

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 SECOND LEASE MODIFICATION**

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

1. I was appointed as Special Deputy Liquidator of The Home Insurance Company (“Home”) by the Insurance Commissioner, as Liquidator (“Liquidator”) of Home, effective June 11, 2003. I submit this affidavit in support of the Liquidator’s Motion for Approval of Second Lease Modification. 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 a Second Partial Surrender and Extension of Term Agreement (the “Second Lease Modification”) between the Liquidator and 59 Maiden Lane Associates, LLC (the “Landlord”), concerning Home’s operational headquarters at 59 Maiden Lane, New York, New York. The Second Lease Modification was negotiated under my direction. By its terms it will not be effective until it is approved by the Court.

3. Home entered into a lease with the Landlord’s predecessor-in-interest Mitchell E. Rudin, as Receiver for Olympia & York Maiden Lane Company, LLC, dated as of December 1998 (as amended, the “Lease”), for office space and storage space located at 59 Maiden Lane,

New York, New York. This space was the operational headquarters of Home and U.S. International Reinsurance Company (“USI Re”) (collectively, the “Companies”) prior to entry of the Orders of Liquidation.

4. After the liquidation began, the Liquidator and the Landlord entered a Partial Surrender and Extension of Lease Agreement dated as of October 3, 2003 (the “Lease Modification”). Under the Lease Modification, Home surrendered space on the 17th floor of 59 Maiden Lane and extended the term of the Lease to December 31, 2008. This reflected the reduced operations of Home and USI Re after entry of the Orders of Liquidation. The Lease Modification was approved by the Court in the Order Approving Lease Modification Amendment issued October 22, 2003.

5. Pursuant to the Lease, Home currently leases the entire 5th floor (37,719 rentable square feet) and a portion of the basement storage space of 59 Maiden Lane (the “Premises”) for a term expiring December 31, 2008.

6. As set forth in the Liquidator’s reports, the Liquidator has organized a stand-alone operation to conduct the liquidation of the Companies. The Liquidator has benefited from the experience and knowledge of personnel previously employed at Home’s operational headquarters in New York City by engaging those personnel as part of the liquidation staff. The Liquidator also has taken advantage of the existing New York facilities in establishing an operational base for the liquidation. The Liquidator anticipates that the liquidation will continue to have operations in New York City after the existing Lease term expires on December 31, 2008. However, the liquidation operation is gradually consolidating and reducing its need for storage space, and the liquidation does not need the basement storage space presently included within the Lease.

7. In these circumstances, the Liquidator engaged in discussions with the Landlord to seek to surrender the basement storage space and extend the term of the Lease of the 5th floor space after December 31, 2008. Subject to approval by the Court, the Liquidator and the Landlord have now entered the Second Lease Modification. The Second Lease Modification provides that Home will surrender all of the basement storage space on December 15, 2005 and pay to the Landlord a lump sum of \$200,000 towards the rent and additional rent that would have been due for that space through the end of the Lease. In return, the Landlord will release Home from any obligations attributable to the basement storage space. The Landlord and Home also agreed to otherwise extend the term of the Lease for two years, until December 31, 2010. The rental rate for the two additional years will be \$28.00 per square foot, which is less than the existing rate of \$31.50 per square foot. The Landlord and Home further agreed that Home has an option for two further years at the then market rate. The other provisions of the Second Lease Modification are set forth in the copy of the Second Lease Modification attached as Exhibit A to the motion.

8. The Second Lease Modification provides that the Landlord may terminate the Second Lease Modification in the event the Court has not approved it by December 15, 2005 (the date on which Home is to surrender the basement space).

9. The Second Lease Modification will benefit the liquidation in two ways. First, it will save approximately \$487,000 compared to the existing Lease. The Lease presently obligates Home to pay approximately \$1.477 million (plus electricity) per year through December 31, 2008 for the 5th floor and basement space. The Second Lease Modification, by contrast, would obligate Home to pay approximately \$1.28 million (plus electricity) per year through December 31, 2008 for the 5th floor alone. The Second Lease Modification represents an annual

savings of approximately \$197,000 plus the electricity for the basement (approximately \$31,800) compared to the existing Lease. The Second Lease Modification is thus estimated to save the liquidation approximately \$487,000 over the remaining 2006-2008 term of the Lease (\$197,000 per year under the Lease plus \$31,800 per year in electricity minus the one-time \$200,000 surrender payment).


10. Second, the Second Lease Modification provides space for projected liquidation operations during 2009 and 2010 at a rate consistent with current market rates for similar space and avoids moving expense. The cost of the two year extension for 2009-2010 will be approximately \$1.14 million (plus electricity) per year, or \$2.28 million (plus electricity) in total. This is approximately \$132,000 less per year than the present payments under the Lease for the 5th floor (a total of \$264,000 over the term of the extension). Based on discussions with a real estate broker, this rate is consistent with market rates for space like that at 59 Maiden Lane. In the absence of an extension, the liquidation operations (including the information technology facility) would need to be relocated at year end 2008, at significant expense.

11. The liquidation needs to retain its presence in New York, where its operations and staff presently work and reside, to assure continuity of its operations. In addition, the terms and conditions of the Second Lease Modification are consistent with commercial real estate transactions of a similar type. The Second Lease Modification is the result of extensive arms-length negotiations with the Landlord. It provides for the surrender of certain space, which the liquidation no longer requires, and an extension of the term regarding the space that is necessary for the liquidation's current and future operations, as now contemplated.

12. In these circumstances, I believe that Second Lease Modification is fair and reasonable and that it is in the best interests of the policyholders and other creditors of Home.

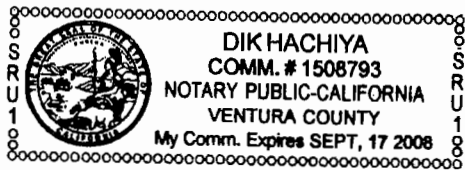
The Second Lease Modification will provide for continuity of the liquidation's affairs, allowing it to maintain its operations and necessary staff in its New York office, while simultaneously permitting it to surrender leased space it no longer requires, all on commercially reasonable terms.

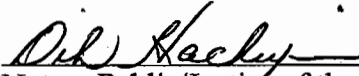
Signed under the penalties of perjury this 9TH day of November, 2005.


Peter Bengelsdorf
Special Deputy Liquidator of The Home Insurance Company

STATE OF CALIFORNIA
COUNTY OF VENTURA

Subscribed and sworn to, before me, this 9TH day of November, 2005




Notary Public/Justice of the Peace