**

32 Mortgagees may choose to submit an ORCA to receive compensation
33 associated with required advances made by the Mortgagee for property
34 taxes, Hazard Insurance and Flood Insurance during the course of
35 Mortgagee’s evaluation and, where appropriate, taking of loss mitigation
36 actions for a Mortgage in Default.

1 Mortgagees that file and are paid an ORCA for a Mortgage in Default
2 must report and itemize any previous ORCAs on a final claim and must
3 not file any future claims for reimbursement associated with this
4 Mortgage for:

- 5 • the amount paid through the ORCA to the Mortgagee with
6 respect to Mortgagee advances for property taxes and Hazard
7 Insurance and Flood Insurance; and
- 8 • any debenture interest for Mortgagee advances for property
9 taxes, Hazard Insurance, and Flood Insurance reimbursed
10 through the ORCA, which would have been earned on the
11 amount advanced by the Mortgagee if no ORCA was filed.

12 An ORCA is not a Partial Claim and has no impact on a Borrower's
13 eligibility for loss mitigation options, or the Borrower's obligation to
14 pay to the Mortgagee the amounts owed for property taxes, Hazard
15 Insurance, and Flood Insurance that the Mortgagee was required to
16 advance as a result of the Borrower's Default on the Mortgage.

17 The Mortgagee may submit multiple ORCAs for a single Default
18 episode.

19 The cumulative amount for all ORCAs for a single Default episode must
20 not exceed 48 months of Mortgagee advances for property taxes, Hazard
21 Insurance, and Flood Insurance.

22 **(A) Eligibility**

23 The Mortgagee must ensure that:

- 24 • payment of property taxes, Hazard Insurance, and Flood
25 Insurance have been paid in full on or before the due date;
- 26 • escrow funds associated with the account for property taxes,
27 Hazard Insurance, and Flood Insurance were exhausted and
28 were inadequate to meet these obligations;
- 29 • the Delinquency/Default Status Code reported in SFDMS
30 accurately reflects that the Mortgage has been in Default for a
31 minimum of six months; and
- 32 • the maximum allowable ORCA claims have not been filed
33 for this Default episode.

34 **(B) Time Frame for Submission of ORCA**

35 The Mortgagee may only file an ORCA claim for eligible advances
36 for taxes and insurance on a Delinquent Mortgage six months or
37 more past due.

1 Subsequent ORCAs may be filed no less than six months from the
2 date the previous ORCA was filed until the Mortgage is reinstated,
3 terminates, or a claim is filed.

4 **(C) Required Documentation**

5 HUD must receive a correct and complete claim submission of Parts
6 A, B and D via [FHAC](#) or FHA Catalyst using Claim Type XX:
7 Optional Receipt of Compensation for Advances.

8 The Mortgagee must retain in the Servicing and Claim Review file:

- 9
- a copy of each complete ORCA claim filed; and
 - the payment transaction history and documentation of the
10 property taxes, Hazard Insurance, and Flood Insurance
11 payments made by the Mortgagee during the Delinquency
12 period, including documentation showing the escrow deposits
13 for property taxes, Hazard Insurance, and Flood Insurance
14 were first exhausted and inadequate to meet these obligations
15 in the servicing and claim file.
16

17 **iii. Computation of Interest**

18 The Mortgagee is not permitted to include debenture interest for any
19 advances submitted in an ORCA.

20 **iv. Computation of ORCA Claim Amount**

21 The Mortgagee may only include reasonable amounts for eligible
22 advances of property taxes, Hazard Insurance, and Flood Insurance
23 payments by the Mortgagee.

24 The Mortgagee's Quality Control (QC) Plan must include their review
25 process for ensuring the accurate calculation of ORCAs, and the
26 required subsequent action for Mortgages where an ORCA was filed.

27 **v. Submission of Claim Form Parts to HUD for ORCA**

28 The Mortgagee must complete form HUD-27011 sections of Parts A, B,
29 and D as listed below through [FHAC](#) or FHA Catalyst for each ORCA.

30 The Mortgagee must submit Part B and D simultaneously with Part A.

31 **(A) Part A – Initial Application**

32 When filing Claim Type XX Optional Receipt of Compensation
33 Alternative, Mortgagees must select XX – ORCA in Box 1, Claim
34 Type, and complete all applicable fields in Part A.

1 **(B) Part B – Fiscal Data**

2 The Mortgagee must enter the Total Disbursements (from Item 305,
3 Part D) on Item 111, Column B Additions.

4 Columns A and C must not include any entries. The Net Claim
5 Amount on Item 137 must match Item 111 Column B.

6 **(C) Part D – Support Document**

7 For each advance by the Mortgagee for property taxes, Hazard
8 Insurance, or Flood Insurance that the Mortgagee is including in the
9 ORCA, the Mortgagee must enter the Date Paid, Description, and
10 Amount Paid on Part D, Item 305. The Mortgagee is not permitted to
11 include debenture interest for any advances submitted in an ORCA.

12 **vi. Reconciliation and Reimbursement of ORCA**

13 By filing the ORCA, the Mortgagee agrees that it will reconcile or
14 reimburse HUD for any ORCA amounts that the Mortgagee obtains in
15 error or for which the Mortgagee is otherwise compensated, as
16 determined by the action taken on the Mortgage, as follows.

17 **(A) Miscalculations**

18 If the Mortgagee miscalculates the ORCA amount, resulting in an
19 overpayment to the Mortgagee, the Mortgagee must remit the
20 overpaid amount to HUD via Pay.gov within three business days.

21 If the Mortgagee miscalculates the ORCA and fails to claim all
22 eligible amounts, the Mortgagee may not claim the difference in any
23 subsequent claim, including for an ORCA.

24 **(B) Mortgage Is Reinstated With a Partial Claim or Payment
25 Supplement**

26 If the Mortgage is reinstated through the use of a Partial Claim, either
27 as a Standalone Partial Claim or as a Partial Claim as part of a
28 combination Loan Modification and Partial Claim or COVID-19
29 Recovery Modification, or a Payment Supplement the Mortgagee
30 must:

- 31 • submit Parts B and D of HUD-27011 as part of their
32 submission of a claim for a Partial Claim;
- 33 • enter the total amount of all ORCAs filed for the Mortgage
34 on form HUD-27011, Part B, Item 132, Column A
35 Deductions;
- 36 • enter the Date Paid, Description, and Amount Paid only for
37 each advance on form HUD-27011, Part D, Item 305; and

- add “(ORCA)” to each itemized advance Description.

(C) Mortgage Is Reinstated With a Standalone Loan Modification or Without Loss Mitigation

If the Mortgage is fully reinstated with a standalone Loan Modification or without the use of a loss mitigation home retention option, the Mortgagee must:

- remit all ORCA payments for this Mortgage in full to HUD via Pay.gov within 60 Days; and
- if a claim for a home retention option is filed, include in form HUD-27011, Part A “Mortgagee’s comments” section, the total ORCA payments received for property taxes, Hazard Insurance, or Flood Insurance payments during the corresponding Default episode.

(D) Sale, Refinance, or Non-Conveyance Foreclosure

If the Property is sold, the Mortgage is refinanced, or the Mortgagee elects not to convey the Property to HUD after foreclosure and terminates the contract of mortgage insurance, the Mortgagee must remit all ORCA payments for this Mortgage in full to HUD via Pay.gov within 60 Days of the closing or Foreclosure date.

(E) Assumption

If the Mortgage is assumed, the assuming Borrower must pay off all arrearages as part of the assumption. The Mortgagee must remit all ORCA payments for this Mortgage in full to HUD via Pay.gov within 60 Days from the date the assumption is finalized.

(F) Property Disposition Claims

The Mortgagee must include all previous ORCA payments received when submitting the following claim types:

- Claim Type 01 – Conveyances (IV.A.2.a)
- Claim Type 02 – Assignment or Single Family Loan Sale Program (IV.A.2.b)
- Claim Type 06 – Claims Without Conveyance of Title (IV.A.2.d)
- Claim Type 07 – Pre-Foreclosure Sales (IV.A.2.e)

1 If the Mortgagee filed an ORCA to cover advances of property taxes,
2 Hazard Insurance or Flood Insurance, the Mortgagee must itemize
3 each allowable advance as follows:

- 4 • enter the total amount of all ORCAs filed for the Mortgage
5 on form HUD-27011, Part B, Item 132, Column A
6 Deductions.
- 7 • enter the Date Paid, Description, and Amount Paid only for
8 each advance on form HUD-27011, Part D, Item 305; and
- 9 • add “(ORCA)” to each itemized advance Description.

10 The Mortgagee is not permitted to include debenture interest for any
11 advances submitted in an ORCA.

12 In the event the Mortgagee fails to report the ORCA payments in the
13 subsequent FHA property disposition claim(s) in this manner, the
14 Mortgagee must remit the claim overpayment to HUD via Pay.gov
15 within 60 Days of receipt of the subsequent claim.

16 **vii. Transfer of Mortgage after ORCA**

17 If the Mortgage is sold or servicing responsibilities have been
18 transferred to another FHA-approved Mortgagee after an ORCA, the
19 requirements associated with any ORCA transfers to the new
20 Mortgagee.

21 **Paperwork**
22 **Reduction Act**

23 The information collection requirements contained in this document have
24 been approved by the Office of Management and Budget (OMB) under the
25 Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and
26 assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-
27 0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-
28 0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-
29 0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-
30 0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-
31 0610; and 2502-0611. In accordance with the PRA, HUD may not conduct
32 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.

33 **Signature**

34 Julia R. Gordon
35 Assistant Secretary for Housing -
36 FHA Commissioner
