THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. **SUPERIOR COURT**

Docket No. 03-E-0106

In the Matter of the Liquidation of The Home Insurance Company

AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY LIQUIDATOR, IN SUPPORT OF APPROVAL OF COMPENSATION PLANS

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed Special Deputy Liquidator of The Home Insurance Company ("The Home") by the Insurance Commissioner of the State of New Hampshire ("Commissioner"), as Liquidator ("Liquidator") of The Home. I submit this affidavit in support of the Liquidator's Motion for Approval of Compensation Plans. The facts and information set forth below are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information and belief.

2. The present motion concerns the approval of retention/incentive plans for the employees of The Home. The Liquidator's Motion is the culmination of an over six month long process of review by the Liquidator, his staff, myself, counsel and experienced consultants, of the appropriate compensation structure for The Home's employees Our goal is to maximize the amount of assets available to pay the claims of The Home's creditors. The objective of the proposed retention/incentive plans is to provide The Home's employees with the appropriate market competitive incentives to help the Liquidator accomplish the foregoing goal.

3. The Liquidator has reviewed the provided retention/incentive plans and their estimated 2004 cost with the National Conference of Insurance Guaranty Funds' Subcommittee on The Home ("NCIGF Subcommittee") who have entered confidentiality agreements. The NCIGF Subcommittee has advised that it has no objection to the proposed retention/incentive plans.

4. Shortly after the liquidation proceeding commenced in June 2003, the Liquidator determined that the most efficient way to organize the liquidation process was to terminate the existing Risk Enterprise Management Ltd. ("REM") management arrangement and have The Home, with REM's consent, hire the most critical REM employees. This step permitted the Liquidator to benefit from the continued involvement of experienced former REM employees without the related REM overhead expense. As described in the Liquidator's status reports, the Liquidator hired ninety-three employees to handle the liquidation of The Home (and of USI Re), 82% of whom are located at The Home's former headquarters in New York City and 18% in Manchester, New Hampshire. I was also appointed the Special Deputy Liquidator to manage the operations of the liquidation. I am a consultant to the Liquidator, not an employee of The Home, and I am therefore not covered by the proposed retention/incentive plans.

5. The Home operated internationally and specialized in affording complex forms of insurance to large enterprises. Due to the sophisticated nature of The Home's insurance products, operations and supporting reinsurance programs, an experienced and stable liquidation staff will materially contribute to the efficient collection of assets. This is illustrated by the increase in The Home's liquid assets from the day the Order of Rehabilitation was entered, $3 million, to approximately $612 million at March 29, 2004. Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated by The

Home's experienced staff. Maximizing the prompt collection of assets advantages The Home's creditors.

6. The Liquidator engaged two nationally recognized compensation consultants to assist in the design of employee compensation plans -- Ernst & Young LLP and Rodeghero Consulting Group, Inc. Each consultant has extensive experience in the design of compensation plans for large insurers, like The Home, in liquidation. Initially, each consultant was provided with the same data and asked to independently develop proposed compensation plans. Neither consultant at that point was informed of the engagement of the other. This process was intended to facilitate the offering of independent advice which could be promptly tested and reviewed by key creditors and the Court. Both consultants agreed on the present relative level (compared to similar organizations) of The Home's employee compensation and recommended adoption of the same types of incentive/retention plans. The Home's present base salaries are approximately at the 50th percentile among comparable insurers. Both consultants also recommended that total direct compensation (base salary and incentive bonuses) range between the 50th and 75th percentile.

7. Because The Home is a company in liquidation, its employees have less career potential than they would if they were to leave The Home and become employed with a "healthy" insurance company. Further, previously available perquisites and company-sponsored portions of benefits plans have been restructured or reduced. Home has no retirement plan or company-matched 401(k) plan. The present severance benefit program is in place only until June 30, 2005. (Eligible employees, depending on length of service, may receive from three to six months of severance benefits under that program.) To address these issues, all The Home's employees will be made eligible for some form of retention/incentive compensation. Each of the

three proposed plans would be annually renewable and is therefore subject to prospective modification or termination by the Liquidator

8. The Retention Incentive Plan ("Retention Plan") would provide a cash incentive to The Home's fourteen non-exempt (Federal Wage and Hour Law) full time employees as of January 1, 2004 to stay with The Home. Subject to continuing employment, these employees would receive three additional payroll checks a year -- June 1, September 1 and December 1. If an employee voluntarily leaves or is terminated for cause, then no Retention Plan payment would be made. In the event of death, disability or an involuntary termination, the employee will be entitled to the pro rata portion of the payment that would next be made. The estimated 2004 cost for the Retention Plan is $79,000.

9. All seventy-eight exempt (Federal Wage and Hour Law) full time employees as of January 1, 2004 would be eligible to participate in the Annual Incentive Plan ("Annual Plan"). This plan is designed to provide additional cash compensation based on the overall performance of The Home's liquidation and the individual employee during the annual plan cycle. The Liquidator will determine the annual goals, performance measures and payouts. Annual cash payments will be made after the close of the performance year. If an employee voluntarily leaves or is terminated for cause, then no Annual Plan payment would be made. In the event of death, disability or an involuntary termination, the employee will be entitled to a pro rata share of any Annual Plan payment. The estimated 2004 cost for the Annual Plan is $3.2 million.

10. At the discretion of the Liquidator, the nine senior executives of The Home would be eligible to participate in the Collection Incentive Sharing Plan ("Collection Plan"). The Collection Plan is designed to provide focused incentives for the collection of assets. Awards under this plan will be based on the accomplishment of annual financial cash collection targets

but may also vary, at the discretion of the Liquidator, based on achievement of individual performance goals. The twin goals of the Collection Plan are to maximize the collection of assets and retain executives as long as deemed necessary by the Liquidator. Therefore, any compensation based on annual performance will be deferred and funded into a trust account. The employee will actually receive those funds upon the termination of the liquidation proceeding, involuntary termination of employment other than for cause, or at the discretion of the Liquidator if an interim payout is deemed appropriate. If an employee voluntarily terminates or is terminated for cause, then all Collection Plan amounts are forfeited. In the event of death or disability, the Collection Plan amounts will be distributed. The estimated 2004 cost for the Collection Plan is $1.4 million.

11. The Liquidator's consultants advise that the proposed plans represent best practices with respect to compensation in insurance company liquidations, provide competitive annual and long-term earnings opportunities and balance performance-based rewards with short term and long-term retention. The individual programs are integrated across employee levels and will provide, if performance goals are met or exceeded, total direct compensation between the 50^{th} and 75^{th} percentile market levels. This is the level of compensation recommended by the Liquidator's consultants in order to retain experienced employees. The advisory letters of Ernst & Young and Rodeghero Consulting Group are attached to the Liquidator's Motion as Exhibits D and E.

12. I believe that without adoption of these three plans, the liquidation process would be harmed because key employees would seek better, more long-term career opportunities elsewhere.

13. For the reasons described above, I believe that the proposed retention/incentive plans are fair, reasonable and necessary, as well as in the best interests of the liquidation process and of the policyholders and other creditors of The Home.

Signed under the penalties of perjury this 30TH day of March, 2004.

Peter A. Bengelsdorf
Special Deputy Liquidator of The Home Insurance Company

STATE OF CALIFORNIA
COUNTY OF VENTURA

Subscribed and sworn to, before me, this 30 day of March, 2004

MYNNIE M. HACHIYA
Commission # 1369032
Notary Public - California
Ventura County
My Comm. Expires Aug 9, 2006

Notary Public/Justice of the Peace