

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 2007 COMPENSATION PLAN FOR
THE 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 2007 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 2007 compensation plan for the Special Deputy Liquidator of Home consisting of an incentive/retention program as well as payments for services rendered on an hourly basis pursuant to the 2003 consulting agreement described below (collectively, the "Plan"). 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. My overall 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 2007 compensation plan and its estimated cost 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 approval of the proposed 2007 compensation plan for the Special Deputy Liquidator.

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 June 11, 2003 Consulting Agreement which was approved by the Court on June 30, 2003 (the "Consulting Agreement"). The Consulting Agreement remains in effect until terminated. According to the Consulting Agreement, the Special Deputy Liquidator will be paid at an hourly rate of \$250. (The Special Deputy Liquidator's hourly rate has not changed since his engagement began in 2003.) He does not participate in the incentive compensation plans for employees of Home, nor does he receive any health and welfare, retirement or severance benefits from Home. As an independent contractor, he pays the full Social Security tax (employer and employee share) on his compensation. The Special Deputy Liquidator has been eligible to receive an annual incentive award of \$400,000 during 2004 and 2005 and \$300,000 during 2006, and annual "Stay Pay" of \$400,000 during each such year.

5. The Special Deputy Liquidator is the top executive of Home, who reports directly to the Liquidator. A well-qualified and competent Special Deputy Liquidator will materially

contribute to the efficient collection of assets as well as the orderly administration and expedited closure of the estate. The present Special Deputy Liquidator has demonstrated his abilities by facilitating the increase in Home's cash and liquid invested assets from \$12.7 million on March 5, 2003 to approximately \$890 million at December 31, 2006. 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. As described in the November 9, 2006 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 evaluate market competitiveness of the 2007 Plan. E&Y advises that a competitive compensation level is one that approximates 85%-115% of the targeted market level (typically a range between the 50th and 75th percentile). E&Y found that the Special Deputy Liquidator's proposed 2007 total direct compensation (or TDC, defined as base salary plus annual and long-term incentives) after adjustment for the absence of benefits is below the market median (50th percentile) and less competitive than the total direct compensation for Home's other top executives, which is between the 50th and 75th percentiles.

7. The proposed 2007 Plan for the Special Deputy Liquidator is described in the E&Y letter and has four primary objectives. First, the Plan recognizes the Special Deputy Liquidator's role as top executive of the Home liquidation operation. Although an independent contractor, the Special Deputy Liquidator works at least the hours of a full-time employee and,

¹ The Special Deputy Liquidator also served as Home's Special Deputy Rehabilitator prior to liquidation.

because he is responsible for Home's day-to-day operations, 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 large increase in Home's cash and liquid invested assets and the resolution of numerous business issues as described in my quarterly reports. 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 compensation consistent with competitive market positioning in relation to Home's current executive team.

8. The Plan consists of three components. First, the Special Deputy Liquidator's present base compensation will remain at its 2003 level -- \$250 per hour. Second, the Plan provides an annual incentive bonus structure ("AI"). As with the AI component of the Special Deputy Liquidator's 2004, 2005 and 2006 compensation plans, the Liquidator will set annual goals for the Special Deputy Liquidator (*e.g.*, success in 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 2007 AI provides the Special Deputy Liquidator with an opportunity to earn an AI bonus of \$300,000 (down from \$400,000 in 2005, but the same as 2006). E&Y determined that this target dollar amount falls between the amounts available to other Home executives under their 2007

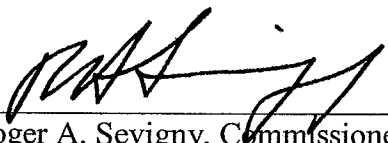
incentive compensation plan. Third, a "Stay Bonus" covering a twelve month period from January 1, 2007 through December 31, 2007 of \$400,000 is payable on January 1, 2008. The 2006 "Stay Bonus was also \$400,000.² The "Stay Bonus" provides a cash incentive to this senior and experienced insurance industry executive and encourages him to remain with Home. Assuming the Special Deputy Liquidator stays until January 1, 2008 and achieves all the AI goals, the estimated 2007 cost for the incentive/retention compensation portions of the Plan would be \$700,000. Estimated 2007 payments to the Special Deputy Liquidator under the Consulting Agreement are an additional \$500,000. This is approximately \$50,000 less than the amount paid for 2006 and anticipated in E&Y's advisory letter. (At my request, for the past several months Mr. Bengelsdorf has been actively involved as the special deputy rehabilitator of another New Hampshire insurer. He is being compensated at the same hourly rate for that matter. Due to his time spent on that matter, his 2007 compensation pursuant to the Consulting Agreement is therefore projected to be approximately \$50,000 less than in 2006.)

9. The Liquidator's consultants, E&Y, advise that the proposed Plan 2007 compensation 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. E&Y estimates that the maximum 2007 Plan compensation represents total direct compensation slightly below competitive range (or 84.3%) of market median levels.

² 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.

10. 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 Home.

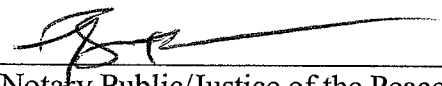
Signed under the penalties of perjury this 31st day of January, 2007.



Roger A. Sevigny, Commissioner of Insurance of
the State of New Hampshire, solely as
Liquidator of The Home Insurance Company

STATE OF NEW HAMPSHIRE
COUNTY OF MERRIMACK

Subscribed and sworn to, before me, this 31st [th/d] day of January, 2007



Notary Public/Justice of the Peace
Commission Expires: May 2009