

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS

SUPERIOR COURT

Docket No. 03-E-0112

**In the Matter of the Liquidation of
U.S. International Reinsurance Company**

**AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY
LIQUIDATOR, IN SUPPORT OF MOTION FOR APPROVAL OF
AGREEMENT CONCERNING NEW MEXICO SPECIAL DEPOSIT**

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

1. I am the Special Deputy Liquidator of U.S. International Reinsurance Company (“USI Re”), appointed by the Commissioner of Insurance for the State of New Hampshire, as Liquidator (“Liquidator”) of USI Re. I submit this affidavit in support of the Liquidator’s Motion for Approval of Agreement Concerning New Mexico Special Deposit. The facts and information set forth 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 an agreement (“Agreement”) regarding a deposit in New Mexico by and between the Liquidator and Eric P. Serna, New Mexico Superintendent of Insurance (“Superintendent”). A copy of the Agreement is attached as Exhibit A to the Motion.
3. To secure its obligations to New Mexico policyholders and creditors, USI Re made a special deposit in the amount of \$330,000, which was held in trust by the Superintendent pursuant to applicable New Mexico law. The special deposit was made for the benefit of New

Mexico policyholders and other creditors. This is a special deposit in that it is held for the security or benefit of one or more limited class of persons.

4. Since USI Re's liquidation commenced, the Superintendent has maintained custody of this special deposit. No New Mexico claimants have filed claims in USI Re's domiciliary proceeding, and the Superintendent concluded that there are not, nor will there be, any claims by those New Mexico claimants for whose benefit this money has been deposited and held in trust that would necessitate establishment of an ancillary receivership in New Mexico.

5. Both parties wish to avoid the expense of establishing an unnecessary ancillary receivership in New Mexico, and the Superintendent thus agrees to release the special deposit under the terms of the Agreement.

6. The Agreement addresses the Superintendent's release of the special deposit to the Liquidator. The parties agree that, as soon as possible upon this Court's approval of the Agreement, the Superintendent will release to the Liquidator the deposit and any proceeds thereof, including accrued interest but less any penalties for early withdrawal and administrative costs and fees. Agreement §§ 1-2.

7. Under the Agreement, the Liquidator is to hold the special deposit in trust for any New Mexico claimants. Agreement § 3. On a first-priority basis, the Liquidator will honor any demand by the Superintendent for a refund of any amount up to the full amount of the special deposit if the Superintendent is required to incur fees, expenses, or costs, to administer, defend, or pay USI Re claims (including claims of a New Mexico insurance guaranty association), or to defend or pay any federal priority claim by any agency of the United States government regarding USI Re. Agreement § 4. One-hundred eighty days prior to the anticipated close of the

domiciliary receivership, the Liquidator will give notice to the Superintendent and will refund to the Superintendent the amount of any unpaid demand against the deposit, up to the full amount of the special deposit. At this point, the trust will dissolve and the Liquidator will enter the balance into the general assets of USI Re's estate. Agreement § 5. The Agreement is subject to Court approval. Agreement § 7.

8. I believe that the Agreement is fair and reasonable and that it is in the best interest of the policyholders and other creditors of USI Re. The Agreement provides for (a) the prompt and orderly return to the USI Re estate of a special deposit that does not need to be retained, thereby avoiding the expense of ancillary receivership, (b) appropriate access to the special deposit for the Superintendent in the event that claims by New Mexico claimholders do arise, and (c) the ultimate reversion to the USI Re estate of amounts not needed to pay claims secured by the special deposit.

Signed under the penalties of perjury this 21st day of December, 2005.

Peter A. Bengelsdorf
Peter A. Bengelsdorf
Special Deputy Liquidator of U.S. International
Reinsurance Company

STATE OF CALIFORNIA
COUNTY OF VENTURA

Subscribed and sworn to, before me, this 21st day of December, 2005.



Dik Hachiya
Notary Public/Justice of the Peace