

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 MOTION FOR APPROVAL OF AGREEMENTS
CONCERNING ARIZONA SPECIAL DEPOSITS**

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

1. I was appointed Special Deputy Liquidator of The Home Insurance Company (“Home”) and U.S. International Reinsurance Company (“USI Re”) (collectively, the “Companies”), by the Commissioner of Insurance for the State of New Hampshire, as Liquidator (“Liquidator”) of the Companies. I submit this affidavit in support of the Liquidator’s Motion for Approval of Agreement Concerning Arizona Special Deposits (“Motion”). 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 Motion seeks approval of two agreements (the “Agreements”) concerning special deposits in Arizona: (1) an Agreement for Distribution of Special Deposit by and among the Liquidator, the Director of the Arizona Department of Insurance (the “Director”), and the Arizona Property and Casualty Insurance Guaranty Fund (the “Arizona Guaranty Fund”) (the “Fund Agreement”), and (2) an Agreement to Release Workers Compensation Deposits between the Liquidator, the Director, and the Industrial Commission of Arizona (“ICA”) (the “ICA Agreement”). Copies of the Agreements are attached as Exhibits A and B to the Motion.

3. Home's policy obligations in Arizona were secured by special deposits held in trust in Arizona under a security agreement (the "Security Agreement") entered in March, 1996, among Home, the Director, and the Arizona State Treasurer (the "Treasurer"). Pursuant to the Security Agreement, Home deposited funds as security for Arizona residents who were Home policyholders or claimants against policyholders of Home. Presently, the Director, through the Treasurer, is holding \$3,700,000 pursuant to the Security Agreement.

4. Since Home's liquidation commenced, the Arizona Guaranty Fund has been paying "covered claims" under Home policies pursuant to its statutory obligations. The Liquidator and the Arizona Guaranty Fund believe that the future claims liability payable by the Arizona Guaranty Fund for Arizona residents who are policyholders of or claimants against policyholders of Home will not exceed \$1,000,000 (it has paid approximately \$110,000 as of September 30, 2004). As the Arizona Guaranty Fund is paying claims secured by the special deposit, it wants to provide for payment of those actual and anticipated liabilities from the special deposit. The Liquidator wishes to obtain reversion of the excess deposit to the Home estate.

5. The Fund Agreement addresses the handling of the special deposit pursuant to the Security Agreement. The parties to the Fund Agreement agree that, within thirty (30) days of this Court's approval of the Agreement, the Director shall issue an order (i) releasing \$1,000,000 of the special deposit to the Arizona Guaranty Fund in partial payment of Home's known and future obligations to Arizona residents paid or to be paid by the Arizona Fund, and (ii) releasing the remaining balance of such funds (expected to be approximately \$2,700,000) to the Liquidator to become part of the general assets of Home's estate. The Fund Agreement is subject to approval by the Court.

6. Under the Fund Agreement, the Arizona Guaranty Fund will report paid claims to the Liquidator at least quarterly. If the Liquidator makes disbursements to guaranty associations under the early access plan, the Arizona Guaranty Fund agrees that the Liquidator may take a credit for the special deposit funds against any early access distribution that the Arizona Fund might otherwise receive. Any special deposit funds remaining with the Arizona Guaranty Fund will be returned to the Liquidator upon the earlier of (i) payment of all covered claims by the Arizona Guaranty Fund, or (ii) the Liquidator's determination to make a final distribution in the New Hampshire liquidation proceeding.

7. Home also secured its workers compensation obligations to Arizona residents with a workers compensation special deposit (the "WC Deposit") held by the Director through the Treasurer in an amount of approximately \$8,284,000. Since Home's liquidation began, the ICA has paid covered claims of Arizona residents in fulfillment of Home's obligations under workers compensation policies and Arizona workers compensation statutes totaling approximately \$291,755 (including costs and expenses) as of September 30, 2004. The Liquidator and ICA agree that, based upon ICA's most recent actuarial study, the future claims liability payable by ICA for Home's Arizona workers compensation obligations should not exceed \$4,007,000 (an amount reflecting a discount to present value). Since the ICA is paying claims secured by the WC Deposit, it wants to obtain access to the deposit. The Liquidator wants to obtain the return of the excess WC Deposit to the Home estate.

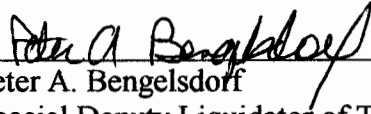
8. The ICA Agreement addresses the WC Deposit. The parties to the ICA Agreement agree that, within thirty (30) days of this Court's approval of the agreement, the Director shall issue an order (i) releasing \$4,007,000 of the WC Deposit to ICA in partial payment of Home's Arizona workers compensation obligations, and (ii) releasing the balance of

the WC Deposit to the Liquidator to become part of the general assets of Home's estate. The ICA Agreement is subject to the approval of the Court.

9. Under the ICA Agreement, the ICA will report payments on workers compensation claims to the Liquidator at least quarterly. The portion of the WC Deposit released to the ICA is to be used to pay the covered claims of Arizona resident claimants of Home together with costs and expenses as provided under Arizona law. If the Liquidator makes disbursements to guaranty associations under an early access plan, the ICA agrees that the Liquidator may take a credit for the WC Deposit funds against any early access distribution that the ICA might otherwise receive. Any funds remaining with the ICA will be returned to the Liquidator upon the earlier of (i) payment of all covered claims by ICA, or (ii) the Liquidator's determination to make a final distribution in the New Hampshire liquidation proceeding, in which case the excess deposit will be determined through an actuarial study.

10. I believe that the Agreements are fair and reasonable and that they are in the best interests of the policyholders and other creditors of Home. The Agreements provide for (a) the prompt and orderly return to the Home estate of excess amounts of special deposits, (b) appropriate access to the special deposits for the Arizona Guaranty Fund and the ICA which are paying covered claims of Arizona resident claimants and policyholders of Home that are secured by the special deposits, and (c) the ultimate reversion to the Home estate of amounts not needed to pay claims secured by the special deposits.

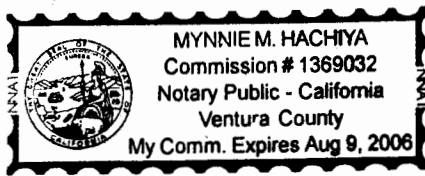
Signed under the penalties of perjury this 22nd day of December, 2004.

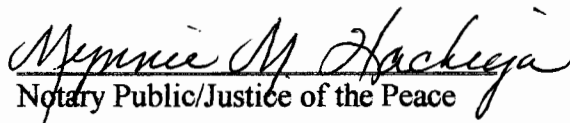


Peter A. Bengelsdorff
Special Deputy Liquidator of The Home Insurance
Company

STATE OF CALIFORNIA
COUNTY OF VENTURA

Subscribed and sworn to, before me, this 22 day of December, 2004





Notary Public/Justice of the Peace