

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 ROGER A. SEVIGNY, LIQUIDATOR,
IN SUPPORT OF APPROVAL OF COMPENSATION PLAN FOR
SPECIAL DEPUTY LIQUIDATOR**

I, Roger A. Sevigny, hereby depose and say:

1. I am the Insurance Commissioner of the State of New Hampshire and Liquidator (“Liquidator”) of The Home Insurance Company (“Home”). I submit this affidavit in support of the Liquidator’s Motion for Approval of Compensation Plan for the Special Deputy Liquidator. 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 a compensation plan for the Special Deputy Liquidator of Home. The Motion reflects the recommendation of Ernst & Young LLP (“E&Y”), experienced insurance industry compensation consultants, concerning the appropriate compensation structure for the Special Deputy Liquidator. Our goal is to maximize the amount of assets available to promptly pay the claims of Home’s creditors. The objective of the proposed compensation plan is to provide the Special Deputy Liquidator with the appropriate

market competitive incentives to remain in his position so that he ultimately helps accomplish the foregoing goal.

3. The proposed compensation plan and its estimated 2004 and 2005 costs have been reviewed with the National Conference of Insurance Guaranty Funds' Subcommittee on Home ("NCIGF Subcommittee"). The NCIGF Subcommittee has advised that it has no objection to the proposed compensation plan.

4. Shortly after the liquidation proceeding began in June 2003, the Special Deputy Liquidator was recruited from private industry and appointed to manage the operations of the liquidation.¹ The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of Home. The terms of his engagement are described in a Consulting Agreement by and between him and the Liquidator, dated June 11, 2003 (the "Consulting Agreement"). According to the Consulting Agreement, the current compensation arrangement for the Special Deputy Liquidator consists solely of an hourly work rate of \$250. He does not participate in any other compensation programs, including those incentive compensation plans the Court previously approved for employees of Home, nor does he receive any health and welfare, retirement or severance benefits from Home.

5. The Special Deputy Liquidator is the top executive of Home, who reports directly to the Liquidator. As described in the recommendation letter from E&Y's Human Capital Practice attached as Exhibit A to the motion filed herewith and discussed in more detail below, E&Y reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to develop a market

¹ The Special Deputy Liquidator also served as Special Deputy Rehabilitator to the Commissioner of Insurance prior to liquidation.

competitive compensation program. A well-qualified and competent Special Deputy Liquidator will materially contribute to the efficient collection of assets. The present Special Deputy Liquidator has demonstrated his abilities by facilitating the increase in Home's cash and liquid invested assets from \$3.1 million on March 5, 2003 to approximately \$629.5 million at June 30, 2004. Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated either by the Special Deputy Liquidator or Home's staff under his direction. Maximizing the prompt collection of assets advantages Home's creditors.

6. E&Y, a nationally recognized insurance industry compensation consultant with extensive experience in the design of compensation plans for large insurers in liquidation, like Home, was retained to evaluate the Special Deputy Liquidator's compensation and to design, as appropriate, a revised compensation plan for the Special Deputy Liquidator. E&Y examined the competitiveness of the Special Deputy Liquidator's current compensation in comparison to other insurance companies in liquidation and distressed situations as well as "healthy" companies. Based upon E&Y's experience, a competitive compensation level is one that approximates 90-110% of targeted market levels (typically a range between the 50th and 75th percentile of the market). E&Y found that the Special Deputy Liquidator's current total direct compensation (or TDC, defined as base salary plus annual and long-term incentives) after adjustment for the absence of benefits is 45% of median (50th percentile) and 21% of the 75th percentile market levels, a level which E&Y describes as "significantly below market and less competitive than the overall TDC" for Home's other employees. Notably, the Special Deputy Liquidator does not participate in an incentive plan. E&Y determined that most top executives of an insurer in liquidation of this size would be full participants in such a plan. Based on this evaluation, E&Y recommended modifications to the Special Deputy Liquidator's compensation. E&Y suggests a

separate² incentive plan for the Special Deputy Liquidator with specific incentives that would align his performance with the interests of Home's creditors and, in combination with other forms of compensation, would provide the Special Deputy Liquidator with market competitive compensation, which it defines as approximately the 50th percentile of market levels. (The present TDC for employees of Home, for instance, range between the 50th and 75th percentile.)

7. The proposed compensation plan ("Plan") for the Special Deputy Liquidator described in the E&Y letter has four primary objectives. First, the Plan recognizes the Special Deputy Liquidator, as top executive, is the equivalent of more than a full-time employee of Home. Although an independent contractor, the Special Deputy Liquidator works more than a full-time employee and, because he is responsible for Home's day-to-day operations, he has more responsibility than any other employee of Home. Second, the Plan acknowledges the Special Deputy Liquidator's significant accomplishments to date, as evidenced by the increase in Home's cash and liquid invested assets. Third, the Plan aligns the Special Deputy Liquidator's incentives with those of Home's creditors and the Liquidator's goals for Home. Specifically, the Special Deputy Liquidator must marshal assets of Home; hire and maintain Home's staff; prepare and timely file accurate reports for the Liquidator (and ultimately with the Court); and operate Home in a cost-effective manner. Fourth, the Plan provides the Special Deputy Liquidator with an overall market competitive compensation package. The Plan consists of three components. First, the Special Deputy Liquidator's present base compensation will remain at \$250 per hour. Second, the Plan creates an annual incentive bonus structure ("AI"). Each year the Liquidator will set annual goals for the Special Deputy Liquidator (e.g., success in

² E&Y recommends an independent compensation plan for the Special Deputy Liquidator because the Special Deputy Liquidator is responsible for monitoring the three incentive compensation plans in effect for employees of Home.

marshalling assets, organization performance within budget, implementation of an effective claim determination operation, extent of early access distributions, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year). After the end of the year, the Liquidator will evaluate the Special Deputy Liquidator's performance with respect to each of those goals and determine the AI bonus based upon those accomplishments. The AI provides the Special Deputy Liquidator with an opportunity to earn an AI bonus of \$400,000. E&Y determined that this target dollar amount is similar to the target AI opportunity provided to the next most senior officer, with a slight upward adjustment in recognition of the top executive's duties and responsibilities. Third, a "Stay Bonus" covering a twenty-two month period from March 2003 to December 2004 of \$400,000 is payable on January 1, 2005. A second "Stay Bonus" covering the calendar year 2005 of \$400,000 is payable on January 1, 2006.³ The "Stay Bonus" provides a cash incentive to this senior and experienced insurance industry executive and encourages him to remain with Home. Assuming the Special Deputy Liquidator stays until January 1, 2006 and achieves all the AI goals, the estimated 2004 and 2005 costs for the Plan (excluding consulting income) are \$0.8 million and \$0.8 million, respectively. This Plan has been in development for some months and the Special Deputy Liquidator has relied upon the expectation that such a plan would be proposed for the Court's approval.

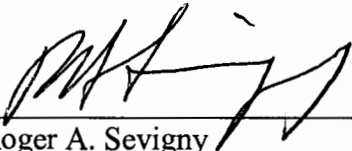
8. The Liquidator's consultants, E&Y, advise that the proposed Plan represents market competitive compensation in insurance company liquidations that is properly weighted toward variable or performance-based compensation and encourages a continuation of the existing working relationship. The Plan represents the level of compensation recommended by

³ In the event of death or disability both the AI bonus and the Stay Bonus are paid in full. In the event the Special Deputy Liquidator is terminated without cause, such bonuses will be pro-rated.

the Liquidator's consultants in order to retain experienced employees, such as the Special Deputy Liquidator.

9. For the reasons described above, I believe that the Plan is fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of The Home.

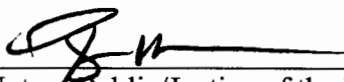
Signed under the penalties of perjury this 2 [th/~~6~~^{September}] day of September, 2004.



Roger A. Sevigny
Liquidator of The Home Insurance Company

STATE OF NEW HAMPSHIRE
COUNTY OF MERRIMACK

Subscribed and sworn to, before me, this 2nd [th/d] day of ~~August~~^{September}, 2004



Notary Public/Justice of the Peace
Commission Expires: May 2000

