

MISSISSIPPI DEVELOPMENT AUTHORITY KATRINA GRANTS

1. Purpose: This circular will provide direction to VA-guaranteed loan holders who receive requests from borrowers concerning grants under the initial Mississippi Development Authority (MDA) plan to offer relief to victims of Hurricane Katrina.

2. MDA Grants: The State of Mississippi has developed a plan for the use of Federal Community Development Block Grant (CDBG) funds to assist homeowners who suffered flood damage to their primary residence from Hurricane Katrina. Under the plan, eligible homeowners may receive a one-time grant payment, up to a maximum of \$150,000, for flood damages not covered by insurance or other federal programs. In exchange for the grant payment, a qualifying homeowner must agree to covenants regarding compliance with new elevation requirements and applicable building codes for any rebuilding or repair, as well as agreement to maintain full flood insurance coverage on any dwelling on the property. The MDA requires that the covenants run with and encumber the property. The MDA also offered loan holders an opportunity to “opt-in” to participate in the disbursement of the grant funds, without providing specific restriction on the release of funds, other than for delinquent installments or unpaid taxes.

3. Subordination Requirement: After diligent discussions among many attorneys for both parties, an agreement concerning MDA’s requirement that the mortgage be subordinated to the covenants was reached between VA and MDA. Accordingly, VA has no objections to the loan holder or its agent signing the MDA subordination agreement as a condition for a borrower to receive a grant award.

4. Assistance with Escrow Accounts and Other Expertise: VA recognizes that the MDA program provides discretion to homeowners on the use of grant funds, except for delinquent loan installments and unpaid taxes. At the same time, VA encourages loan holders to offer their expertise and assistance to borrowers. This may include establishing escrow accounts to manage the disbursement of grant funds in an orderly fashion, in an effort to help ensure that repairs are completed in accordance with the covenant requirements.

5. RESCISSION: This circular is rescinded October 1, 2008.

By Direction of the Undersecretary for Benefits

Keith Pedigo, Director
Loan Guaranty Service

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