

DOCUMENT RESUME

01956 - [A1112132]

The Need for HUD to More Fairly Treat Homeowner Claims for Defects in Existing Insured Homes. April 15, 1977. 12 pp.

Testimony before the House Committee on Government Operations: Manpower and Housing Subcommittee; by Wilbur D. Campbell, Associate Director, Community and Economic Development Div.

Issue Area: Domestic Housing and Community Development (2100).

Contact: Community and Economic Development Div.

Budget Function: Commerce and Transportation: Other Advancement and Regulation of Commerce (403).

Organization Concerned: Department of Housing and Urban Development; Department of Housing and Urban Development: Chicago Area Office, IL.

Congressional Relevance: House Committee on Government Operations: Manpower and Housing Subcommittee. Rep. Ralph H. Metcalfe.

Authority: National Housing Act, sec. 518(b). National Housing Act, sec. 203. National Housing Act, sec. 221. National Housing Act, sec. 235. Housing Authorization Act of 1976, sec 518(d).

At the request of Rep. Ralph H. Metcalfe, the Department of Housing and Urban Development's Section 518(b) Homeowner Assistance Program operated by the Chicago Area Office was reviewed. Criteria used to evaluate claim applications for defects in existing insured homes were identified, and the appeals process for the applicants was assessed. Findings/Conclusions: Procedures for processing the claims require a determination as to (1) the eligibility of the claim based on statutory requirements, and (2) the validity of the claim based on inspection results or other applicable criteria. Due to vague criteria, homeowners in the Chicago area who have submitted claims have not been treated consistently in a fair and equitable manner. Recommendations: The Secretary of Housing and Urban Development should direct that more clearly defined criteria be developed as to what constitutes a serious defect; direct that inspectors get improved guidance; and obtain assurance that other field offices are making payments for claims in accordance with established procedures. The Chicago Area Office should be directed to discontinue using a fixed time limit criterion only; be fair and objective; resolve serious doubts in favor of the homeowner; reevaluate all claims it has rejected on the basis of inappropriate criteria; and pay future claims in accordance with established procedures. (SC)

01956

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M. CST
IN CHICAGO, ILLINOIS
FRIDAY, APRIL 15, 1977

STATEMENT OF
WILBUR D. CAMPBELL, ASSOCIATE DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON MANPOWER AND HOUSING
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

ON
THE NEED FOR HUD TO MORE FAIRLY TREAT HOMEOWNER
CLAIMS FOR DEFECTS IN EXISTING INSURED HOMES

MADAM CHAIRWOMAN, MEMBERS OF THE SUBCOMMITTEE, AND
CONGRESSMAN METCALFE:

IN RESPONSE TO THE SUBCOMMITTEE'S REQUEST, WE ARE HERE
TODAY TO DISCUSS THE RESULTS OF OUR RECENTLY COMPLETED REVIEW
OF CERTAIN ASPECTS OF THE DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT'S SECTION 518(b) HOMEOWNER ASSISTANCE PROGRAM
WHICH WAS MADE AT THE REQUEST OF CONGRESSMAN RALPH H. METCALFE
OF ILLINOIS. WITH ME TODAY ARE MR. GILBERT F. STROMVALL,
REGIONAL MANAGER OF OUR CHICAGO REGIONAL OFFICE, AND
MR. ROBERT S. PROCACCINI, WHO PARTICIPATED IN THIS REVIEW.

CONGRESSMAN METCALFE REQUESTED THAT A REVIEW BE MADE OF
THE SECTION 518(b) PROGRAM OPERATED BY HUD'S CHICAGO AREA
OFFICE AND THAT IT INCLUDE A COMPILATION OF STATISTICAL DATA

ON THE PROGRAM, AN IDENTIFICATION OF THE CRITERIA USED TO EVALUATE CLAIM APPLICATIONS, AND AN ASSESSMENT OF HUD'S APPEALS PROCESS. AS INDICATED, THE REVIEW WAS LIMITED IN TERMS OF LOCATIONS AND SCOPE AND SHOULD NOT BE CONSIDERED A COMPREHENSIVE ASSESSMENT OF THE TOTAL PROGRAM.

A COPY OF OUR DRAFT REPORT WAS MADE AVAILABLE TO HUD ON FEBRUARY 11, 1977. HOWEVER, HUD'S FORMAL COMMENTS ON OUR TENTATIVE CONCLUSIONS AND PROPOSALS FOR IMPROVEMENT HAD NOT BEEN PROVIDED AT THE TIME MY TESTIMONY WAS PREPARED.

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AS YOU KNOW, SECTION 518(b) OF THE NATIONAL HOUSING ACT, ENACTED ON DECEMBER 31, 1970, AUTHORIZED HUD TO COMPENSATE OWNERS OF EXISTING HOMES FOR STRUCTURAL OR OTHER DEFECTS THAT SERIOUSLY AFFECT THE USE AND LIVABILITY OF ANY SINGLE-FAMILY DWELLING COVERED BY A MORTGAGE INSURED UNDER SECTION 235 OF THE SAME ACT. ONE OF THE CONDITIONS FOR COMPENSATION IS THAT THE DEFECT MUST HAVE EXISTED ON THE DATE OF THE INSURANCE COMMITMENT AND THAT IT BE ONE WHICH A PROPER INSPECTION COULD REASONABLY BE EXPECTED TO DISCLOSE. CLAIMS INVOLVING SECTION 235 HOMES MUST BE MADE NO LATER THAN 1 YEAR AFTER THE MORTGAGE WAS INSURED.

THE PROGRAM HAS SUBSEQUENTLY BEEN EXTENDED AND MODIFIED BY SEVERAL LAWS SO THAT IT NOW ALSO COVERS CERTAIN HOMES WITH MORTGAGES INSURED UNDER SECTIONS 203 AND 221 OF THE ACT IF THEY ARE LOCATED IN OLDER DECLINING URBAN AREAS. THE DEADLINE

FOR FILING SECTION 518(b) CLAIMS FOR SECTIONS 203 AND 221 HOMES ONLY EXPIREL ON DECEMBER 3, 1976. HOWEVER, THE HOUSING AUTHORIZATION ACT OF 1976 ESTABLISHED A SECTION 518(d) WHICH PROVIDES SIMILAR COVERAGE TO CERTAIN HOMEOWNERS INSURED UNDER SECTIONS 203 AND 221 AND ESTABLISHED A NEW DEADLINE OF AUGUST 3, 1977.

RESPONSIBILITY FOR PROCESSING, EVALUATING, AND RESOLVING SECTION 518(b) AND (d) CLAIMS WAS DELEGATED BY HUD HEADQUARTERS TO ITS FIELD OFFICES. PROCEDURES FOR PROCESSING THE CLAIMS REQUIRE A DETERMINATION AS TO THE (1) ELIGIBILITY OF THE CLAIM BASED ON STATUTORY REQUIREMENTS, AND (2) VALIDITY OF THE CLAIM BASED ON INSPECTION RESULTS OR OTHER APPLICABLE CRITERIA.

PROGRAM STATISTICS

ALTHOUGH THE SECTION 518(b) PROGRAM HAS BEEN IN EFFECT SINCE LATE 1970, NATIONWIDE STATISTICS DEVELOPED BY HUD HEADQUARTERS ARE LIMITED TO PROGRAM ACTIVITIES AFTER APRIL 1975. IT WAS AT THIS TIME THAT PROPERTIES INSURED UNDER SECTIONS 203 AND 221 BECAME ELIGIBLE AND BEGAN TO HAVE AN IMPACT ON THE MAGNITUDE OF THE PROGRAM.

FROM APRIL 1975 THROUGH JANUARY 1977 ABOUT 77,000 SECTION 518(b) CLAIMS WERE RECEIVED NATIONALLY WITH ABOUT 14,000 (OR ABOUT 18 PERCENT) HAVING BEEN FOUND VALID AND ACCEPTABLE FOR REIMBURSEMENT.

TOTAL COST OF THE PROGRAM SINCE ITS INCEPTION IN 1970 THROUGH JANUARY 1977 WAS ABOUT \$18.5 MILLION WITH ABOUT 22,000 PAYMENTS HAVING BEEN MADE.

BECAUSE OF CONCERNS EXPRESSED BY SOME OF HIS CONSTITUENTS, CONGRESSMAN METCALFE ASKED THAT WE SPECIFICALLY LOOK AT PROGRAM ACTIVITIES IN THE CHICAGO AREA. FROM APRIL 1975 THROUGH JANUARY 1977 HUD'S CHICAGO REGIONAL OFFICE RECEIVED 35,000 (OR 45 PERCENT) OF THE 77,000 CLAIMS RECEIVED NATIONWIDE. HUD'S CHICAGO AREA OFFICE (ONE OF SEVERAL FIELD OFFICES WITHIN THE CHICAGO REGION) RECEIVED ABOUT 13,000 OF THE 35,000 CLAIMS. ABOUT 2,500 OF THE 13,000 CLAIMS, OR ABOUT 19 PERCENT, HAVE PASSED ELIGIBILITY AND VALIDITY TESTS AND HAVE BEEN ACCEPTED FOR REIMBURSEMENT.

ACTIONS NEEDED TO INSURE
EQUITABLE TREATMENT OF
HOMEOWNER CLAIMS

BECAUSE THE CRITERIA USED BY HUD IS VAGUE IN TERMS OF IDENTIFYING WHAT CONSTITUTES AN ELIGIBLE DEFECT OR HOW TO DETERMINE THAT THE DEFECT EXISTED AT THE TIME OF INSURANCE COMMITMENT, CHICAGO AREA OFFICE PERSONNEL HAVE HAD TO USE CONSIDERABLE DISCRETION IN EVALUATING CLAIMS. AS A RESULT, HOMEOWNERS IN THE CHICAGO AREA WHO HAVE SUBMITTED SECTION 518(b) CLAIMS HAVE NOT BEEN TREATED CONSISTENTLY IN A FAIR AND EQUITABLE MANNER.

ABOUT 6,600 OF THE 13,000 CLAIMS SUBMITTED TO THE CHICAGO AREA OFFICE FROM APRIL 1975 THROUGH FEBRUARY 17, 1977,

WERE DETERMINED TO BE INVALID. AS OF FEBRUARY 17, 1977, 1,677 OF THESE CLAIMS, OR ABOUT 25 PERCENT, HAD BEEN RESUBMITTED IN THE FORM OF AN APPEAL. OF THE CLAIMS RESUBMITTED, 1,411 HAD BEEN PROCESSED AT THE TIME OF OUR REVIEW AND WE FOUND THAT 637 OF THEM, OR 45 PERCENT, HAD BEEN DETERMINED TO BE WHOLLY OR PARTIALLY VALID. WE EXAMINED 47 OF THESE CLAIMS IN DETAIL TO DETERMINE WHY THERE WAS SUCH A HIGH RATE OF SUCCESSFUL APPEALS.

WE FOUND FIRST OF ALL, THAT STRUCTURAL DEFECTS HAD NOT BEEN ADEQUATELY DEFINED. THE SECTION 518(b) INSPECTOR IS REQUIRED TO DETERMINE WHETHER THE CLAIMED DEFECT IS A STRUCTURAL OR OTHER MAJOR DEFECT WHICH SO SERIOUSLY AFFECTS THE USE AND LIVABILITY OF THE PROPERTY AS TO CREATE A SERIOUS DANGER TO THE INHABITANTS' LIVES OR SAFETY. HUD GUIDANCE ON WHAT CONSTITUTES SUCH A DEFECT IS NOT SPECIFIC, HOWEVER, AND OUR SAMPLE OF SUCCESSFULLY APPEALED CLAIMS DISCLOSED A NUMBER OF INSTANCES WHERE CLAIMS WERE INITIALLY REJECTED BECAUSE THE DEFECTS WERE NOT CONSIDERED STRUCTURAL OR OTHERWISE SERIOUS ENOUGH TO ENDANGER THE INHABITANTS' LIVES OR SAFETY, BUT WERE SUBSEQUENTLY APPROVED UPON APPEAL. FOR EXAMPLE:

--A HOMEOWNER SUBMITTED A CLAIM FOR REPLACING THE BOILER IN HIS HOME. THE SECTION 518(b) INSPECTOR REJECTED THE CLAIM ON THE BASIS THAT A BOILER IS NOT A STRUCTURAL ITEM. THE HOMEOWNER APPEALED AND THE HOME WAS REINSPECTED. THE SECOND INSPECTOR

RECOMMENDED THAT THE HOMEOWNER BE REIMBURSED
BECAUSE THE BOILER WAS NOT OPERATIONAL DURING
THE FIRST HEATING SEASON AND A CONTRACTOR CERTI-
FIED THAT THE ORIGINAL BOILER WAS BEYOND REPAIR.
THE AREA OFFICE RECONSIDERATION COMMITTEE
CONCURRED WITH THE INSPECTOR'S RECOMMENDATION
AND THE HOMEOWNER WAS REIMBURSED \$1,495.

SECONDLY, WE FOUND THERE WAS TOO MUCH RELIANCE PLACED
ON THE ORIGINAL FEDERAL HOUSING ADMINISTRATION (FHA) APPRAISALS.
A SENATE COMMITTEE REPORT WHICH ACCOMPANIED THE SECTION 518(b)
LEGISLATION EXPRESSED CONCERN THAT SOME FHA APPRAISERS HAD
ALLOWED BLATANTLY DEFECTIVE HOMES TO BE SOLD TO LOWER INCOME
FAMILIES. THE COMMITTEE FELT THAT HUD SHOULD BEAR THE BURDEN
OF CORRECTING THESE DEFECTS IN THOSE CASES WHERE HUD EMPLOYEES
HAD MADE INADEQUATE APPRAISALS AND INSPECTIONS.

CONSISTENT WITH THE COMMITTEE REPORT, THE CHICAGO AREA
OFFICE DIRECTED ITS INSPECTORS WHEN REVIEWING CLAIMS NOT TO
ATTEMPT TO DEFEND THE ORIGINAL FHA APPRAISAL BUT TO BE FAIR,
OBJECTIVE, AND RESOLVE SERIOUS DOUBTS IN FAVOR OF THE
HOMEOWNER.

NEVERTHELESS, 10 OF THE 47 CLAIMS EXAMINED WERE REJECTED
BY AREA OFFICE OFFICIALS WHO RELIED ON THE ORIGINAL FHA
APPRAISALS WHICH MADE NO MENTION OF THE DEFECTS. IN 7 OF THE
10 INSTANCES, AREA OFFICE REVIEWERS HAD REJECTED THE CLAIMS
ON THIS BASIS EVEN THOUGH INSPECTORS HAD EARLIER DETERMINED

THE CLAIMS TO BE VALID. THE FOLLOWING EXAMPLE ILLUSTRATES THIS SITUATION.

--A HOMEOWNER REPLACED THE HEATING SYSTEM IN HIS HOME ABOUT 1 YEAR AFTER MOVING IN. THE SECTION 518(b) INSPECTOR, AFTER REVIEWING THE HOMEOWNER'S APPLICATION FOR ASSISTANCE, DETERMINED THAT IT WAS ELIGIBLE AND VALID AND THAT IT SHOULD BE PAID. AN AREA OFFICE REVIEWER, HOWEVER, REJECTED THE CLAIM BECAUSE THE ORIGINAL FHA APPRAISAL REPORT INDICATED THAT THE HEATING SYSTEM WAS ACCEPTABLE. THE HOMEOWNER APPEALED AND THE HOME WAS REINSPECTED. THE INSPECTOR RECOMMENDED THAT THE DEFECT CLAIM BE FOUND ELIGIBLE, AND THE AREA OFFICE RECONSIDERATION COMMITTEE CONCURRED WITH THE INSPECTOR'S RECOMMENDATION. THE AMOUNT APPROVED FOR PAYMENT TO THE HOMEOWNER WAS \$1,118.

FINALLY, WE FOUND THAT MANY CLAIMS WERE BEING BOTH REJECTED AND ACCEPTED PRIMARILY ON THE BASIS OF A FIXED TIME LIMIT CRITERION WITH APPARENTLY LITTLE CONSIDERATION BEING GIVEN TO THE OTHER FACTORS OF EACH CASE. WE FOUND THAT THE CHICAGO AREA OFFICE ADOPTED A TIME LIMIT CRITERION AGAINST WHICH THE EMERGENCE OR CORRECTION OF A DEFECT HAS BEEN APPLIED IN DETERMINING A CLAIM'S VALIDITY. AT FIRST A 1-YEAR LIMIT FROM THE DATE OF MORTGAGE INSURANCE COMMITMENT WAS USED; LATER, A 2-YEAR LIMIT WAS ADOPTED. ONE EFFECT OF CHANGING

THIS CRITERION HAS BEEN TO TREAT HOMEOWNERS' CLAIMS INCONSISTENTLY OVER THE LIFE OF THE PROGRAM. FURTHER, AN OFFICIAL AT HUD HEADQUARTERS TOLD US THAT IT WAS INAPPROPRIATE TO APPLY A STEADFAST TIME CRITERION TO ALL CLAIMS BECAUSE EACH CLAIM SHOULD BE CONSIDERED INDIVIDUALLY AND UPON ITS OWN MERIT.

WE NOTED A NUMBER OF CASES WHERE A CLAIM WAS ORIGINALLY REJECTED BECAUSE THE DEFECT WAS REPAIRED BY THE HOMEOWNER MORE THAN 1 YEAR SUBSEQUENT TO THE COMMITMENT FOR MORTGAGE INSURANCE BUT WAS APPEALED AND SUBSEQUENTLY DETERMINED TO BE VALID AFTER THE CRITERION CHANGED TO 2 YEARS. FOR EXAMPLE:

--A HOMEOWNER SUBMITTED A CLAIM FOR REPLACING THE ROOF ON HIS HOME. A SECTION 518(b) INSPECTOR FOUND THE CLAIM INVALID BECAUSE THE ROOF WAS REPLACED 2 YEARS AFTER THE HOMEOWNER MOVED IN. THE HOMEOWNER APPEALED AND THE CLAIM WAS DETERMINED TO BE VALID BY THE AREA OFFICE RECONSIDERATION COMMITTEE AND THE HOMEOWNER WAS REIMBURSED \$735.

WHILE THESE CLAIMS WERE SUCCESSFULLY APPEALED, THERE ARE MANY REJECTED CLAIMS WHICH HAVE NOT BEEN APPEALED IN WHICH THE CIRCUMSTANCES APPEAR VERY SIMILAR TO THOSE SURROUNDING MANY OF THE CLAIMS WHICH WERE APPEALED AND WERE DETERMINED TO BE VALID. WE EXAMINED AN ADDITIONAL 25 REJECTED CLAIMS WHICH HAD NOT BEEN APPEALED AND NOTED THAT 12 WERE REJECTED ON THE BASIS

THAT THE DEFECTS WERE NOT SERIOUS OR DID NOT EMERGE WITHIN THE FIXED TIME LIMIT AND/OR THE ORIGINAL FHA APPRAISALS MADE NO MENTION OF THE DEFECTS. THE FOLLOWING EXAMPLE ILLUSTRATES THIS SITUATION.

--A HOMEOWNER WAS NOTIFIED THAT HIS CLAIM FOR REPLACING THE ROOF ON HIS HOME WAS NOT ELIGIBLE FOR REIMBURSEMENT BECAUSE THE ROOF WAS ACCEPTABLE AT THE TIME OF THE ORIGINAL APPRAISAL. THE SECTION 518(b) INSPECTOR REJECTED THE CLAIM BECAUSE HE CONSIDERED THE ROOF REPLACEMENT AS DEFERRED MAINTENANCE. THE ROOF WAS REPLACED LESS THAN 1 YEAR AFTER PURCHASE OF THE HOME.

VALID HOMEOWNER CLAIMS
NOT FULLY REIMBURSED

OUR REVIEW ALSO DISCLOSED THAT THE CHICAGO AREA OFFICE HAS NOT FOLLOWED PRESCRIBED PROCEDURES IN REIMBURSING HOMEOWNERS FOR COSTS INCURRED IN CORRECTING SECTION 518(b) DEFECTS. THESE PROCEDURES STATE THAT THE HOMEOWNER IS TO BE REIMBURSED FOR ALL COSTS ACTUALLY INCURRED INCLUDING FINANCE CHARGES. THEY ALSO STATE THAT WHERE THE HOMEOWNER'S CLAIM IS IN EXCESS OF WHAT MIGHT BE CONSIDERED REASONABLE FOR THE WORK PERFORMED, THE CLAIM WILL BE FORWARDED TO HUD HEADQUARTERS FOR DETERMINATION.

CONTRARY TO THESE PROCEDURES, THE CHICAGO AREA OFFICE WAS (1) MAKING REIMBURSEMENTS BASED ON A "COST DATA BOOK"

WHICH REFLECTED AVERAGE REPLACEMENT COSTS AND (2) NOT REIMBURSING HOMEOWNERS FOR FINANCE CHARGES. WE EXAMINED 54 CLAIMS THAT HAD BEEN PAID AND FOUND THAT THE AMOUNTS PAID FOR 21 (OR 39 PERCENT) WERE INCORRECT. THERE WERE THREE OVERPAYMENTS AVERAGING \$25 WHICH WERE DUE TO CLERICAL ERRORS. THE REMAINING 18 UNDERPAYMENTS RANGED FROM \$10 TO \$935 AND AVERAGED \$293. THEY WERE THE RESULT OF THE AREA OFFICE'S FAILURE TO FOLLOW THE PROCEDURES DESCRIBED EARLIER. THE FOLLOWING EXAMPLE IS INDICATIVE OF THE UNDERPAYMENTS WE FOUND.

--A HOMEOWNER INCURRED A COST OF \$994 IN REPLACING THE HEATING SYSTEM IN HIS HOME (\$915 FOR THE HEATING UNIT PLUS \$79 IN FINANCE CHARGES). FROM THE COST DATA BOOK, THE AREA OFFICE DETERMINED THE REIMBURSABLE AMOUNT TO BE \$609, WHICH IS \$385 LESS THAN THE COST ACTUALLY INCURRED.

IN JULY 1976 WE BROUGHT THE 18 UNDERPAYMENTS DISCLOSED BY OUR REVIEW TO THE ATTENTION OF CHICAGO AREA OFFICE OFFICIALS WHO AGREED TO FURTHER REIMBURSE SOME OF THE CLAIMANTS AND TO FURTHER REVIEW THE CLAIMS OF SOME OF THE OTHERS. AS OF APRIL 4, 1977, THE CHICAGO AREA OFFICE HAD AGREED TO FURTHER REIMBURSE 15 OF THE 18 HOMEOWNERS WHO HAD BEEN UNDERPAID.

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IN SUMMARY, MADAM CHAIRWOMAN, WE BELIEVE THAT HUD SHOULD TAKE CERTAIN ACTIONS AIMED AT BOTH INSURING MORE OBJECTIVE AND CONSISTENT EVALUATIONS OF HOMEOWNER CLAIMS NATIONWIDE AND AT

CORRECTING THE PROBLEMS WHICH HAVE OCCURRED IN THE CHICAGO AREA. NATIONWIDE, WE ARE RECOMMENDING THAT THE SECRETARY OF HUD:

- 1. DIRECT THAT MORE CLEARLY DEFINED CRITERIA AS TO WHAT CONSTITUTES A SERIOUS DEFECT BE DEVELOPED.**
- 2. DIRECT THAT THE GUIDANCE PROVIDED TO INSPECTORS FOR DETERMINING WHETHER DEFECTS EXISTED AT THE TIME OF INSURANCE COMMITMENT RECOGNIZE THE INAPPROPRIATENESS OF RELYING SOLELY ON A FIXED TIME LIMIT WITHOUT GIVING DUE REGARD TO OTHER FACTORS OF EACH CASE.**
- 3. OBTAIN ASSURANCE THAT OTHER HUD FIELD OFFICES ARE MAKING PAYMENTS FOR CLAIMS IN ACCORDANCE WITH ESTABLISHED PROCEDURES.**

IN CHICAGO, THE SECRETARY OF HUD SHOULD DIRECT ITS CHICAGO AREA OFFICE TO:

- 1. DISCONTINUE USING A FIXED TIME LIMIT CRITERION TO THE EXCLUSION OF OTHER PERTINENT FACTORS AND, RATHER THAN RELYING ON ORIGINAL FHA APPRAISALS, BE FAIR, OBJECTIVE, AND RESOLVE SERIOUS DOUBTS IN FAVOR OF THE HOMEOWNER IN EVALUATING CLAIMS.**
- 2. REEVALUATE ALL CLAIMS IT HAS REJECTED ON THE BASIS OF SUCH INAPPROPRIATE CRITERIA.**

3. PAY FUTURE CLAIMS IN ACCORDANCE WITH ESTABLISHED PROCEDURES AND REEVALUATE ALL CLAIMS PAID TO DATE IN TERMS OF SUCH PROCEDURES.

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MADAM CHAIRWOMAN, THIS COMPLETES MY PREPARED STATEMENT.
WE WILL BE PLEASED TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.