

**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 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 2009 Compensation Plans (“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 concerns the approval of two integrated compensation plans for the employees of Home in 2009 (the “2009 Employee Compensation Plans”) and a compensation and incentive/retention plan in 2009 (the “Special Deputy Plan”) for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the “Special Deputy Liquidator”) (collectively, the “Plans”). The 2009 Employee Compensation Plans consist of an Annual Incentive Plan (“Annual Plan”) and a Collection Incentive Plan (“Collection Plan”). The Plans are intended to reward performance and reinforce retention of essential employees and the Special Deputy Liquidator in order to facilitate the successful, efficient, and prompt completion of the liquidation process. The Motion reflects the recommendation of Ernst & Young LLP (“E&Y”),

experienced insurance industry compensation consultants, concerning the appropriate compensation structure for employees of Home and the Special Deputy Liquidator. My overall goal is to maximize the amount of assets available to promptly pay the claims of Home's creditors. An additional objective of the proposed Special Deputy 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 Plans and their 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 2009 Employee Compensation Plans or the Special Deputy 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.<sup>1</sup> 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

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<sup>1</sup> The Special Deputy Liquidator also served as Home's Special Deputy Commissioner prior to liquidation.

award of \$400,000 during 2004 and 2005 and \$300,000 during 2006, 2007 and 2008, and an annual “Stay Bonus” of \$400,000 during each such year. The reductions in potential annual incentive bonus amounts were at the Special Deputy Liquidator’s request.

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 an estimated \$1.2 billion as of December 31, 2008. (This figure includes USI Re, \$166 million of early access distributions to guaranty associations to date, \$14.6 million in Class I distributions to Guaranty Funds, \$3.2 million of workers compensation advance payments to Guaranty Funds and \$49.5 million of assets withdrawn from special deposits held by the states to pay Home claims.) 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 October 28, 2008 recommendation letter from E&Y’s Human Capital Practice attached as Exhibit C 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 2009 Special Deputy 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 50<sup>th</sup> and 75<sup>th</sup> percentile). E&Y found that the Special Deputy Liquidator's proposed 2009 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 (50<sup>th</sup> percentile) and less competitive than the total direct compensation for Home's other top executives, which is between the 50<sup>th</sup> and 75<sup>th</sup> percentiles.

7. The proposed 2009 Special Deputy Plan is described in the E&Y letter and has four primary objectives. First, it 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, because he is responsible for Home's day-to-day operations he has more responsibility than any other employee of Home. He provides similar services, at no cost to Home, respecting certain other pending New Hampshire insurer receiverships. 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 the Liquidator's quarterly reports. Third, the Special Deputy 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 file timely and accurate reports for the Liquidator (and ultimately with the Court); and operate Home in a cost-effective manner. Fourth, the Special Deputy Plan provides the Special Deputy Liquidator with compensation consistent with competitive market positioning in relation to Home's current executive team.

8. The Special Deputy 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, 2006, 2007 and 2008 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 2009 AI provides the Special Deputy Liquidator with an opportunity to earn an AI bonus of \$200,000 (down from \$400,000 in 2005 and \$300,000 during 2006, 2007 and 2008). E&Y determined that this target dollar amount falls between the amounts available to other Home executives under the 2009 Employee Compensation Plans. Third, a “Stay Bonus” covering a twelve month period from January 1, 2009 through December 31, 2009 of \$400,000 is payable on December 26, 2009. The 2008 “Stay Bonus” was also \$400,000.<sup>2</sup> 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 December 31, 2009 and achieves all the AI goals, the estimated 2009 cost for the incentive/retention portions of the Plan would be \$600,000. Estimated 2009 payments to the Special Deputy Liquidator under the Consulting Agreement are an additional \$500,000 (at 2,000 billable hours). Total compensation would be \$100,000 less than anticipated for 2008.

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<sup>2</sup> 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 or the Special Deputy Plan is terminated or not renewed, such bonuses will be pro-rated.

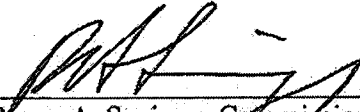
9. Prior to 2008, the term of the Consulting Agreement between the Liquidator and Mr. Bengelsdorf had been continuous until terminated but the term of the AI and "Stay Bonus" was annual. The AI and "Stay Bonus" had been negotiated and agreed upon each year but were not always been submitted and approved before January 1 of the applicable year. This left a gap between the end of the performance year and the effective date of the next year's plan, creating substantial risk to Mr. Bengelsdorf and his estate in the event of his death or disability during the interim. In order to avoid such unintended consequences from a gap in entitlement to the AI and "Stay Bonus, in 2008 the Special Deputy Plan provided for the AI and "Stay Bonus" to remain in effect but be subject to annual review by the Liquidator and approval by the Court (see footnote 2). If the Special Deputy Plan were to be terminated by the Liquidator or not approved for continuation by the Court, Mr. Bengelsdorf would receive a pro rata benefit. The economic terms of the Special Deputy Plan are unchanged from 2008 except for the \$100,000 reduction in the potential AI bonus which is being made at the Special Deputy Liquidator's request.

10. The Liquidator's consultant, E&Y, advises that the proposed Special Deputy 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. E&Y estimates that the maximum 2009 Special Deputy Plan compensation represents total direct compensation slightly below competitive range (or 53.6%) of market median levels.

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

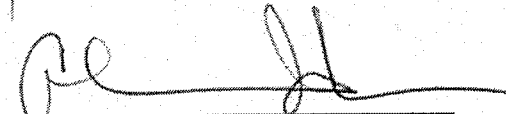
12. Without adoption of the Special Deputy Plan the liquidation effort would be harmed because the services and experience of the Special Deputy Liquidator might be lost.

Signed under the penalties of perjury this 1<sup>st</sup> day of December, 2008.

  
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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 1 st day of December, 2008.

  
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Notary Public/Justice of the Peace

Chiara Dolcino  
My Commission Expires 4/1/10