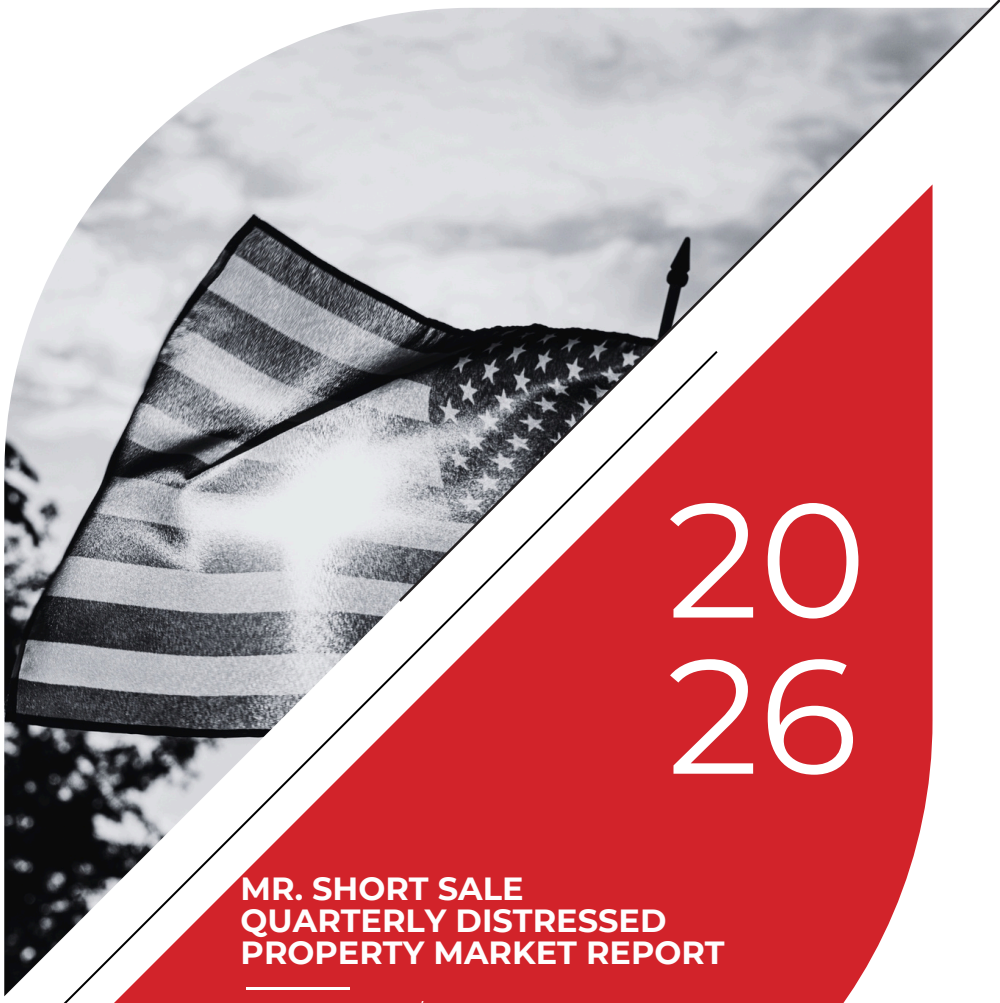


2026

MR. SHORT SALE QUARTERLY DISTRESSED PROPERTY MARKET REPORT

Q3 2026 Review / Q4 2026 Outlook
Foreclosure, Mortgage Distress & Short-Sale Market Signals
Data cutoff: September 28, 2026. As of publication, ATTOM's full Q3 2026 U.S. Foreclosure Market Report had not been released; this edition therefore uses ATTOM's most recent available foreclosure data.

DISTRESS IS MOVING DEEPER

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INTRO

The Market Behind The Foreclosure Numbers

Last quarter, the story was the return of the foreclosure pipeline. This quarter, the story is becoming more nuanced.

Overall mortgage delinquency eased slightly in Q2. But serious delinquency increased for a fourth consecutive quarter. FHA borrowers remain under disproportionate pressure. The share of equity-rich homeowners declined. More recent FHA and VA borrowers are underwater. Foreclosure timelines have shortened. And in many markets, sellers are facing more inventory and greater buyer negotiating power.

Foreclosure activity remains well below historical crisis levels. But for borrowers already under financial pressure, the number of available options can narrow quickly when hardship, limited equity, softer pricing and time begin to overlap.

MARKET READ
The market is not crashing. But for some distressed homeowners, the path out is getting narrower.



SOURCE LINE: Mortgage Bankers Association; ATTOM; ICE Mortgage Technology; Realtor.com; Redfin.

EXECUTIVE SUMMARY

THE AVERAGE IS HIDING THE RISK

The distressed-property market remains highly segmented.

Overall mortgage delinquency declined slightly in Q2, yet serious delinquency increased for the fourth consecutive quarter. FHA serious delinquency deteriorated far more sharply than conventional or VA performance.

Nationally, homeowner equity remains substantial. Mortgage holders collectively have a record $18 trillion in equity. But approximately 813,000 borrowers are underwater — 44% more than one year ago — with disproportionate concentration among FHA and VA borrowers, recent purchasers and homeowners in Texas and Florida.

At the same time, foreclosure activity continues to run above year-ago levels. August foreclosure filings were up 13%, foreclosure starts were up 7%, and completed foreclosures were up 42% annually.

The resale market is also becoming less forgiving. Housing supply reached a six-year high in August, while 59.5% of U.S. homes sold below their original asking price.

MARKET READ:
This is not a broad national foreclosure crisis. It is a more concentrated distress cycle — increasingly defined by loan type, equity position, geography, household finances and the amount of time a borrower has left to act.

MARKET SNAPSHOT

FORECLOSURE ACTIVITY IS RISING FROM SUPPRESSED LEVELS — BUT THE PRESSURE IS NOT EVENLY DISTRIBUTED

THE STATS

40,277 U.S. properties had foreclosure filings in August 2026. +13% year over year.

11.79% FHA mortgage delinquency rate in Q2 2026. Compared with 4.89% for VA and 2.72% for conventional loans.

813,000 Mortgage holders were underwater in ICE's Q2 analysis. +44% year over year.

MARKET READ

The national averages remain manageable. The greater risk lies in the borrower segments where delinquency, limited equity and local market weakness are beginning to overlap.

Source line: ATTOM August 2026 U.S. Foreclosure Market Report; Mortgage Bankers Association Q2 2026 National Delinquency Survey; ICE August 2026 Mortgage Monitor.

FORECLOSURE PIPELINE

THE FORECLOSURE PIPELINE IS STILL MOVING — AND THE CLOCK IS GETTING SHORTER

Foreclosure activity continued its year-over-year climb through the third quarter.

During the first half of 2026, 227,548 U.S. properties had foreclosure filings, up 21% from the same period in 2025. Foreclosure starts increased 18%.

By August, filings remained 13% above year-ago levels, with starts 7% higher. But one of the most important developments is timing.

Properties completing foreclosure in Q2 spent an average of 563 days in the process — the shortest average since 2013. Foreclosure duration declined for a seventh consecutive quarter and was 13% shorter than one year earlier.

MARKET READ
The pipeline is not simply reopening. For some borrowers, it is moving faster. Earlier identification matters when the amount of time available to pursue loss mitigation, a traditional sale or a short sale is contracting.





Source line: ATTOM Mid-Year 2026 and August 2026 U.S. Foreclosure Market Reports.

REPOSSESSIONS

REPOSSESSIONS: MORE FILES ARE REACHING THE END OF THE PIPELINE

Bank repossessions remain one of the clearest end-stage foreclosure signals.

Lenders repossessed 27,983 properties during the first half of 2026 — 33% more than in the first half of 2025. In August alone, lenders completed foreclosure on 5,794 properties, an increase of 42% year over year. That annual increase was substantially larger than the 7% increase in foreclosure starts during the same month.

MARKET READ

The most important number may not be how many borrowers enter foreclosure. It may be how many ultimately reach repossession. Rising REOs do not mean every property could have been saved. They do indicate that more distressed files are reaching the point at which earlier review, loss mitigation or short-sale evaluation may have mattered.

WHAT TO WATCH

Does completed foreclosure activity continue rising faster than new foreclosure starts?



Source line: ATTOM Mid-Year 2026 and August 2026 U.S. Foreclosure Market Reports.

DISTRESS IS STILL CONCENTRATED BY LOAN TYPE — BUT FHA IS PULLING FURTHER AWAY

The overall delinquency rate declined slightly in Q2 to 4.37%. But loan performance remains sharply different by product:

FHA: 11.79%
VA: 4.89%
Conventional: 2.72%

Year over year, delinquency increased:

FHA: +122 basis points
VA: +57 basis points
Conventional: +12 basis points.

The more significant signal is serious delinquency.
The national seriously delinquent rate rose to 2.06%, marking the 4th consecutive quarterly increase.

Compared with one year earlier:

FHA serious delinquency: +227 bps
VA: +31 bps
Conventional: +6 bps

NEW SIGNAL: FHA PRESSURE IS BECOMING MORE GEOGRAPHIC: Cotality found Florida's FHA serious delinquency rate increased from 4.30% in August 2025 to 6.36% in March 2026, while Arizona increased from 3.21% to 5.42%. Conventional performance changed little, while VA delinquency declined in nearly every state in Cotality's analysis.

MARKET READ: The headline is no longer simply that FHA delinquency is high. It is that serious FHA distress is becoming increasingly concentrated by both product and geography.

VA WATCH: The VA launched its new Partial Claim Program in June. Servicers have until November 28, 2026 to implement partial claims in their systems, making Q4 an important period to watch for changes in VA loss-mitigation outcomes.

EQUITY IS STILL THE STABILIZER — BUT THE CUSHION IS BECOMING LESS EVEN

41.1% of mortgaged U.S. properties were equity-rich in Q2 2026.
That is down from 43.3% in Q1 and 47.4% one year earlier.

3.2% of mortgaged homes were seriously underwater.
The percentage was unchanged from Q1 but increased from 2.7% one year earlier.

ICE provides the other side of the picture:
$18 TRILLION in total mortgage-holder equity — a record.

But approximately:
813,000 BORROWERS were underwater, 44% more than one year ago, disproportionately concentrated among FHA and VA borrowers, people who bought between 2022 and 2025, and borrowers in Texas and Florida.

MARKET READ:

America has substantial equity. Not every homeowner does. The short-sale risk remains concentrated in the borrowers for whom that equity cushion is thin, shrinking or already gone.



SIDEBAR: THE TWO FORECLOSURE TRIGGERS
First American describes broad foreclosure risk as requiring two conditions to occur together:

1. The homeowner can no longer pay.
2. The homeowner no longer has sufficient equity to sell.

First American found that prices were declining year over year in 22 of the 50 largest markets, but remained approximately 52% above February 2020 levels on average, which is one reason it does not see those two triggers broadly aligned nationally.

MSS READ: The national triggers have not collided. For individual borrowers, they can.

CAN DISTRESSED HOMEOWNERS STILL SELL THEIR WAY OUT?

The market is giving sellers less pricing power.

Redfin reported that total U.S. housing supply reached its highest level since 2020 in August. New listings were at their highest level since 2022, while home sales were essentially flat.
59.5% of U.S. homes sold below their original asking price in August.
Realtor.com independently reported:
20.4% of active listings had a price reduction.
-1.3% year-over-year change in median list price.
36 OF THE TOP 50 METROS had falling list price per square foot.
SEPTEMBER ADDED ANOTHER PRESSURE POINT
The average 30-year fixed mortgage rate rose from **6.71% on September 3 to 7.03% on September 24**, ending Q3 at its highest level since the beginning of the year.

MARKET READ
Higher mortgage rates reduce buyer purchasing power at the same time sellers are already facing more inventory and greater price pressure.
A price reduction is manageable when there is substantial equity. It becomes a different problem when there is little or no equity left to cut. For distressed homeowners already near their payoff amount, higher borrowing costs, softer pricing, repairs, liens, closing expenses and buyer concessions can narrow — or eliminate — the traditional-sale exit.



Source line: Redfin August 2026 Housing Market Report; Realtor.com August 2026 Monthly Housing Trends; Freddie Mac Primary Mortgage Market Survey.

OWNERSHIP COST PRESSURE

MORTGAGE ISN'T THE ONLY PRESSURE POINT

5.2%
2026 YTD national property-tax delinquency rate among the non-escrowed mortgages analyzed by Cotality. Cotality notes the rate is trending upward, although it remains below the 5.4% long-term average in its dataset.

+41.7%
increase in U.S. HOA liens from 2022 through 2025.

+46.1%
increase in HOA foreclosure filings over the same period.

MARKET THESIS:
Homeownership distress can begin outside the mortgage payment. Taxes, insurance, HOA obligations, repairs and other carrying costs can erode the reserves and practical equity available to a homeowner when a hardship occurs.

Source: Cotality 2026 Property Tax Delinquency Report; Cotality 2026 HOA Lien & Foreclosure Risk Report.

HUMAN HARDSHIP LENS

THE DATA STILL HAS A HUMAN PATTERN — BUT FINANCIAL PRESSURE IS BROADENING

01.

Households often protect the mortgage for as long as possible. Cotality describes a pattern in which financially strained homeowners may reduce spending, use credit, tap available equity and deplete reserves before finally missing housing payments. By the time a borrower reaches serious delinquency, the hardship may already have been building for months.

02.

The broader household balance sheet also remains under pressure. At the end of Q2:

$18.8 trillion total U.S. household debt
$13.1 trillion mortgage balances
$1.26 trillion credit-card balances
$1.71 trillion auto debt
$459 billion HELOC balances.

The annualized share of mortgage balances newly transitioning into serious delinquency increased from 1.29% in Q2 2025 to 1.52% in Q2 2026

03.

BANKRUPTCY: ANOTHER DISTRESS SIGNAL

Bankruptcy filings are also rising.
For the 12 months ending June 30, 2026, total U.S. bankruptcy filings increased 12.2% to 608,511, including a 12% increase in nonbusiness filings.

In August alone, individual bankruptcy filings were 9% above year-ago levels, with individual Chapter 7 and Chapter 13 filings each up 10%.

04.

MARKET READ:

Foreclosure and bankruptcy are different processes, and these figures do not establish that the same households are experiencing both.
What they do show is that mortgage distress is occurring within a broader environment of household financial pressure.
That caveat is important.

WHERE SHORT-SALE RISK FORMS

Short-sale risk is not measured by foreclosure filings alone.
It forms earlier, when the homeowner's financial exit path begins to narrow.

01

Hardship
A life event or financial shock changes the homeowner's ability to pay.

02

Delinquency
The borrower is behind or moving toward default.

03

Limited practical equity
Payoff, liens, repairs, taxes, fees and selling expenses narrow the available cushion.

04

Market Pressure
Price reductions or buyer concessions reduce the proceeds available from a traditional sale.

05

Lender approval
The file becomes specialized when the lender must approve the payoff, package and timeline.

06

Foreclosure Timing
A shortening foreclosure window reduces the time available to resolve the property before repossession.

MARKET READ:
Short-sale risk is not measured by foreclosure filings alone.
It forms when hardship, delinquency, limited practical equity, market pricing and time begin to intersect.

THE NEW Q3 DISTINCTION
Foreclosure risk rises when a homeowner can neither pay nor sell.
Short-sale relevance often begins before that final point is reached.
The first idea is consistent with First American's dual-trigger analysis; the second is the MSS interpretation of when a file may warrant short-sale review.

Q4 2026 OUTLOOK

The next quarter is still regional, technical, and borrower-segment driven

Foreclosure activity
Likely to remain above 2025 levels based on the current year-over-year trajectory.

Completed Foreclosures
Watch whether REOs continue rising faster than foreclosure starts.

Foreclosure Timelines
Watch whether average duration continues shortening after seven consecutive quarterly declines.

FHA Serious Delinquency
One of the clearest borrower-segment risks heading into Q4.

VA Loss Mitigation
Watch the impact of wider Partial Claim implementation as servicers approach the November 28 deadline.

Equity Protection
Strong nationally but weakening for some recent FHA/VA borrowers and in selected markets.

Seller Pricing Power
Watch price cuts, below-list sales and inventory growth — particularly where homeowner equity is already limited.

Household Financial Pressure
Watch bankruptcy filings, consumer debt, property-tax delinquency and other carrying-cost pressures heading into Q4.

MARKET THESIS:
This is still not a national price-collapse story. It is a distress-collision story.
The highest-risk files are increasingly likely to be found where:
borrower hardship + serious delinquency + limited equity + softer pricing + shorter foreclosure timelines occur at the same time.

METHODOLOGY

This report uses the latest publicly available data as of September 28, 2026. Because the full Q3 2026 ATTOM U.S. Foreclosure Market Report has not yet been released, this edition currently uses:

PRIMARY SOURCES

ATTOM	Redfin
ICE Mortgage Technology	Federal Reserve Bank of New York
Mortgage Bankers Association	Administrative Office of the U.S. Courts
Cotality	Epiq AACER / American Bankruptcy Institute
First American Data & Analytics	Federal Housing Finance Agency
Realtor.com	U.S. Department of Veterans Affairs

EDITORIAL STANDARD

This report does not predict a national foreclosure crisis. It identifies market signals most likely to affect distressed homeowners, distressed properties, foreclosure prevention, repossession risk and short-sale demand in the coming quarter.

We look forward to working together to help more Americans avoid foreclosure.

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