

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13E-4

Issuer Tender Offer Statement
(Pursuant to Section 13(e)(1) of the Securities Exchange Act of 1934)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
(Name of Issuer)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
(Name of Person(s) Filing Statement)

Common Stock, Par Value \$1.00 Per Share
(Title of Class of Securities)

360768 10 5
(CUSIP Number of Class of Securities)

Michael S. Paquette
Vice President and Controller
Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, New Hampshire 03755-2053
(603) 643-1567

Copy to:
Philip A. Gelston, Esq.
Cravath, Swaine & Moore
825 Eighth Avenue - Worldwide Plaza
New York, New York 10019
(212) 474-1000

(Name, address and Telephone Number of Person Authorized to Receive Notices
and Communications on Behalf of the Person(s) Filing Statement)

May 20, 1996

(Date Tender Offer First Published, Sent, or Given to Security Holders)

Transaction Value*	Amount of Filing Fee*
\$32,000,000	\$6,400

*Based on \$80.00 cash price per share for 400,000 shares.

☐ Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Page 1 of [] pages
Exhibit Index is on page []

ITEM 1. Security and Issuer.

(a) The name of the issuer is Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"). The Company's principal executive offices are located at 80 South Main Street, Hanover, New Hampshire 03755-2053.

(b) The class of securities to which this statement relates is the Company's Common Stock, par value \$1.00 per share ("Shares"). As of May 20, 1996, there were 7,653,069 Shares outstanding. The Company is inviting shareholders to tender Shares to the Company at a price of \$80.00 per Share (the "Purchase Price"), net to the seller in cash, pursuant to the Offer to Purchase dated May 20, 1996 (the "Offer to Purchase") and the related Letter of Transmittal (which together constitute the "Offer"), copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, and are herein incorporated by reference. All Shares properly tendered and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to conditions of the Offer, including the proration provisions thereof. The Company reserves the right, in its sole discretion, to purchase more than 400,000 Shares pursuant to the Offer. Reference is hereby made to the "Introduction", Section 1, "Number of Shares; Proration; Extension of Offer", and Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, each of which is herein incorporated by reference, for information regarding whether Shares are to be purchased from any officer, director or affiliate of the Company.

(c) Reference is hereby made to Section 7, "Price Range of Shares; Dividends", of the Offer to Purchase, which Section is herein incorporated by reference.

(d) Not applicable.

ITEM 2. Source and Amount of Funds or Other Consideration.

(a) Reference is hereby made to Section 10, "Source and Amount of Funds", of the Offer to Purchase, which Section is herein incorporated by reference.

(b) Not applicable.

ITEM 3. Purpose of the Tender Offer and Plans or Proposals of the Issuer or Affiliates.

Reference is hereby made to the cover page, the "Introduction", Section 6, "Certain Conditions of the Offer", Section 7, "Price Range of Shares; Dividends", Section 8, "Purpose of the Offer; Certain Effects of the Offer" and Section 9, "Certain Information Concerning the Company", each of which is herein incorporated by reference. Other than as disclosed therein, the Company has no present plans or proposals which would relate to or would result in any transaction or other occurrence with respect to the Company or its Shares of the type listed in paragraphs (a) through (j) of Item 3 of Schedule 13E-4.

ITEM 4. Interest in Securities of the Issuer.

Reference is hereby made to Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, which Section is herein incorporated by reference.

ITEM 5. Contracts, Arrangements, Understandings or Relationships with Respect to the Issuer's Securities.

Reference is hereby made to Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, which Section is herein incorporated by reference.

ITEM 6. Persons Retained, Employed or to be Compensated.

Reference is hereby made to the "Introduction" and Section 16, "Fees and Expenses", of the Offer to Purchase, each of which is herein incorporated by reference.

ITEM 7. Financial Information.

(a) Reference is hereby made to Section 9, "Certain Information Concerning the Company", of the Offer to Purchase, which Section is herein incorporated by reference.

(b) Reference is hereby made to Section 9, "Certain Information Concerning the Company", of the Offer to Purchase, which Section is herein incorporated by reference.

ITEM 8. Additional Information.

(a) Reference is hereby made to Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, which Section is herein incorporated by reference.

(b) Reference is hereby made to Section 13, "Certain Legal Matters; Regulatory and Foreign Approvals", of the Offer to Purchase, which Section is herein incorporated by reference.

(c) Reference is hereby made to Section 8, "Purpose of the Offer; Certain Effects of the Offer", of the Offer to Purchase, which Section is herein incorporated by reference.

(d) None.

(e) Reference is hereby made to the Offer to Purchase, which is herein incorporated by reference in its entirety.

ITEM 9. Material to be Filed as Exhibits.

(a)(1) Offer to Purchase dated May 20, 1996.

(a)(2) Letter of Transmittal (together with Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9).

(a)(3) Notice of Guaranteed Delivery.

(a)(4) Letter from the Company's Chairman to shareholders dated May 20, 1996.

(a)(5) Form of Letter from First Chicago Trust Company of New York to Brokers, Dealers, Commercial Banks, Trust Companies and Nominees.

(a)(6) Form of Letter from Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees to their clients.

(a)(7) Form of summary advertisement dated May 20, 1996.

(a)(8) Text of press release dated May 16, 1996.

(a)(9) Text of press release dated May 20, 1996.

- (b) Not applicable.
- (c) None.
- (d) None.
- (e) Not applicable.
- (f) None.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

May 20, 1996

By: /s/ Michael S. Paquette

Michael S. Paquette
Vice President and Controller

EXHIBIT INDEX

Exhibits	Page
-----	----
(a)(1) Offer to Purchase dated May 20, 1996.....	
(a)(2) Letter of Transmittal (together with Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9).....	
(a)(3) Notice of Guaranteed Delivery.....	
(a)(4) Letter from the Company's Chairman to Shareholders dated May 20, 1996.....	
(a)(5) Form of Letter from First Chicago Trust Company of New York to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.....	
(a)(6) Form of Letter from Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees to their clients.....	
(a)(7) Form of summary advertisement dated May 20, 1996.....	
(a)(8) Text of press release dated May 16, 1996.....	
(a)(9) Text of press release dated May 20, 1996.....	

Offer to Purchase for Cash
by
FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Up to

400,000 Shares of Its Common Stock
At \$80.00 Net Per Share

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON MONDAY, JUNE 17, 1996, UNLESS THE OFFER IS EXTENDED.

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is offering to purchase up to 400,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), for \$80.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"), including the proration provisions described herein. The Company reserves the right, in its sole discretion, to purchase more than 400,000 Shares pursuant to the Offer.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED.
THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6.

The Shares are listed and traded on the New York Stock Exchange (the "NYSE"). On May 15, 1996, the last full trading day before the announcement of the terms of the Offer, the reported closing sales price of the Shares on the NYSE Composite Tape was \$79 1/8 per Share, and on May 17, 1996, the last full trading day before the commencement of the Offer, the reported closing sales price was \$79 3/4 per Share. Shareholders are urged to obtain a current market quotation for the Shares.

NEITHER THE COMPANY NOR ITS BOARD OF DIRECTORS MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OR ALL OF SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER.

The Information Agent for the Offer is:

First Chicago Trust Company of New York

May 20, 1996

IMPORTANT

Any shareholder desiring to tender all or any portion of such shareholder's Shares should either (1) complete and sign the Letter of Transmittal or a facsimile copy thereof in accordance with the instructions in the Letter of Transmittal, mail or deliver it and any other documents required by the Letter of Transmittal to First Chicago Trust Company of New York, the depository for the Offer (the "Depository"), and either mail or deliver the certificates for such Shares to the Depository along with the Letter of Transmittal or follow the procedure for book-entry transfer set forth in Section 3, or (2) request such shareholder's broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such shareholder. A shareholder having Shares registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such broker, dealer, commercial bank, trust company or other nominee if such shareholder desires to tender such Shares.

A shareholder who desires to tender Shares and whose certificates for such Shares are not immediately available (or who cannot follow the procedure for book-entry transfer on a timely basis) or who cannot transmit the Letter of Transmittal and all other required documents to the Depository before the Expiration Date (as defined in Section 1) should tender such Shares by following the procedure for guaranteed delivery set forth in Section 3.

Any questions or requests for assistance or for additional copies of this Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent at its addresses and telephone number set forth on the back cover of this Offer to Purchase. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY RECOMMENDATION ON BEHALF OF THE COMPANY AS TO WHETHER SHAREHOLDERS SHOULD TENDER OR REFRAIN FROM TENDERING SHARES PURSUANT TO THE OFFER. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN THOSE CONTAINED IN THIS OFFER TO PURCHASE OR IN THE LETTER OF TRANSMITTAL. IF MADE OR GIVEN, SUCH RECOMMENDATION AND SUCH INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY.

TABLE OF CONTENTS

Section -----	Page ----
Introduction.....	1
The Offer.....	2
1. Number of Shares; Proration; Extension of the Offer.....	2
2. Tenders by Holders of Fewer than 100 Shares.....	4
3. Procedure for Tendering Shares.....	4
Proper Tender of Shares.....	4
Signature Guarantees and Methods of Delivery.....	4
Federal Backup Withholding.....	5
Book-Entry Delivery.....	5
Guaranteed Delivery.....	5
Determination of Validity; Rejection of Shares; Waiver of Defects; No Obligation to Give Notice of Defects.....	6
Allianz Asset Accumulation Plan.....	6
4. Withdrawal Rights.....	6
5. Acceptance for Payment of Shares and Payment of Purchase Price.....	7
6. Certain Conditions of the Offer.....	8
7. Price Range of Shares; Dividends.....	9
8. Purpose of the Offer; Certain Effects of the Offer.....	10
9. Certain Information Concerning the Company.....	11
Insurance Operations.....	11
Mortgage Operations.....	12
Recent Developments.....	13
Summary Historical Consolidated Financial Information.....	14
Pro Forma Financial Information (Unaudited).....	16
Shareholder Rights Plan.....	18
Additional Information.....	19
10. Source and Amount of Funds.....	19
11. Certain Federal Income Tax Considerations.....	19
Gain or Loss Recognition.....	19
Backup Withholding.....	20
Foreign Shareholder Withholding.....	20
State, Local and Foreign Taxes.....	20
12. Transactions and Arrangements Concerning the Shares.....	20
13. Certain Legal Matters; Regulatory and Foreign Approvals.....	21
14. Allianz Asset Accumulation Plan.....	21
15. Extension of Tender Period; Termination; Amendments.....	22
16. Fees and Expenses.....	22
17. Miscellaneous.....	23

To the Holders of Common Stock of
Fund American Enterprises Holdings, Inc.:

INTRODUCTION

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is offering to purchase up to 400,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$80.00 per Share (the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer").

NEITHER THE COMPANY NOR ITS BOARD OF DIRECTORS (THE "BOARD") MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OR ALL OF SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 6.

As of May 20, 1996, there were 7,653,069 Shares outstanding. Pursuant to the Fund American Long-Term Incentive Plan (the "Incentive Plan"), as of May 20, 1996, an additional 3,000 Shares were issuable upon the exercise of outstanding employee stock options. In addition to the Shares potentially issuable pursuant to the Incentive Plan, another 1,000,000 Shares were potentially issuable as of May 20, 1996, upon the exercise of warrants held by John J. Byrne, Chairman, President and Chief Executive Officer of the Company.

Accordingly, the 400,000 Shares which the Company is offering to purchase in the Offer represent approximately 5.2% of the Shares outstanding as of May 20, 1996, and approximately 4.6% of the sum of the Shares then outstanding and all Shares which may be issued upon exercise of outstanding options and warrants as of such date. Holders of options and warrants would have to exercise such options or warrants and convert them irrevocably into Shares in order to tender such Shares pursuant to the Offer.

Neither the Company nor the Board makes any recommendation to any holder of options or warrants as to whether to exercise any or all such options or warrants or to tender any or all Shares issuable upon such exercise.

The Company has been informed by its directors and executive officers that they do not intend to tender Shares owned by them pursuant to the Offer, except that John J. Byrne, the Company's Chairman, President and Chief Executive Officer, has informed the Company that he and/or his affiliates currently intend to tender 20,000 Shares pursuant to the Offer.

If before the Expiration Date (as defined in Section 1), a greater number of Shares is properly tendered and not withdrawn than will be accepted for purchase by the Company, the Company will accept Shares for purchase, first, from all Shares properly tendered by any Odd Lot Holder (as defined in Section 1) who tenders all Shares beneficially owned by such Odd Lot Holder and complies with the requirements set forth in Section 2 and, then, from all other Shares properly tendered on a pro rata basis. See Sections 1 and 2. All Shares not purchased pursuant to the Offer, including Shares not purchased because of proration, will be returned to the tendering shareholders at the Company's expense. Tendering shareholders will not be obligated to pay brokerage commissions, solicitation fees or, subject to Instruction 6 of the Letter of Transmittal, stock transfer taxes on the purchase of Shares by the Company. The Company will pay all reasonable charges and expenses incurred by First Chicago Trust Company of New York, which has been appointed as the depository (the "Depository") and the information agent (the "Information Agent") for the Offer. See Section 16.

The Shares are listed and traded on the New York Stock Exchange (the "NYSE"). On May 15, 1996, the last full trading day before the announcement of the terms of the Offer, the reported closing sales price on the NYSE Composite Tape was \$79 1/8 per Share, and on May 17, 1996, the last full trading day before the commencement of the Offer, the reported closing sales price was \$79 3/4 per Share. See Section 7. Shareholders are urged to obtain a current market quotation for the Shares.

Participants in the Allianz Asset Accumulation Plan (the "AAP") may direct the trustee of the AAP to tender any or all Shares allocated to their respective accounts in the AAP pursuant to the Offer. See Sections 3 and 14.

THE OFFER

1. Number of Shares; Proration; Extension of the Offer

Upon the terms and subject to the conditions of the Offer, the Company will accept for payment (and will thereby purchase) up to 400,000 Shares or such lesser number of Shares as are properly tendered (and not withdrawn in accordance with Section 4) before the Expiration Date at the Purchase Price. The term "Expiration Date" means 12:00 midnight., New York City time, on Monday, June 17, 1996, unless and until the Company shall have extended the period of time for which the Offer is open, in which event the term "Expiration Date" shall refer to the latest time and date at which the Offer, as so extended by the Company, shall expire. For a description of the Company's rights to extend the period of time during which the Offer is open and to delay, terminate or amend the Offer, see Section 15. See also Section 6. Subject to the purchase of Shares properly tendered and not withdrawn by Odd Lot Holders as set forth in Section 2, if the Offer is oversubscribed, Shares tendered before the Expiration Date will be subject to proration. The proration period also expires on the Expiration Date.

The Company reserves the right, in its sole discretion, at any time or from time to time, to extend the period of time during which the Offer is open by giving oral or written notice of such extension to the Depositary and making a public announcement thereof. See Section 15. There can be no assurance, however, that the Company will exercise its right to extend the Offer.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 6.

All Shares purchased pursuant to the Offer will be purchased at the Purchase Price, net to the seller in cash. The Company reserves the right, in its sole discretion, to purchase more than 400,000 Shares pursuant to the Offer. If (a) the Company (i) increases or decreases the price to be paid for Shares, (ii) increases the number of Shares being sought and any such increase exceeds 2% of the outstanding Shares or (iii) decreases the number of Shares being sought, and (b) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given in the manner specified in Section 15, the Offer will be extended until the expiration of such ten business day period. For the purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or Federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time.

All Shares not purchased pursuant to the Offer, including Shares not purchased because of proration, will be returned to the tendering shareholders at the Company's expense as promptly as practicable (which, in the event of proration, is expected to be approximately 12 NYSE trading days) following the Expiration Date.

If the number of Shares properly tendered and not withdrawn before the Expiration Date is less than or equal to 400,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will purchase at the Purchase Price all Shares so tendered and not withdrawn.

If the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 400,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority:

- (a) first, all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on May 13, 1996, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares (each an "Odd Lot Holder") who:
 - (1) tenders all Shares beneficially owned by such Odd Lot Holder (partial tenders will not qualify for this preference); and
 - (2) completes the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and
- (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

In the event that proration of tendered Shares is required, the Company will determine the final proration factor as promptly as practicable after the Expiration Date. Although the Company does not expect that it will be able to announce the final proration factor until approximately five NYSE trading days after the Expiration Date, it will announce preliminary results of proration by press release as promptly as practicable after the Expiration Date. Shareholders may obtain such preliminary information from the Information Agent and may be able to obtain such information from their brokers or financial advisors.

On November 11, 1987, the Board declared a dividend distribution of one Right (each, a "Right") for each Share outstanding on November 25, 1987. In addition, each Share issued subsequent to November 25, 1987, automatically receives a Right. The Rights expire on November 25, 1997, unless redeemed earlier by the Company. Each Right entitles its registered holder to purchase from the Company one one-thousandth of a share of Series A Participating Cumulative Preferred Stock, par value \$1.00 per share (the "Participating Stock"), at a price of \$105, subject to adjustment to prevent dilution. The Rights currently are not exercisable and trade together with the Shares associated therewith, and will not become exercisable or separately tradeable as a result of the Offer. Absent the occurrence of circumstances causing the Rights to become exercisable or separately tradeable before the Expiration Date, the tender of any Shares pursuant to the Offer will include the tender of the Rights associated therewith. No separate consideration will be paid for such Rights. Upon the purchase of Shares by the Company pursuant to the Offer, shareholders selling those Shares will no longer own the Rights associated with such purchased Shares. See Section 9.

Since 1991 the Company has not paid regular cash dividends to holders of Shares. On November 10, 1995, the Board re-established a regular dividend policy. On May 16, 1996, the Board declared a quarterly dividend of \$.20 per Share, payable June 19, 1996, to shareholders of record as of June 10, 1996. The Board may, in its sole discretion, reconsider its dividend policy from time to time. There can be no assurance as to when or whether the Board will declare additional dividends on Shares. The record holders as of June 10, 1996 of all Shares properly tendered to the Company pursuant to the Offer (regardless of whether such Shares are tendered prior to or subsequent to June 10, 1996 or are purchased pursuant to the Offer) will be entitled to receive the dividend payable June 19, 1996.

2. Tenders by Holders of Fewer than 100 Shares

The Company, upon the terms and subject to the conditions of the Offer, will accept for purchase, without proration, all Shares properly tendered and not withdrawn before the Expiration Date by or on behalf of Odd Lot Holders. See Section 1. To avoid proration, however, an Odd Lot Holder must properly tender all Shares that such Odd Lot Holder beneficially owns. Partial tenders will not qualify for this preference. This preference is not available to owners of 100 or more Shares even if such owners have separate stock certificates for fewer than 100 Shares. Any Odd Lot Holder wishing to tender all Shares beneficially owned by such Odd Lot Holder pursuant to the Offer and qualify for this preference must complete the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery. See Section 3.

3. Procedure for Tendering Shares

Proper Tender of Shares. For Shares to be properly tendered pursuant to the Offer:

- (a) the certificates for such Shares (or confirmation of receipt of such Shares pursuant to the procedure for book-entry transfer set forth below), together with a properly completed and duly executed Letter of Transmittal (or a facsimile copy thereof) with any required signature guarantees, and any other documents required by the Letter of Transmittal, must be received before the Expiration Date by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase; or
- (b) the tendering shareholder must comply with the guaranteed delivery procedure set forth below.

It is a violation of Section 14(e) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (collectively, the "Exchange Act"), and Rule 14e-4 promulgated thereunder, for a person to tender Shares for such person's own account unless the person so tendering:

- (a) owns such Shares; or
- (b) owns an option, warrant or right to purchase such Shares and intends to acquire Shares for tender by exercise of such option, warrant or right.

Section 14(e) and Rule 14e-4 provide a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

A tender of Shares made pursuant to any method of delivery set forth herein will constitute a binding agreement between the tendering shareholder and the Company upon the terms and subject to the conditions of the Offer, including the tendering shareholder's representation that (i) such shareholder owns the Shares being tendered within the meaning of Rule 14e-4 promulgated under the Exchange Act and (ii) the tender of such Shares complies with Rule 14e-4.

Signature Guarantees and Methods of Delivery. No signature guarantee is required on the Letter of Transmittal if the Letter of Transmittal is signed by the registered owner of the Shares (which term, for purposes of this Section, includes any participant in The Depository Trust Company, the Midwest Securities Trust Company or the Philadelphia Depository Trust Company (collectively, the "Book-Entry Transfer Facilities") whose name appears on a security position listing as the owner of the Shares) tendered therewith, and payment and delivery are to be made directly to such registered owner at such owner's address shown on the records of the Company, or if Shares are tendered for the account of a financial institution (including most banks, savings and loan associations, and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program (each such entity being hereinafter referred to as an "Eligible Institution"). In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 1 of the

Letter of Transmittal. If a certificate representing Shares is registered in the name of a person other than the person signing a Letter of Transmittal, or if payment is to be made, or certificates for Shares not purchased or tendered are to be issued, to a person other than the registered owner, the certificate must be endorsed or accompanied by an appropriate stock power, in either case signed exactly as the name of the registered owner appears on the certificate, with the signature on the certificate or stock power guaranteed by an Eligible Institution. In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of certificates for such Shares (or a timely confirmation of a book-entry transfer of such Shares into the Depositary's account at one of the Book-Entry Transfer Facilities), a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal.

The method of delivery of all documents, including stock certificates, the Letter of Transmittal and any other required documents, is at the election and risk of the tendering shareholder. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended.

Federal Backup Withholding. Unless an exemption applies under the applicable law concerning "backup withholding" of Federal income tax, the Depositary will be required to withhold, and will withhold, 31% of the gross proceeds otherwise payable to a shareholder (or other payee) pursuant to the Offer unless the shareholder (or other payee) provides such person's tax identification number (social security number or employer identification number) and certifies that such number is correct. Each tendering shareholder, other than a noncorporate foreign shareholder, should complete and sign the main signature form and the Substitute Form W-9 included as part of the Letter of Transmittal so as to provide the information and certification necessary to avoid backup withholding, unless an applicable exemption exists and is proved in a manner satisfactory to the Company and the Depositary. Noncorporate foreign shareholders generally should complete and sign a Form W-8, Certificate of Foreign Status, a copy of which may be obtained from the Depositary, in order to avoid backup withholding.

For a discussion of certain other Federal income tax consequences of the Offer, see Section 11.

Book-Entry Delivery. The Depositary will establish an account with respect to the Shares at each of the Book-Entry Transfer Facilities for purposes of the Offer within two business days after the date of this Offer to Purchase. Any financial institution that is a participant in a Book-Entry Transfer Facility's system may make book-entry delivery of the Shares by causing such facility to transfer such Shares into the Depositary's account in accordance with such facility's procedure for such transfer. Even though delivery of Shares may be effected through book-entry transfer into the Depositary's account at one of the Book-Entry Transfer Facilities, a properly completed and duly executed Letter of Transmittal (or a facsimile thereof), with any required signature guarantees and other required documents, must, in any case, be transmitted to and received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase before the Expiration Date, or the guaranteed delivery procedure set forth below must be followed. Delivery of the Letter of Transmittal and any other required documents to one of the Book-Entry Transfer Facilities does not constitute delivery to the Depositary.

Guaranteed Delivery. If a shareholder desires to tender Shares pursuant to the Offer and such shareholder's stock certificates are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the Depositary before the Expiration Date, such Shares may nevertheless be tendered provided that all the following conditions are satisfied:

- (a) such tender is made by or through an Eligible Institution;
- (b) the Depositary receives (by hand, mail or facsimile transmission) before the Expiration Date, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form the Company has provided with this Offer to Purchase; and

- (c) the certificates for all tendered Shares in proper form for transfer (or confirmation of book-entry transfer of such Shares into the Depositary's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal, are received by the Depositary within three NYSE trading days after the date of execution of such Notice of Guaranteed Delivery.

Determination of Validity; Rejection of Shares; Waiver of Defects; No Obligation to Give Notice of Defects. All questions as to the number of Shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. The Company reserves the right to reject any or all tenders determined by it not to be in proper form or the acceptance for payment of which may, in the opinion of the Company's counsel, be unlawful. The Company also reserves the right to waive any of the conditions of the Offer (except as otherwise provided in Section 6) and any defect or irregularity in the tender of any particular Shares. No tender of Shares will be deemed properly made until all defects or irregularities have been cured or waived. None of the Company, the Depositary, the Information Agent or any other person is or will be obligated to give notice of any defects or irregularities in tenders, and none of them will incur any liability for failure to give any such notice.

Allianz Asset Accumulation Plan. Participants in the AAAP who wish to have the trustee of the AAAP tender Shares allocated to their accounts should so indicate by completing, executing and returning to the trustee the instruction form included in the notice sent to such participants. Participants in the AAAP may not use the Letter of Transmittal to direct the trustee to tender Shares allocated to such shareholders but must use the separate instruction form sent to them. Under the Employee Retirement Income Security Act of 1974 ("ERISA"), the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Of course, directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the Trustee. Participants in the AAAP are urged to read the separate instruction forms and related materials sent to them carefully. See Section 14.

4. Withdrawal Rights

Except as otherwise provided in this Section 4, a tender of Shares pursuant to the Offer is irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date and, unless theretofore accepted for payment by the Company, after 12:00 midnight, New York City time, on Tuesday, July 16, 1996.

For a withdrawal to be effective, the Depositary must timely receive (at one of its addresses set forth on the back cover of this Offer to Purchase) a written or facsimile transmission notice of withdrawal. Any notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and, if different from the name of the person who tendered the Shares, the name of the registered owner of such Shares. If the certificates have been delivered or otherwise identified to the Depositary, then, prior to the release of such certificates, the tendering shareholder must also submit the serial numbers shown on the particular certificates evidencing such Shares and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution (except in the case of Shares tendered by an Eligible Institution). If Shares have been delivered pursuant to the procedure for book-entry transfer set forth in Section 3, the notice of withdrawal must specify the name and the number of the account at the applicable Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with the procedures of such facility.

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. None of the Company, the Depositary, the Information Agent or any other person is or will be obligated to give any notice of any defects or irregularities in any notice of withdrawal, and none of them will incur any liability for failure to give any such notice. A

withdrawal of a tender may not be rescinded and Shares properly withdrawn shall thereafter be deemed not to be validly tendered for purposes of the Offer. Withdrawn Shares, however, may be retendered before the Expiration Date by again following one of the procedures described in Section 3.

5. Acceptance for Payment of Shares and Payment of Purchase Price

Upon the terms and subject to the conditions of the Offer, as soon as practicable after the Expiration Date, the Company will purchase and pay the Purchase Price for 400,000 Shares (subject to increase or decrease as provided in Sections 1 and 15) or such lesser number of Shares as are properly tendered and not withdrawn as permitted in Section 4. For purposes of the Offer, the Company will be deemed to have accepted for payment (and thereby purchased), subject to proration, Shares which are tendered and not withdrawn when, as and if the Company gives oral or written notice to the Depositary of the Company's acceptance of such Shares for payment pursuant to the Offer.

In the event that proration of tendered Shares is required, the Company will determine the final proration factor as promptly as practicable after the Expiration Date. Although the Company does not expect that it will be able to announce the final proration factor until approximately five NYSE trading days after the Expiration Date, it will announce the preliminary results of proration by press release as promptly as practicable after the Expiration Date. Shareholders may obtain such preliminary information from the Information Agent and may be able to obtain such information from their brokers or financial advisors. Certificates for all Shares not purchased pursuant to the Offer, including Shares not purchased because of proration, will be returned to the tendering shareholders (or, in the case of Shares delivered by book-entry transfer, such Shares will be credited to the account maintained with one of the Book-Entry Transfer Facilities by the participant therein who so delivered such Shares) at the Company's expense as promptly as practicable (which, in the event of proration, is expected to be approximately 12 NYSE trading days following the Expiration Date).

Payment for Shares purchased pursuant to the Offer will be made by the Company by depositing the aggregate Purchase Price therefor with the Depositary, which will act as agent for tendering shareholders for the purpose of receiving payment from the Company and transmitting payment to the tendering shareholders. Notwithstanding any other provision hereof, payment for Shares accepted for payment pursuant to the Offer will in all cases be made only after timely receipt by the Depositary of certificates for such Shares (or a timely confirmation by a Book-Entry Transfer Facility of book-entry transfer of such Shares to the Depositary), a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) with any required signature guarantees and any other required documents. Under no circumstances will interest be paid on the Purchase Price of the Shares to be paid by the Company, regardless of any delay in making such payment.

The Company will pay any stock transfer taxes with respect to the transfer and sale of Shares to it or to its order pursuant to the Offer. If, however, payment is to be made to, or certificates for Shares not purchased or tendered are to be registered in the name of, any person other than the registered holder, or if tendered certificates are registered in the name of any person other than the person(s) signing the Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder or such other person) payable on account of the transfer to such person will be deducted from the Purchase Price unless evidence satisfactory to the Company of the payment of such taxes or an exemption therefrom is submitted. See Instruction 6 of the Letter of Transmittal.

ANY TENDERING SHAREHOLDER OR OTHER PAYEE WHO FAILS TO COMPLETE FULLY AND SIGN THE SUBSTITUTE FORM W-9 INCLUDED IN THE LETTER OF TRANSMITTAL (OR, IN THE CASE OF A NONCORPORATE FOREIGN SHAREHOLDER, A FORM W-8, WHICH IS OBTAINABLE FROM THE DEPOSITARY) MAY BE SUBJECT TO A FEDERAL BACKUP WITHHOLDING TAX OF 31% OF THE GROSS PROCEEDS TO BE PAID TO SUCH SHAREHOLDER OR OTHER PAYEE PURSUANT TO THE OFFER. SEE SECTIONS 3 AND 11.

6. Certain Conditions of the Offer

Notwithstanding any other provision of the Offer, and in addition to (and not in limitation of) the Company's right to extend, amend or terminate the Offer at any time in its sole discretion, the Company shall not be required to accept for payment or pay for any Shares tendered, and may terminate or amend the Offer if, before acceptance for payment of or payment for any such Shares, any of the following shall have occurred (or shall have been determined by the Company to have occurred):

(a) there shall have been threatened, instituted or pending any action or proceeding by any government or governmental, regulatory or administrative agency or authority or tribunal or any other person, domestic or foreign, before any court or governmental, regulatory or administrative authority, agency or tribunal, domestic or foreign, which (i) challenges the making of the Offer or the acquisition of Shares pursuant to the Offer, or otherwise, directly or indirectly, relates in any manner to the Offer; or (ii) in the reasonable good faith judgment of the Company, could materially affect the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of the Company or any of its subsidiaries or materially impair the Offer's contemplated benefits to the Company;

(b) there shall have been any action threatened, pending or taken, or approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the Offer or the Company or any of its subsidiaries, by any court or any government or governmental, regulatory or administrative authority, agency or tribunal, domestic or foreign, which, in the Company's reasonable good faith judgment, would or might directly or indirectly (i) make the acceptance for payment of, or payment for, some or all the Shares illegal or otherwise restrict or prohibit consummation of the Offer; (ii) delay or restrict the ability of the Company, or render the Company unable, to accept for payment, or pay for, some or all the Shares; (iii) materially impair the contemplated benefits of the Offer to the Company; or (iv) materially affect the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of the Company or any of its subsidiaries;

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any United States national securities exchange or in the over-the-counter market (excluding any coordinated trading halt triggered solely as a result of a specified decrease in a market index); (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States; (iii) the commencement of a war, armed hostilities or other international or national crisis directly or indirectly involving the United States; (iv) any limitation (whether or not mandatory) by any governmental, regulatory or administrative agency or authority on, or any event which, in the reasonable good faith judgment of the Company, might affect, the extension of credit by banks or other lending institutions in the United States; (v) any significant decrease in the market price of the Shares; (vi) any change in the general political, market, economic or financial conditions in the United States or abroad that could, in the reasonable good faith judgment of the Company, have a material adverse effect on the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or the trading in the Shares; (vii) in the case of any of the foregoing existing at the time of the commencement of the Offer, in the reasonable good faith judgment of the Company, a material escalation, acceleration or worsening thereof; or (viii) any decline in either the Dow Jones Industrial Average (5,687.5 at the close of business on May 17, 1996) or the Standard and Poor's Index of 500 Industrial Companies (668.91 at the close of business on May 17, 1996) by an amount in excess of 10% measured from the close of business on May 17, 1996;

(d) after May 17, 1996, any tender or exchange offer with respect to the Shares (other than the Offer), or any merger, acquisition, business combination or other similar transaction with or involving the Company or any subsidiary, shall have been proposed, announced or made by any person or entity;

(e) after May 17, 1996, any change shall occur or be threatened in the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, which, in the reasonable judgment of the Company, is or may be material to the Company or affects the anticipated benefits to the Company of acquiring Shares pursuant to the Offer;

(f) (i) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) shall have acquired, or proposed to acquire, beneficial ownership of more than 5% of the outstanding Shares (other than a person, entity or group which had publicly disclosed such ownership in a Schedule 13D or 13G (or an amendment thereto) on file with the Securities and Exchange Commission (the "SEC") prior to May 17, 1996), (ii) any new group shall have been formed which beneficially owns more than 5% of the outstanding Shares; or (iii) any person, entity or group shall have filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or made a public announcement reflecting an intent to acquire the Company or any of its subsidiaries or any of their respective assets or securities; or

(g) there shall be a reasonable likelihood that the purchase of Shares pursuant to the Offer will cause either (i) the Shares to be held of record by less than 300 persons; or (ii) the Shares neither to be listed on any "national securities exchange" (as used in the Exchange Act) nor to be "authorized to be quoted on an inter-dealer quotation system of any registered national securities association" (as used in Rule 13e-3(a)(3)(ii)(B) under the Exchange Act);

which, in the reasonable judgment of the Company, in any such case and regardless of the circumstances (including any action or inaction by the Company) giving rise to such condition, makes it inadvisable to proceed with the Offer or with such acceptance for payment or payment.

The foregoing conditions are for the sole benefit of the Company and may be asserted by the Company regardless of the circumstances (including any action or inaction by the Company) giving rise to any such condition and, except as set forth in the next sentence, any such condition may be waived by the Company, in whole or in part, at any time and from time to time in its sole discretion. The Company will not under any circumstances waive the condition set forth in paragraph (g) above. In certain cases, waiver of a condition to the Offer would require an extension of the Offer. See Section 15.

The Company's failure at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right; the waiver of any such right with respect to particular facts and circumstances shall not be deemed a waiver with respect to any other facts or circumstances; and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time. Any determination by the Company concerning the events described above and any related judgment by the Company regarding the inadvisability of proceeding with the acceptance for payment or payment for any tendered Shares will be final and binding on all parties.

7. Price Range of Shares; Dividends

The Shares (symbol FFC) are listed and traded on the NYSE. The table that follows sets forth, for the calendar quarters indicated, the reported high and low closing sales prices of the Shares on the NYSE Composite Tape:

	High	Low
1994:		
First Quarter	77	64 3/4
Second Quarter	70 3/8	60 1/2
Third Quarter	78 3/8	69 3/4
Fourth Quarter	79 1/4	70 1/2
1995:		
First Quarter	76	71 3/4
Second Quarter	72 5/8	68 3/8
Third Quarter	76	68 1/4
Fourth Quarter	73 5/8	66
1996:		
First Quarter	79 7/8	72 1/8
Second Quarter (through May 17)	80 1/2	76

On May 15, 1996, the last full trading day before the announcement of the Offer, the reported closing sales price of the Shares on the NYSE Composite Tape was \$79 1/8 per Share, and on May 17, 1996, the last full trading day before the commencement of the Offer, the reported closing sales price was \$79 3/4 per Share. Shareholders are urged to obtain a current market quotation for the Shares.

Since 1991 the Company has not paid regular cash dividends to holders of Shares. On November 10, 1995, the Board re-established a regular dividend policy. On May 16, 1996, the Board declared a quarterly dividend of \$.20 per Share, payable June 19, 1996, to shareholders of record as of June 10, 1996. The Board may, in its sole discretion, reconsider its dividend policy from time to time. There can be no assurance as to when or whether the Board will declare additional dividends on Shares. The record holders as of June 10, 1996 of all Shares properly tendered to the Company pursuant to the Offer (regardless of whether such Shares are tendered prior to or subsequent to June 10, 1996 or are purchased pursuant to the Offer) will be entitled to receive the dividend payable June 19, 1996.

8. Purpose of the Offer; Certain Effects of the Offer

The Offer is re-instituting the December 4, 1995 tender that the Company was forced to cancel which called for 500,000 shares at \$71.00 net. The Company believes that shareholders will benefit from the additional \$9.00 per Share price that this tender brings. The tender is primarily being offered to provide shareholders with added liquidity. The Company recognizes that its Common Stock is not widely held, not regularly followed by analysts and is thinly traded. The Company believes that it currently has adequate capital to fund the maximum amount contemplated by the Offer and to meet its ongoing needs. Accordingly, the Board has determined that it is in the interest of the Company's shareholders to create a selling opportunity for shareholders through a repurchase by the Company of up to 400,000 Shares. The Offer will also afford to shareholders the opportunity to dispose of Shares without the usual transaction costs associated with any market sale.

The Offer will further allow qualifying Odd Lot Holders whose Shares are purchased pursuant to the Offer to avoid the payment of brokerage commissions and any applicable odd-lot discount payable on a sale of Shares in a transaction effected on a securities exchange. Shareholders whose Shares are not purchased in the Offer will obtain an increase in their ownership interest in the Company and thus in the Company's future earnings and assets. To the extent the purchase of Shares in the Offer results in a reduction in the number of shareholders of record, the costs to the Company for services to shareholders will be reduced.

NEITHER THE COMPANY NOR THE BOARD MAKES ANY RECOMMENDATION AS TO WHETHER ANY SHAREHOLDER SHOULD TENDER ANY OF OR ALL SUCH SHAREHOLDER'S SHARES PURSUANT TO THE OFFER. EACH SHAREHOLDER MUST MAKE SUCH SHAREHOLDER'S OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER.

Although the Company may in the future purchase additional Shares on the open market, in private transactions, through tender offers or otherwise, the Offer, if fully subscribed, will exhaust the Company's remaining authorization to repurchase Shares. At present, the Company's Board has not authorized any future repurchases of Shares aside from the Offer. Future purchases, if any, may be on the same terms or on terms which are more or less favorable to shareholders than the terms of the Offer.

Any possible future repurchases of Shares by the Company would depend on many factors, including among others, the market price of the Shares, the results of the Offer, the Company's business and financial position (including its liquidity and alternative uses for the Company's resources) and general economic and market conditions. Rule 13e-4 under the Exchange Act generally prohibits the Company and its affiliates from purchasing any Shares, other than pursuant to the Offer, for at least ten business days after the Expiration Date.

Shares acquired by the Company pursuant to the Offer will be retired. Certain pro forma financial effects of the purchase of 400,000 Shares pursuant to the Offer are described in Section 9.

The purchase of 400,000 Shares pursuant to the Offer will not cause the Shares to be delisted by the NYSE or deregistered under the Exchange Act. See clause (g) of Section 6.

The Shares are currently "margin securities" under the rules of the Federal Reserve Board. This has the effect, among other things, of allowing brokers to extend credit on the collateral of the Shares. Following the repurchase of Shares pursuant to the Offer, the Shares not purchased will continue to be "margin securities" for purposes of the Federal Reserve Board's margin regulations.

9. Certain Information Concerning the Company

The Company was organized in 1980. Fund American's principal businesses are conducted through White Mountains Holdings, Inc. and its operating subsidiaries ("White Mountains") and Source One Mortgage Services Corporation and its subsidiaries ("Source One"). White Mountains is an insurance holding company principally engaged through its affiliates in the businesses of property and casualty insurance and financial guaranty insurance. Source One is one of the nation's largest mortgage banking companies. Fund American also owns a passive investment portfolio totalling \$394.0 million as of March 31, 1996. The portfolio investments consist in great part of large blocks of securities of a small number of issuers, many of them in the energy, natural resources and related industries. This concentration may make the value of the Company's investment portfolio more volatile than the value of a more diversified portfolio.

The Company's principal office is located at 80 South Main Street, Hanover, New Hampshire, 03755-2053, and its telephone number is (603) 643-1567.

Insurance Operations. In 1995 the Company capitalized White Mountains with \$250.0 million of assets. White Mountains was formed to be the holding company for all of Fund American's insurance operating interests. As of March 31, 1996 White Mountains' principal holdings included: 100% ownership of Valley Group, Inc. ("Valley"), Charter Group, Inc. ("Charter") and White Mountains Insurance Company ("WMIC"); a 21.1% interest in Financial Security Assurance Holdings Ltd. ("FSA"), a leading Aaa/AAA writer of financial guaranty insurance; and a 33.1% interest in Main Street America Holdings, Inc. ("MSA"), an affiliate of National Grange Mutual Insurance Company which is a New Hampshire-based property and casualty insurer. Following is a discussion of each of White Mountains' principle holdings:

FSA. In May 1994 the Company purchased 2,000,000 shares of FSA Common Stock from U S WEST Capital Corp., a wholly owned subsidiary of U S WEST, Inc. The purchase was part of an initial public offering of 8,082,385 shares of FSA's Common Stock at the initial offering price of \$20.00 per share. At that time the Company's Chairman, John J. Byrne, also became Chairman of FSA. FSA conducts operations principally through Financial Security Assurance Inc., a wholly owned monoline financial guarantee insurance subsidiary with Aaa/AAA claims-paying ratings. FSA is principally engaged in guaranteeing municipal bonds and residential mortgage and other asset-backed securities.

Following receipt of regulatory approvals, in September 1994 the Company acquired various fixed price options and shares of convertible preferred stock which, in total, give Fund American the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of \$125.7 million. All shares of and rights to FSA Common Stock owned or acquired by the Company as described above are subject to certain restrictions on transfer, voting provisions and other limitations and requirements set forth in a Shareholders' Agreement, a Registration Rights Agreement and a Voting Trust Agreement. In 1995 the Company purchased an additional 460,200 shares of FSA Common Stock on the open market for \$8.8 million. In December 1995 and January 1996 the Company transferred all of its interests in FSA to White Mountains. As of March 31, 1996 White Mountains' economic and voting interests in FSA were 21.1% and 19.1%, respectively.

MSA. In December 1994 the Company purchased a 33.2% interest in MSA for \$25.0 million in cash. MSA shares in 40% of National Grange Mutual Insurance Company's business through a reinsurance agreement. In December 1995 the Company transferred all of its interest in MSA to White Mountains.

Valley and Charter. On December 1, 1995 White Mountains acquired Valley and Charter for \$41.7 million in cash less \$3.0 million of purchase price adjustments. Valley's wholly owned subsidiary, Valley Insurance Company, is an "A" rated, Northwest-based property and casualty company which writes personal and commercial lines through independent agents. In 1995 Valley Insurance Company wrote \$73.1 million of gross premiums in Oregon, Washington and California. Charter's wholly owned subsidiary, Charter Indemnity Company, wrote \$64.4 million of gross non-standard automobile insurance premiums in Texas during 1995.

On January 19, 1996 Valley purchased an inactive insurance company from Lincoln National Corporation for \$13.2 million, net of cash balances acquired. The newly acquired insurance company is licensed to write property and casualty insurance in 49 states and is expected to be renamed Valley National Insurance Company ("Valley National"). Assets acquired pursuant to the Valley National acquisition included an investment portfolio, consisting principally of fixed maturity investments, totalling \$6.7 million.

WMIC. WMIC is a New Hampshire licensed commercial property and casualty insurance company which commenced its operations in September 1995 and wrote \$250,000 in premiums during the year. WMIC is expected to expand its operations to other states as additional state approvals are obtained. WMIC was capitalized in February 1995 with \$25.0 million in cash.

Mortgage Operations. Source One is one of the largest mortgage banking companies in the United States based on the size of its mortgage loan servicing portfolio. As of March 31, 1996, Source One had a mortgage loan servicing portfolio totalling \$31.6 billion, which is serviced on behalf of approximately 320 institutional investors and numerous other security holders. As of March 31, 1996, Source One had approximately 130 retail branch offices in 25 states and originated \$1.2 billion in new mortgage loans for the three month period then ended.

Source One engages primarily in the business of producing, selling and servicing residential mortgage loans. Its sources of revenue are net mortgage servicing revenue, net interest revenue, net gain on sales of mortgages, net gain on sales of servicing and other revenue (including underwriting and appraisal fees). Through subsidiaries, Source One also markets credit-related insurance products (such as life, disability, health, accidental death, and property and casualty insurance).

Source One produces residential mortgage loans through a system of retail branch offices, a specialized marketing program, mortgage brokers and a correspondent network of banks, thrift institutions and other mortgage lenders. Loans produced, whether through origination or purchase, include conventional residential mortgage loans as well as mortgage loans which are either insured by the Federal Housing Administration ("FHA") or partially guaranteed by the Veterans Administration ("VA"). It is a policy of Source One to primarily produce fixed rate mortgage loans. Mortgage loans originated by Source One are subject to a defined underwriting process in order to assess each prospective borrower's ability to repay the loan requested and the adequacy of each property as collateral. In addition, Source One is subject to the underwriting guidelines of FHA, VA, the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal National Mortgage Association ("FNMA"), as well as specific contractual requirements of institutional investors who have agreed to acquire mortgage loans originated by Source One.

Source One sells loans either through mortgage-backed securities issued pursuant to programs of the Government National Mortgage Association ("GNMA"), FNMA and FHLMC, or to institutional investors. Most loans are aggregated in pools of \$1.0 million or more, which are purchased by institutional investors after having been guaranteed by GNMA, FNMA or FHLMC. Source One, primarily through investment bankers, also arranges to sell mortgage-backed securities to investors.

Source One currently retains the rights to service the majority of all the mortgage loans it produces. In addition, Source One may acquire the rights to service or subserve a mortgage loan portfolio without originating or acquiring the underlying mortgage loans. Source One customarily makes such purchases of servicing rights from banks, thrift institutions and other mortgage lenders. The fees paid to acquire such servicing rights are negotiated on a case-by-case basis. Source One also sells servicing rights when management deems it economically advantageous. During 1995 Source One sold the rights to service \$11.0 billion of mortgage loans resulting in pretax gains of \$40.0 million. During 1994 Source One sold the rights to service \$3.9 billion of mortgage loans and continues to subservice these loans pursuant to a five-year subservicing agreement.

Mortgage loan servicing consists primarily of collecting monthly loan payments and remitting amounts due to investors, collecting property tax and insurance escrow deposits and making tax and insurance premium payments when due. Source One collects a servicing fee from each monthly loan payment equal to a fixed percentage of the outstanding principal balance of each loan, plus any late charges.

Recent Developments. On April 2, 1996 Fund American purchased 3,142,906 shares of the common stock of Travelers-Aetna Property Casualty Corp. ("TAPC") for \$50.8 million, including related expenses. The Company's Chairman, John J. Byrne, recently became a director of TAPC.

Fund American has entered into a definitive agreement to purchase, for \$79.4 million, a 50% interest in Folksamerica Holding Company, Inc. ("Folksamerica"), parent company of Folksamerica Reinsurance Company. The proceeds from Fund American's investment will be used by Folksamerica to complete its previously announced acquisition of Christiania General Insurance Corporation ("Christiania") of New York for \$88.0 million. Consummation of both transactions is pending state insurance regulatory approvals. Fund American believes that it will receive the requisite approvals to proceed with the Folksamerica transaction, however, there is no assurance that such approvals will be obtained.

Folksamerica is a multi-line broker-market reinsurance company which in 1995 had net written premiums of \$159.7 million. At March 31, 1996, Folksamerica had \$76.3 million of shareholders' equity and total capitalization of \$151.8 million. Christiania had net written premiums in 1995 of \$123.2 million and shareholders' equity of \$128.4 million at March 31, 1996. Folksamerica's consolidated financial statements, pro forma for the completion of Fund American's investment and the acquisition of Christiania, include total assets of \$1,025.3 million as of March 31, 1996 and total revenues of \$69.5 million for the quarter then ended.

Fund American's investment in Folksamerica will include (i) 6,920,000 shares of ten-year 6.5% voting preferred stock having a liquidation preference of \$79.4 million and (ii) ten-year warrants to purchase up to 6,920,000 shares of Folksamerica Common Stock for \$11.47 per share. Folksamerica's book value per share at March 31, 1996 was \$11.03.

On May 16, 1996 Fund American executed a definitive agreement to purchase an additional 1,000,000 shares of FSA Common Stock from U S West Capital Corp. for \$26.5 million in a private transaction. Consummation of the purchase, which is subject to Federal approval, is expected to occur in June 1996. Fund American expects to assign the purchase of the additional shares of FSA Common Stock to White Mountains.

Fund American previously announced, on May 13, 1996, that it had ended discussions with Mellon Mortgage Company ("Mellon") regarding the possible sale of Source One (or substantially all the net assets and business of Source One) to Mellon. As a result of the failure of these discussions, Fund American has decided to re-assess the recoverability of goodwill and certain other intangible assets related to Source One in accordance with the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As of March 31, 1996, Fund American's consolidated balance sheet included \$24.9 million of goodwill and \$11.9 million of other intangible assets related to Source One. Fund American expects to complete its analysis of the recoverability of these assets prior to the filing of its second quarter 1996 Form 10-Q. Fund American is unable to predict the outcome of such reassessment, and when such reassessment is completed, Fund American may decide that it should not recognize any impairment loss at all, or may decide that it should recognize an impairment loss with respect to all or a portion of such goodwill and/or other intangible assets. If Fund American were to determine that it should recognize an impairment loss with respect to the entire balance of goodwill and other intangible assets related to Source One, the resulting charge to net income during the second quarter of 1996 would be approximately \$25.2 million after tax. On a pro forma basis as of March 31, 1996, a \$25.2 million charge to net income would reduce book value per common and equivalent Share by \$2.90 to \$81.62. The Company continues to consider its strategic alternatives regarding Source One.

Summary Historical Consolidated Financial Information. The summary financial information for the years ended December 31, 1995 and 1994, set forth below, has been derived from and should be read in conjunction with the audited consolidated financial statements (including the related notes thereto) included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (the "Form 10-K"). The summary financial information for the three month periods ended March 31, 1996 and 1995, has been derived from and should be read in conjunction with the unaudited consolidated financial statements for such periods included in the Company's Quarterly Report on Form 10-Q for the three month period ended March 31, 1996 (the "Form 10-Q"). Such summary financial information is qualified in its entirety by reference to such reports and all financial statements and related notes contained therein. The Form 10-K and the Form 10-Q are available for examination, and copies are obtainable, in the manner set forth below under "Additional Information".

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION
(Unaudited)

	Three Months Ended March 31,		Year Ended December 31,	
	1996	1995	1995	1994
(Dollars in millions, except per share amounts)				
Ending Balance Sheet Data:				
Total assets	\$ 2,036.0		\$ 1,871.9	\$ 1,807.3
Short-term debt	577.3		445.4	254.1
Long-term debt	406.6		407.3	547.0
Minority interest - preferred stock of subsidiary	44.0		44.0	100.0
Shareholders' equity	708.7		699.7	661.1
Book value per common and equivalent share	84.52		83.28	68.95
Income Statement Data:				
Total revenues	\$ 87.7	\$ 76.8	\$ 222.3	\$ 228.5
Total expenses	69.6	43.4	225.9	225.7
Net investment gains	28.4	17.0	38.8	38.8
Income tax provision	(17.7)	(18.4)	(16.7)	(20.5)
After tax earnings	28.8	32.0	18.5	21.1
Tax benefit from sale of discontinued operations	-	-	66.0	-
Loss on early extinguishment of debt, after tax	-	(.2)	(.4)	-
Cumulative effect of accounting change - capitalized mortgage servicing, after tax	-	-	-	(44.3)
Net income (loss)	\$ 28.8	\$ 31.8	\$ 84.1	\$ (23.2)
Primary earnings per share:				
After tax earnings	\$ 3.45	\$ 3.43	\$ 1.71	\$ 1.20
Tax benefit from sale of discontinued operations	-	-	7.69	-
Loss on early extinguishment of debt, after tax	-	(.2)	(.04)	-
Cumulative effect of accounting change	-	-	-	(4.71)
Net income (loss)	\$ 3.45	\$ 3.41	\$ 9.36	\$ (3.51)
Fully diluted earnings per share:				
After tax earnings	\$ 3.45	\$ 3.23	\$ 2.02	\$ 1.20
Tax benefit from sale of discontinued operations	-	-	7.18	-
Loss on early extinguishment of debt, after tax	-	(.1)	(.04)	-
Cumulative effect of accounting change	-	-	-	(4.71)
Net income (loss)	\$ 3.45	\$ 3.22	\$ 9.16	\$ (3.51)
Ratio of earnings to combined fixed charges and preferred stock dividends	4.09	4.06	1.35	1.20

Notes to Summary Historical Consolidated Financial Information

(A) The ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing pretax earnings as adjusted by total fixed charges and preferred stock dividends:

(Dollars in millions)	Three Months Ended March 31,		Year Ended December 31,	
	1996	1995	1995	1994
Pretax earnings	\$ 46.5	\$ 50.4	\$ 35.2	\$ 41.6
Equity in earnings of unconsolidated affiliates	(1.3)	(1.6)	(9.4)	(2.5)
Equity in distributed income of unconsolidated affiliates	.2	.2	.8	.3
Interest expense	14.1	12.0	45.8	78.8
Portion of rent representative of interest expense	.7	.6	2.4	2.3
Pretax earnings as adjusted	\$ 60.2	\$ 61.6	\$ 74.8	\$ 120.5
Preferred stock dividend requirements	\$ -	\$ 2.6	\$ 7.3	\$ 19.4
Interest expense	14.1	12.0	45.8	78.8
Portion of rent representative of interest expense	.7	.6	2.4	2.3
Total fixed charges and preferred stock dividends	\$ 14.8	\$ 15.2	\$ 55.5	\$ 100.5

(B) Primary earnings per share amounts for the three month periods ended March 31, 1996 and 1995 are based on the weighted average number of common and dilutive common equivalent shares outstanding of 8,364,724 and 8,849,625, respectively. Fully diluted earnings per share amounts for the three month periods ended March 31, 1996 and 1995 are based on the weighted average number of common shares outstanding, assuming full dilution, of 8,364,730 and 9,889,470, respectively. Primary earnings per share amounts for the years ended December 31, 1995 and 1994 are based on the weighted average number of common and dilutive common equivalent shares outstanding of 8,581,456 and 9,405,093, respectively. Fully diluted earnings per share amounts for the years ended December 31, 1995 and 1994 are based on the weighted average number of common shares outstanding, assuming full dilution, of 9,189,054 and 9,408,785, respectively.

Pro Forma Financial Information (Unaudited). The following unaudited pro forma financial information sets forth the pro forma effects on the historical financial results of the Company of the Offer assuming 400,000 Shares are purchased in the Offer for \$80.00 per Share, net to the seller in cash, or an aggregate cost to the Company of approximately \$32.1 million including estimated related fees and expenses of \$.1 million.

The consolidated pro forma balance sheet information as of March 31, 1996 and December 31, 1995 assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of March 31, 1996 and December 31, 1995, respectively. The consolidated pro forma income statement information for the periods ended March 31, 1996 and December 31, 1995 assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of January 1, 1996 and January 1, 1995, respectively. See "Notes to Pro Forma Financial Information" in this Section 9 below.

The estimated financial effects of the repurchase of Shares by the Company pursuant to the Offer presented in the pro forma financial information are not necessarily indicative of either the Company's financial position or the results of its operations which would have been obtained had the transactions described above actually occurred on the dates described above, nor are they necessarily indicative of the results of future operations. The pro forma financial information should be read in conjunction with the Form 10-K and Form 10-Q.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
PRO FORMA BALANCE SHEET INFORMATION
(Dollars in millions, except per share amounts)

	March 31, 1996			December 31, 1995		
	Actual	Adjust- ments	Pro Forma	Actual	Adjust- ments	Pro Forma
Short-term investments, at amortized cost	\$ 230.5	\$ (32.1)	\$ 198.4	\$ 103.6	\$ (32.1)	\$ 71.5
Total assets	2,036.0	(32.1)	2,003.9	1,871.9	(32.1)	1,839.8
Total liabilities	1,283.3	-	1,283.3	1,128.2	-	1,128.2
Minority interest - preferred stock of subsidiary	44.0	-	44.0	44.0	-	44.0
Common stock and paid-in surplus	408.1	(5.0)	403.1	408.2	(5.0)	403.2
Retained earnings	1,150.6	(27.1)	1,123.5	1,124.6	(27.1)	1,097.5
Total shareholders' equity	708.7	(32.1)	676.6	699.7	(32.1)	667.6
Total liabilities, minority interest and shareholders' equity	2,036.0	(32.1)	2,003.9	1,871.9	(32.1)	1,839.8
Book value per common and equivalent share	\$ 84.52	\$.21	\$ 84.73	\$ 83.28	\$.15	\$ 83.42

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
PRO FORMA INCOME STATEMENT INFORMATION
(Dollars in millions, except per share amounts)

	Three Months Ended March 31, 1996			Year Ended December 31, 1995		
	Actual	Adjust- ments	Pro Forma	Actual	Adjust- ments	Pro Forma
Investment income	\$ 14.2	\$ (.4)	\$ 13.8	\$ 55.4	\$ (1.8)	\$ 53.6
Total revenues	87.7	(.4)	87.3	222.3	(1.8)	220.5
Total expenses	69.6	-	69.6	225.9	-	225.9
Pretax operating earnings (loss)	18.1	(.4)	17.7	(3.6)	(1.8)	(5.4)
Pretax earnings	46.5	(.4)	46.1	35.2	(1.8)	33.4
Income tax provision	17.7	(.1)	17.6	16.7	(.6)	16.1
After tax earnings	28.8	(.3)	28.5	18.5	(1.2)	17.3
After tax earnings per share:						
Primary	\$ 3.45	\$.14	\$ 3.59	\$ 1.71	\$ (.05)	\$ 1.66
Fully diluted	3.45	.14	3.59	2.02	(.04)	1.98
Earnings per share denominator (in thousands)						
Primary	8,365	(400)	7,965	8,581	(400)	8,181
Fully diluted	8,365	(400)	7,965	9,189	(400)	8,789
Ratio of earnings to combined fixed charges and preferred stock dividends	4.09	(.03)	4.06	1.35	(.04)	1.31

Notes to Pro Forma Financial Information (Unaudited)

The consolidated pro forma balance sheet information as of March 31, 1996 and December 31, 1995 assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of March 31, 1996 and December 31, 1995, respectively. The consolidated pro forma income statement information for the periods ended March 31, 1996 and December 31, 1995, assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of January 1, 1996 and January 1, 1995, respectively, and includes only those adjustments that are expected to have a continuing impact on the Company. The adjustments presented in the pro forma financial information reflect the following assumptions:

- a) The consolidated pro forma balance sheet information assumes that (i) the \$32.1 million of funds used by the Company to repurchase 400,000 Shares pursuant to the Offer and pay related fees and expenses are derived from sales and maturities of short-term investments, and (ii) the Shares repurchased by the Company pursuant to the Offer are retired.
- b) The consolidated pro forma income information assumes that the annualized yield on short-term investments used to fund the repurchase of Shares was 5.30% and 5.49% for the periods ended March 31, 1996 and December 31, 1995, respectively. This assumed yield is equal to the average yield actually experienced with respect to the Company's short-term investments during the period indicated.

The consolidated pro forma income statement information also assumes that the effective tax rate related to the reduction in investment income is 35%, the maximum Federal statutory rate for corporations.

Shareholder Rights Plan. The Board adopted in 1987, and in 1988 and 1993 amended, a Shareholders' Rights Plan under which Rights to purchase preferred stock were distributed to shareholders at the rate of one Right for each Share. Each Right entitles the holder to purchase one one-thousandth of a share of Participating Stock.

The Rights enable the holders to acquire additional equity in either the Company or the acquiring company, and are exercisable if an unrelated person or group (other than American Express Company or a wholly owned subsidiary thereof, any subsidiary of the Company, any employee benefit plan of the Company or its subsidiaries or certain affiliates of the Company and certain persons who inadvertently and temporarily cross the 25% threshold) acquires beneficial ownership of 25% or more of the outstanding Shares (such a 25% or more beneficial owner is deemed an "Acquiring Person"). Thereafter, the Rights would trade separately from the Shares and separate certificates representing the Rights would be issued. The terms of the Participating Stock are such that each one one-thousandth of a share would be entitled to participate in dividends and to vote on an equivalent basis with one whole Share, along with other preferential dividend rights and preferential distribution rights in liquidation.

Upon the existence of an Acquiring Person, the Rights will entitle each holder of a Right to purchase, at the exercise price, that number of one one-thousandth of a share of Participating Stock equivalent to the number of Shares which, at the time of the transaction, would have a market value of twice the exercise price. If certain acquisitions of the Company occur, a similar right to purchase securities of the Company or the entity acquiring the Company at a discount would arise.

Any Rights that are beneficially owned by an Acquiring Person (or any affiliate or associate of an Acquiring Person) are null and void and any holder of any such Right (including any subsequent holder) will be unable to exercise or transfer any such Right.

At any time after a person becomes an Acquiring Person, the Board may mandatorily exchange all or some of the Rights for consideration per Right equal to one-half of the securities issuable upon the exercise of one Right pursuant to the terms of the Rights Agreement (or the common share equivalent) and without payment of the exercise price.

The Rights, which do not have the right to vote or receive dividends, expire November 25, 1997, and may be redeemed by the Company at a price of \$.01 per Right at any time prior to the earlier of: (i) such time as a person becomes an Acquiring Person; or (ii) the expiration date. Under certain circumstances, the Board may redeem the Rights only if a majority of the disinterested directors (as defined in the Shareholders' Rights Plan) agrees that the redemption is in the best interests of the Company and its shareholders.

The foregoing description of the Rights is qualified in its entirety by reference to the Shareholders Rights Plan.

The Rights currently are not exercisable and trade together with the Shares associated therewith, and will not become exercisable or separately tradeable as a result of the Offer. Absent the occurrence of circumstances causing the Rights to become exercisable or separately tradeable before the Expiration Date, the tender of any Shares pursuant to the Offer will include the tender of the Rights associated therewith. No separate consideration will be paid for such Rights. Upon the purchase of Shares by the Company pursuant to the Offer, the shareholders selling those Shares will no longer own the Rights associated with such purchased Shares.

Additional Information. The Company is subject to the informational reporting requirements of the Exchange Act and in accordance therewith the Company files reports, proxy statements and other information with the SEC. Additional information concerning the Company is set forth in such proxy statements, the Company's Annual Report on Form 10-K for the year ended December 31, 1995, and the Company's Quarterly Report on Form 10-Q for the three month period ended March 31, 1996. The Company has filed the Schedule 13E-4 with the SEC which includes certain additional information relating to the Offer. The reports, proxy statements and other information filed by the Company with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC at Seven World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 West Madison Street (Suite 1400), Chicago, Illinois 60661. Copies of such material also can be obtained at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, material filed by the Company can also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005. The Company's Schedule 13E-4 will not be available at the SEC's regional offices.

10. Source and Amount of Funds

If 400,000 Shares are purchased by the Company pursuant to the Offer at \$80.00 per Share, net to the seller in cash, the aggregate cost to the Company, including all related fees and expenses of the Offer, will be approximately \$32.1 million. The Company anticipates that it will fund the purchase of Shares pursuant to the Offer through sales and maturities of short-term investments.

11. Certain Federal Income Tax Considerations

Set forth below is a brief summary of the principal Federal income tax consequences of a sale of Shares pursuant to the Offer under the Internal Revenue Code of 1986, as amended to date (the "Code").

Gain or Loss Recognition. A tendering shareholder generally will recognize taxable gain (or loss) upon the sale of Shares pursuant to the Offer equal to the difference between the amount of cash received by such shareholder pursuant to the Offer and such shareholder's tax basis in the Shares sold pursuant to the Offer. Such gain (or loss) will be capital gain (or loss), assuming that such Shares are held as a capital asset, and will be long-term capital gain (or loss) if such Shares have been held for more than one year at the time of sale.

Notwithstanding the foregoing, the amount received by a tendering shareholder will be treated as a dividend taxable as ordinary income if the Offer does not result in (i) a complete termination of such shareholder's stock interest in the Company, (ii) a more than 20% decrease in such shareholder's ownership of Shares and other voting stock of the

Company or (iii) a "meaningful reduction" in such shareholder's proportionate interest in the Company. There are no precise rules on what constitutes a "meaningful reduction" in a shareholder's proportionate interest, but the Internal Revenue Service has ruled that even a small reduction is meaningful where the stock owned by the shareholder prior to reduction represents a "minimal" interest in the corporation (only .0001118% in the ruling) and the shareholder does not otherwise exercise any control over the affairs of the corporation. The extent to which a shareholder's proportionate interest is reduced will depend upon the extent to which other shareholders tender Shares in the Offer. In determining the extent to which a shareholder's proportionate interest is reduced, the shareholder must take into account any Shares owned by related persons that such shareholder is deemed to own under the constructive ownership rules of Sections 302(c) and 318 of the Code.

In the case of a corporate shareholder, if the amount received is treated as a dividend, the dividend income may be eligible for the 70% dividends-received deduction. The dividends-received deduction is subject to certain limitations, and may not be available if the corporate shareholder does not satisfy certain holding period requirements with respect to the Shares or if the Shares are treated as "debt financed portfolio stock". Generally, if a dividends-received deduction is available, the dividend will probably be treated as an "extraordinary dividend" under Section 1059(a) of the Code, in which case such corporate shareholder's tax basis in Shares retained by such shareholder would be reduced, but not below zero, by the amount of the nontaxed portion of the dividend. Any amount of the nontaxed portion of the dividend in excess of the shareholder's basis would generally be subject to tax upon sale or disposition of those Shares.

Backup Withholding. Each tendering shareholder must provide certain information through the Letter of Transmittal to avoid the 31% Federal "backup withholding" tax on the gross proceeds payable pursuant to the Offer. See Section 3.

Foreign Shareholder Withholding. Foreign shareholders should note that the 30% U.S. withholding tax generally applicable to corporate distributions should not apply to the proceeds payable pursuant to the Offer, unless such proceeds are treated as a dividend under the rules described in "Gain or Loss Recognition" above. (However, as indicated in the preceding paragraph, Federal backup withholding tax may be applicable.)

State, Local and Foreign Taxes. The foregoing discussion relates only to Federal income tax consequences of the Offer. Shareholders should consult their own tax advisors regarding the possible state, local and foreign tax consequences of the Offer.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION PURPOSES ONLY. SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF SALES MADE BY THEM PURSUANT TO THE OFFER IN VIEW OF THEIR OWN PARTICULAR CIRCUMSTANCES.

12. Transactions and Arrangements Concerning the Shares

Based upon the Company's records and upon information provided to the Company by its directors and executive officers, neither the Company nor any of its subsidiaries nor, to the best of the Company's knowledge, any of the directors or officers of the Company, nor any associates of any of the foregoing, has effected any transactions in the Shares during the 40 business days prior to the date hereof, except for the purchase by the Company of: (a) 1,264 Shares for \$75 1/8 per Share on March 26, 1996, (b) 1,715 Shares for \$78 3/4 per Share on April 1, 1996, (c) 1,685 Shares for \$79 3/4 per Share on April 2, 1996, (d) 1,675 Shares for \$80 1/4 per Share on April 3, 1996, (e) 1,675 Shares for \$80 1/4 per Share on April 4, 1996, (f) 1,675 Shares for \$80 1/4 per Share on April 8, 1996, (g) 3,904 Shares for \$79 1/4 per Share on April 24, 1996, (h) 1,384 Shares for \$77 per Share on May 1, 1996, (i) 1,403 Shares for \$76 per Share on May 2, 1996, (j) 1,398 Shares for \$76 1/4 per Share on May 3, 1996, (k) 1,391 Shares for \$76 5/8 per Share on May 6, 1996, and (l) 1,384 Shares for \$77 per Share on May 7, 1996.

The aforementioned purchases of Shares were effected pursuant to a prearranged program with the AAAP whereby the Company has agreed to purchase Shares offered to it from time to time by the AAAP trustee. The purchase price of Shares purchased pursuant to such program is equal to the closing price of Shares, as reported on the NYSE Composite Tape, on the day the transaction is executed.

Except as set forth in this Offer to Purchase, neither the Company nor, to the best of the Company's knowledge, any of its directors or officers, is a party to any contract, arrangement, understanding or relationship with any other person relating, directly or indirectly, to the Offer with respect to any securities of the Company (including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or the voting of any such securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or the giving or withholding of proxies, consents or authorizations).

The Company has been informed by its directors and executive officers that they do not intend to tender Shares owned by them pursuant to the Offer, except that John J. Byrne, the Company's Chairman, President and Chief Executive Officer, has informed the Company that he and/or his affiliates currently intend to tender 20,000 Shares pursuant to the Offer.

13. Certain Legal Matters; Regulatory and Foreign Approvals

The Company is not aware of any license or regulatory permit that appears to be material to its business that might be adversely affected by its acquisition of Shares as contemplated in the Offer or of any approval or other action by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, that would be required for the Company's acquisition or ownership of Shares pursuant to the Offer. Should any such approval or other action be required, the Company currently contemplates that it will seek such approval or other action. The Company cannot predict whether it may determine that it is required to delay the acceptance for payment of Shares tendered pursuant to the Offer pending the outcome of any such matter. There can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to the Company's business. The Company intends to make all required filings under the Exchange Act. The Company's obligation under the Offer to accept Shares for payment is subject to certain conditions. See Section 6.

14. Allianz Asset Accumulation Plan

AAAP participants should receive an AAAP Tender Offer Instruction Form in the materials sent to them on behalf of the trustee. AAAP participants who wish to have the trustee tender any of or all Shares allocated to their respective accounts ("AAAP Shares") should so indicate by completing, executing and returning an AAAP Tender Offer Instruction Form to the trustee. AAAP participants may not use the Letter of Transmittal to direct the trustee to tender their respective AAAP Shares but must use the AAAP Tender Offer Instruction Form. Under ERISA, the trustee may be obligated to take action and make an independent decision irrespective of directions given by participants. Accordingly, although instructions from participants are being solicited for the trustee's information and will be given due consideration by it, the trustee is not bound under ERISA by such instructions and thus may tender Shares or may not tender Shares, as the case may be, contrary to such designations. Of course, directions as to the subsequent reinvestment of the proceeds from the tendered Shares will be followed by the trustee. AAAP participants should note that proceeds of Shares tendered by AAAP participants will be paid directly to the AAAP trustee for crediting to AAAP participant accounts. AAAP Participants are urged to read the AAAP Tender Offer Instruction Form and related materials carefully.

Neither the Company nor the Board makes any recommendation as to whether any participant in the AAAP should tender any of or all their respective AAAP Shares pursuant to the Offer. Each participant in the AAAP must make such participant's own decision whether to tender AAAP Shares, and, if so, how many such Shares.

15. Extension of Tender Period; Termination; Amendments

The Company expressly reserves the right, in its sole discretion, at any time or from time to time and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by the Company to have occurred, to extend the period of time during which the Offer is open and thereby delay acceptance for payment of any Shares by giving oral or written notice of such extension to the Depositary and making a public announcement thereof. During any such extension, all Shares previously tendered and not purchased or withdrawn will remain subject to the Offer, except to the extent that such Shares may be withdrawn as set forth in Section 4. The Company also expressly reserves the right, in its sole discretion, to withdraw or terminate the Offer and not accept for payment or pay for any Shares not theretofore accepted for payment or paid for or, subject to applicable law, to postpone payment for Shares under circumstances including but not limited to the occurrence of any of the conditions specified in Section 6 by giving oral or written notice of such termination or postponement to the Depositary and making a public announcement thereof. The Company's reservation of the right to delay payment for Shares which it has accepted for payment is limited by Rule 13e-4(f)(5) promulgated under the Exchange Act, which requires that the Company must pay the consideration offered or return the Shares tendered promptly after termination or withdrawal of a tender offer. Subject to compliance with applicable law, the Company further reserves the right, in its sole discretion, and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by the Company to have occurred, to amend the Offer in any respect (including, without limitation, by decreasing or increasing the consideration offered in the Offer to owners of Shares or by increasing or decreasing the number of Shares being sought in the Offer). Amendments to the Offer may be made at any time or from time to time effected by public announcement thereof, such announcement, in the case of an extension, to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Any disclosure of a material change in the information published, sent or given to shareholders will be disseminated promptly to shareholders in a manner reasonably calculated to inform shareholders of such change to the extent required by Rules 13e-4(d)(2) and 13e-4(e)(2) promulgated under the Exchange Act. Without limiting the manner in which the Company may choose to make a public announcement pursuant to or concerning the Offer, except as required by applicable law, the Company shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones News Service.

If the Company makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Company will extend the Offer to the extent required by applicable rules or regulations promulgated under the Exchange Act. The minimum period during which an offer must remain open following material changes in the terms of the offer or information concerning the offer (other than a change in price or a change in percentage of securities sought) will depend on the facts and circumstances then existing, including the relative materiality of the changed terms or information. If (a) the Company (i) increases or decreases the price at which Shares may be properly tendered, (ii) increases the number of Shares being sought and such increase exceeds 2% of the outstanding Shares or (iii) decreases the number of Shares being sought, and (b) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given, the Offer will be extended until the expiration of such ten business day period.

16. Fees and Expenses

First Chicago Trust Company of New York ("First Chicago") has been retained by the Company as Depositary and Information Agent in connection with the Offer. The Information Agent will assist shareholders who request assistance in connection with the Offer and may request brokers, dealers and other nominee shareholders to forward material relating to the Offer to beneficial owners for which they act as nominees. First Chicago will receive reasonable and customary compensation for its services in connection with the Offer and will be reimbursed for reasonable expenses, including the reasonable fees and expenses of counsel. The Company has agreed to indemnify First Chicago against certain liabilities which could occur in connection with the Offer, including certain liabilities under the Federal securities laws. First Chicago has not been retained and is not authorized to make solicitations or recommendations in connection with the Offer in its role as Depositary or Information Agent.

The Company will not pay any fees or commissions to any broker, dealer, commercial bank, trust company or other person for soliciting Shares pursuant to the Offer. The Company will, however, on request, reimburse such persons for customary handling and mailing expenses incurred in forwarding materials in respect of the Offer to the beneficial owners for which they act as nominees. No broker, dealer, commercial bank or trust company has been authorized to act as an agent for the Company for the purpose of the Offer. The Company will not pay (or cause to be paid) any stock transfer taxes on its purchase of Shares pursuant to the Offer, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

17. Miscellaneous

The Offer is not being made to, nor will the Company accept tenders from or on behalf of, owners of Shares in any jurisdiction in which the making of the Offer or its acceptance would not be in compliance with the laws of such jurisdiction. The Company is not aware of any jurisdiction where the making of the Offer or the tender of Shares would not be in compliance with applicable law. If the Company becomes aware of any jurisdiction where the making of the Offer or the tender of Shares is not in compliance with any applicable law, the Company will make a good faith effort to comply with such law. If, after such good faith effort, the Company cannot comply with such law, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of Shares residing in such jurisdiction.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

May 20, 1996

Facsimile copies of the Letter of Transmittal, properly completed and duly executed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each shareholder of the Company or such shareholder's broker, dealer, commercial bank, trust company or other nominee to the Depositary at one of its addresses set forth below.

The Depositary and the Information Agent for the Offer is:

First Chicago Trust Company of New York

Facsimile Transmission:
(For Eligible Institutions Only)

201-222-4720

or

201-222-4721

By Mail:

Tenders & Exchanges

Suite 4660 - FAE

P.O. Box 2559

Jersey City, NJ 07303-2559

By Hand or Overnight Courier:

Tenders & Exchanges

Suite 4680 - FAE

14 Wall Street - 8th Floor

New York, NY 10005

For Information:

1-800-438-0057

Any questions or requests for assistance or for additional copies of this Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, JUNE 17, 1996, UNLESS THE OFFER IS EXTENDED.

By Mail:
Tenders & Exchanges
Suite 4660 - FA
P.O. Box 2559
Jersey City, NJ 07303-2559

By Hand or Overnight Courier:
Tenders & Exchanges
Suite 4680 - FA
14 Wall Street - 8th Floor
New York, NY 10005

This Letter of Transmittal is to be used only if (a) certificates for Shares (as defined below) are to be delivered with it or (b) Shares are being delivered by book-entry transfer to the account maintained by the Depository at The Depository Trust Company ("DTC"), the Midwest Securities Trust Company ("MSTC") or the Philadelphia Depository Trust Company ("PDTC") (collectively, the "Book-Entry Transfer Facilities") as set forth in Section 3 of the Offer to Purchase (as defined below).

A shareholder owning beneficially as of the close of business on May 13, 1996 and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and who satisfies the other requirements set forth in Instruction 7, may have all such Shares purchased before proration, if any, of the purchase of other Shares pursuant to the Offer.

Delivery of the Letter of Transmittal and the other required documents to one of the Book-Entry Transfer Facilities does not constitute delivery to the Depositary.

Name(s) and Address(es) of Registered Holder(s)
(Please fill in exactly as name(s) appear(s) on certificate(s))

Shares Tendered
(Attach additional list if necessary)

* Need not be completed if Shares are delivered by book-entry transfer.
 ** Unless otherwise indicated, it will be assumed that all Shares represented by any certificates delivered to the Depository are being tendered. See Instruction 4.

[] CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO AN ACCOUNT MAINTAINED BY THE DEPOSITARY AT ONE OF THE BOOK-ENTRY TRANSFER FACILITIES AND COMPLETE THE FOLLOWING:

Name of Tendering Institution: _____
Check Box of Applicable Book-Entry Transfer Facility:
[] DTC [] MSTC [] PDTTC
Account Number: _____
Transaction Code Number: _____

[] CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:

Name(s) of the Tendering Shareholder(s): _____
Date of Execution of Notice of Guaranteed Delivery: _____
Name of Institution Which Guaranteed Delivery: _____
Check Box of Applicable Book-Entry Transfer Facility and Give Account Number if Delivered By Book-Entry Transfer:
[] DTC [] MSTC [] PDTTC
Account Number: _____
Transaction Code Number: _____

NOTE: SIGNATURES MUST BE PROVIDED BELOW
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

The undersigned hereby tenders to Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), the above-described shares of Common Stock, par value \$1.00 per share, of the Company ("Shares"), at a price of \$80.00 per Share (the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated May 20, 1996 (the "Offer to Purchase"), receipt of which is hereby acknowledged, and in this Letter of Transmittal (which together constitute the "Offer").

Subject to and effective upon acceptance for payment of the Shares tendered herewith in accordance with the terms of the Offer (including, if the Offer is extended or amended, the terms or conditions of any such extension or amendment), the undersigned hereby sells, assigns and transfers to or upon the order of the Company all right, title and interest in and to all the Shares tendered hereby, or orders the registration of such Shares delivered by book-entry transfer, that are purchased pursuant to the Offer and hereby irrevocably constitutes and appoints the depositary for the Offer (the "Depository") the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to:

- (a) deliver certificates for such Shares, or transfer ownership of such Shares on the account books maintained by any of the Book-Entry Transfer Facilities, together, in any such case, with all accompanying evidence of transfer and authenticity, to or upon the order of the Company, upon receipt by the Depository, as the undersigned's agent, of the Purchase Price with respect to such Shares;
- (b) present certificates for such Shares for cancellation and transfer of such Shares on the Company's books; and
- (c) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares, all in accordance with the terms of the Offer.

The undersigned hereby represents and warrants that:

- (a) the undersigned "owns" the Shares tendered hereby within the meaning of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended, and has full power and authority to validly tender, sell, assign and transfer the Shares tendered hereby;
- (b) the tender of Shares by the undersigned complies with Rule 14e-4;
- (c) when and to the extent the Company accepts the Shares for purchase, the Company will acquire good, marketable and unencumbered title thereto, free and clear of all security interests, liens, charges, encumbrances, conditional sales agreements or other obligations relating to their sale or transfer, and not subject to any adverse claim;
- (d) on request, the undersigned will execute and deliver any additional documents the Depository or the Company deems necessary or desirable to complete the assignment, transfer and purchase of the Shares tendered hereby; and
- (e) the undersigned has read and agrees to all the terms of the Offer.

The undersigned understands that all Shares properly tendered and not withdrawn will be purchased at \$80.00 per Share (or such other price that may be set forth in an amendment to the Offer), net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions thereof and that the Company will return all other Shares, including Shares not purchased because of proration.

The undersigned understands that tenders of Shares pursuant to any one of the procedures described in Section 3 of the Offer to Purchase and in the instructions hereto will constitute a binding agreement between the undersigned and the Company upon the terms and subject to the conditions of the Offer.

The undersigned recognizes that, under certain circumstances set forth in the Offer to Purchase, the Company may terminate or amend the Offer or may not be required to accept for payment any of the Shares tendered herewith or may accept for payment, pro rata with Shares tendered by other shareholders, fewer than all the Shares tendered herewith.

All authority conferred or agreed to be conferred in this Letter of Transmittal shall survive the death or incapacity of the undersigned, and any obligation of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offer, this tender is irrevocable.

Unless otherwise indicated under "Special Payment Instructions", please issue the check for the aggregate Purchase Price and/or return or issue the certificate(s) evidencing any Shares not tendered or not accepted for payment in the name(s) of the registered holder(s) appearing under "Description of Shares Tendered". Similarly, unless otherwise indicated under "Special Delivery Instructions", please mail the check for the aggregate Purchase Price and/or the certificate(s) evidencing any Shares not tendered or not accepted for payment (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing under "Description of Shares Tendered". In the event that both the "Special Delivery Instructions" and the "Special Payment Instructions" are completed, please issue the check for the aggregate Purchase Price and/or issue or return the certificate(s) evidencing any Shares not tendered or accepted for payment in the name(s) of, and deliver said check and/or certificate(s) to, the person or persons so indicated. In the case of book-entry delivery of Shares, please credit the account maintained at the Book-Entry Transfer Facility indicated above with any Shares not accepted for payment. The undersigned recognizes that the Company has no obligation pursuant to the "Special Payment Instructions" to transfer any Shares from the name(s) of the registered holder(s) thereof if the Company does not accept for payment any of the Shares so tendered.

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

ODD LOTS

(See Instruction 7)

To be completed ONLY if Shares are being tendered by or on behalf of a person who beneficially owned as of the close of business on May 13, 1996, and who will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares.

The undersigned either (check one box):

- ☐ was the beneficial owner as of the close of business on May 13, 1996, and will continue to be the beneficial owner until the Expiration Date of an aggregate of fewer than 100 Shares, and is tendering all such Shares, or
- ☐ is an "Eligible Institution" (as defined in Instruction 1) that (i) is tendering, for the beneficial owners thereof, Shares with respect to which it is the record owner and (ii) believes, based upon representations made to it by each such beneficial owner, that each such beneficial owner beneficially owned as of the close of business on May 13, 1996, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

SPECIAL DELIVERY INSTRUCTIONS
(See Instructions 4 and 9)

To be completed ONLY if the check for the aggregate Purchase Price of Shares purchased and/or certificates for Shares not tendered or not purchased are to be mailed to someone other than the undersigned or to the undersigned at an address other than that shown below the undersigned's signature.

Mail ☐ check and/or ☐ certificates to:

Name _____
(Please Print)

Address _____

(Zip Code)

SPECIAL PAYMENT INSTRUCTIONS
(See Instructions 1, 4, 5, 6, 8 and 9)

To be completed ONLY if the check for the aggregate Purchase Price of Shares purchased and/or certificates for Shares not tendered or not purchased are to be issued in the name of someone other than the undersigned.

Issue any ☐ check and/or ☐ certificates to:

Name _____
(Please Print)

Address _____

(Zip Code)

(Taxpayer Identification Number)

SIGN HERE
(See Instructions 1 and 5)
(Please complete Substitute Form W-9 below)

Signature(s) of Owner(s)

Name(s) _____
(Please Print)

Capacity (full title) _____

Address _____

(Include Zip Code)

Area Code and Telephone Number _____

Taxpayer Identification Number _____
(See Instruction 11)

Dated: _____

(Must be signed by registered holder(s) exactly as name(s) appear(s) on stock certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, please set forth full title. See Instruction 5.)

GUARANTEE OF SIGNATURE(S)
(See Instructions 1 and 5)

Authorized Signature

Name -----

(Please Print)

Title -----

Name of Firm -----

Address -----

(Include Zip Code)

Area Code and Telephone Number -----

Dated: -----

IMPORTANT TAX INFORMATION

Under U.S. Federal income tax law, a shareholder whose tendered Shares are accepted for payment is required by law to provide the Depositary with such shareholder's correct taxpayer identification number ("TIN") on the Substitute Form W-9 below. If the Depositary is not provided with the correct TIN, the Internal Revenue Service may subject the shareholder or other payee to a \$50 penalty. In addition, payments that are made to such shareholder or other payee with respect to Shares purchased pursuant to the Offer may be subject to 31% backup withholding.

Certain shareholders (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements and should indicate their status by writing "exempt" across the face of the Substitute Form W-9. In order for a foreign individual to qualify as an exempt recipient, the shareholder must submit a Form W-8, signed under penalties of perjury, attesting to that individual's exempt status. A Form W-8 can be obtained from the Depositary. See the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for more instructions.

If backup withholding applies, the Depositary is required to withhold 31% of any such payments to be made to the shareholder or other payee. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

The box in Part 2 of the Substitute Form W-9 may be checked if the tendering shareholder has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future. If the box in Part 2 is checked, the shareholder or other payee must also complete the Certificate of Awaiting Taxpayer Identification Number below in order to avoid backup withholding. Notwithstanding that the box in Part 2 is checked and the Certificate of Awaiting Taxpayer Identification Number is completed, the Depositary will withhold 31% on all payments made prior to the time a properly certified TIN is provided to the Depositary.

What Number to Give the Depositary

The shareholder is required to give the Depositary the TIN (e.g., social security number or employer identification number) of the record owner of the Shares or of the last transferee appearing on the transfers attached to, or endorsed on, the certificates evidencing the Shares. If the Shares are registered in more than one name or are not registered in the name of the actual owner, consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for additional guidance on which number to report.

PAYER'S NAME: FIRST CHICAGO TRUST COMPANY OF NEW YORK

SUBSTITUTE FORM W-9 Part 1 - PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW Social security number(s) / /
OR
Employer identification number(s)
/

Payer's Request
for Tax-payer
Identification
Number (TIN)

Part 2 -
Awaiting TIN []

CERTIFICATION - UNDER THE PENALTIES OF PERJURY, I CERTIFY THAT THE INFORMATION PROVIDED ON THIS FORM IS TRUE, CORRECT AND COMPLETE.

Name _____
(Please print)

Address _____
(Including zip code)

SIGNATURE DATE

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 2 OF SUBSTITUTE FORM W-9

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (b) I intend to mail or deliver an application in the near future. I understand that, notwithstanding that I have checked the box in Part 2 (and completed this Certificate of Awaiting Taxpayer Identification Number), all reportable payments made to me before the time I provide the Depository with a properly-certified taxpayer identification number will be subject to a 31% backup withholding tax.

Signature Date

NOTE: FAILURE TO COMPLETE AND RETURN THIS SUBSTITUTE FORM W-9 MAY RESULT IN BACKUP WITHHOLDING OF 31% OF ANY PAYMENT MADE TO YOU PURSUANT TO THE OFFER. PLEASE REVIEW THE ENCLOSED "GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9" FOR ADDITIONAL DETAILS.

INSTRUCTIONS

Forming Part of the Terms and Conditions of the Offer

1. Guarantee of Signatures. Except as otherwise provided below, all signatures on this Letter of Transmittal must be guaranteed by a financial institution (including most banks, savings and loan associations, and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program (each such entity being hereinafter referred to as an "Eligible Institution"). Signatures on this Letter of Transmittal need not be guaranteed if (a) this Letter of Transmittal is signed by the registered owner of the Shares (which term, for purposes of this document, shall include any participant in one of the Book-Entry Transfer Facilities whose name appears on a security position listing as the owner of Shares) tendered herewith and such owner has not completed either of the boxes entitled "Special Payment Instructions" or "Special Delivery Instructions" on this Letter of Transmittal or (b) such Shares are tendered for the account of an Eligible Institution. See Instruction 5.

2. Delivery of Letter of Transmittal and Shares; Guaranteed Delivery Procedures. This Letter of Transmittal is to be used only if (a) certificates are to be forwarded with it to the Depositary or (b) delivery of Shares is to be made by book-entry transfer pursuant to the procedure set forth in Section 3 of the Offer to Purchase. Certificates for all physically delivered Shares, or a confirmation of a book-entry transfer of all Shares delivered electronically into the Depositary's account at one of the Book-Entry Transfer Facilities, together in each case with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof), with any required signature guarantees, and any other documents required by this Letter of Transmittal, must be received by the Depositary at one of its addresses set forth on the front page of this Letter of Transmittal before the Expiration Date (as defined in the Offer to Purchase). Delivery of documents to one of the Book-Entry Transfer Facilities does not constitute delivery to the Depositary.

Shareholders whose certificates are not immediately available (or who cannot follow the procedures for book-entry transfer on a timely basis) or who cannot transmit this Letter of Transmittal and all other required documents to reach the Depositary before the Expiration Date, may nevertheless tender their Shares pursuant to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase. Pursuant to such procedure: (a) such tender must be made by or through an Eligible Institution, (b) the Depositary must receive (by hand, mail or facsimile transmission), before the Expiration Date, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form the Company has provided with the Offer to Purchase and (c) the certificates for all tendered Shares in proper form for transfer (or confirmation of a book-entry transfer of all such Shares into the Depositary's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and any other documents required by this Letter of Transmittal, must be received by the Depositary within five New York Stock Exchange trading days after the date of execution of such Notice of Guaranteed Delivery, all as provided in Section 3 of the Offer to Purchase.

The method of delivery of all documents, including stock certificates, the Letter of Transmittal and any other required documents, is at the election and risk of the tendering shareholder. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended.

No alternative, conditional or contingent tenders will be accepted, and no fractional Shares will be purchased. By executing this Letter of Transmittal (or a facsimile thereof), each tendering shareholder waives any right to receive any notice of the acceptance of such shareholder's tender.

3. Inadequate Space. If the space provided in the box entitled "Description of Shares Tendered" is inadequate, the certificate numbers and/or the number of Shares should be listed on a separate signed schedule and attached to this Letter of Transmittal.

4. Partial Tenders and Unpurchased Shares. (Not applicable to shareholders who deliver Shares by book-entry transfer). If fewer than all the Shares evidenced by any certificate delivered to the Depositary are to be tendered, fill in the number of Shares that are to be tendered in the box entitled "Number of Shares Tendered". If such Shares are purchased, a new certificate for the remainder of the Shares evidenced by the old certificate(s) will be sent to and in the name of the registered holder(s) (unless otherwise specified by such holder(s) having completed either of the boxes entitled "Special Delivery Instructions" or "Special Payment Instructions" on this Letter of Transmittal) as soon as practicable following the expiration or termination of the Offer. All Shares represented by the certificate(s) listed and delivered to the Depositary will be deemed to have been tendered unless otherwise indicated.

5. Signatures on Letter of Transmittal; Stock Powers; and Endorsements.

(a) If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered herewith, the signature(s) must correspond exactly with the name(s) as written on the face of the certificates without any change whatsoever.

(b) If any of the Shares tendered herewith are registered in the names of two or more joint owners, each such owner must sign this Letter of Transmittal.

(c) If any of the Shares tendered herewith are registered in different names on different certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

(d) If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered herewith, no endorsements of certificates or separate stock powers are required unless payment is to be made and/or certificates for Shares not tendered or not purchased are to be issued to a person other than the registered holder(s). If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Shares tendered herewith, however, the certificates must be endorsed or accompanied by appropriate stock powers, in either case, signed exactly as the name(s) of the registered holder(s) appear on the certificates for such Shares. Signatures on any such certificates or stock powers must be guaranteed by an Eligible Institution. See Instruction 1.

(e) If this Letter of Transmittal or any certificates or stock powers are signed by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing and proper evidence satisfactory to the Company of the authority of such person so to act must be submitted.

6. Stock Transfer Taxes. The Company will pay any stock transfer taxes with respect to the transfer and sale of Shares to it or its order pursuant to the Offer. If, however, payment of the aggregate Purchase Price is to be made to, or certificates for Shares not tendered or accepted for purchase are to be registered in the name of, any person other than the registered holder, or if tendered certificates are registered in the name of any person other than the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder or such person) payable on account of the transfer to such person will be deducted from the aggregate purchase price unless satisfactory evidence of payment of such taxes or exemption therefrom is submitted.

7. Odd Lots. As described in Sections 1 and 2 of the Offer to Purchase, if the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 400,000 (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase first from all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on May 13, 1996, and who continued to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, who tendered all Shares beneficially owned by such person (partial tenders of Shares will not qualify for this preference) and who completes the box captioned "Odd Lots" in this Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery. This preference will not be available unless the box above entitled "Odd Lots" is completed.

8. Irregularities. All questions as to the number of Shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. The Company reserves the absolute right to reject any or all tenders determined by it not to be in proper form or the acceptance for payment of which may, in the opinion of the Company's counsel, be unlawful. The Company also reserves the absolute right to waive any of the conditions of the Offer (except as provided in Section 6 of the Offer to Purchase) and any defect or irregularity in the tender of any particular Shares. The Company's interpretation of the terms and conditions of the Offer (including these instructions) shall be final and binding on all parties. No tender of Shares will be deemed properly made until all defects or irregularities have been cured or waived. None of the Company, the Depository, the Information Agent or any other person is or will be obligated to give notice of any defects or irregularities in tenders, and none of them will incur any liability for failure to give any such notice.

9. Special Payment and Delivery Instructions. If the check for the aggregate Purchase Price of any Shares purchased is to be issued to, or any Shares not tendered or not purchased are to be returned in the name of, a person other than the person(s) signing this Letter of Transmittal or if the check or any certificates for Shares not tendered or not purchased are to be mailed to someone other than the person(s) signing this Letter of Transmittal or to the person(s) signing this Letter of Transmittal at an address other than that shown in the box entitled "Descriptions of Shares Tendered", the boxes entitled "Special Payment Instructions" and/or "Special Delivery Instructions" on this Letter of Transmittal should be completed.

10. Request for Assistance or Additional Copies. Requests for assistance or additional copies of the Offer to Purchase, this Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent at its addresses or telephone number set forth below.

11. Substitute Form W-9. Except as provided above under "Important Tax Information", each tendering shareholder is required to provide the Depository with a correct TIN on Substitute Form W-9 which is provided under "Important Tax Information" above. Failure to provide the information on the form may subject the tendering shareholder to a \$50 penalty and a 31% Federal back-up withholding tax may be imposed on the payments made to the shareholder or other payee with respect to Shares purchased pursuant to the Offer.

12. Foreign Shareholder Withholding. Foreign shareholders should note that the 30% U.S. withholding tax generally applicable to corporate distributions should not apply to the proceeds payable pursuant to the Offer, unless such proceeds are treated as a dividend under the rules described in "Gain or Loss Recognition" in Section 11 of the Offer to Purchase. (However, as indicated above under "Important Tax Information", Federal backup withholding tax may be applicable).

13. Allianz Asset Accumulation Plan. Participants in the Allianz Asset Accumulation Plan (the "AAP") who wish to have the trustee of the AAP tender Shares allocated to their accounts should so indicate by completing, executing and returning to the trustee the instruction form for AAP participants included in the notices sent on behalf of the trustee of the AAP. Participants in the AAP may not use the Letter of Transmittal to direct the trustee of the AAP to tender Shares allocated to such shareholders under the AAP, but must use the separate instruction form sent to them. See Sections 3 and 14 of the Offer to Purchase.

Facsimile copies of this Letter of Transmittal, properly completed and duly executed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each shareholder of the Company or such shareholder's broker, dealer, commercial bank, trust company or other nominee to the Depositary at one of its addresses set forth below.

The Depositary and the Information Agent for the Offer is:

First Chicago Trust Company of New York

By Mail:
Tenders & Exchanges
Suite 4660 - FA
P.O. Box 2559
Jersey City, NJ 07303-2559

By Hand or Overnight Courier:
Tenders & Exchanges
Suite 4680 - FA
14 Wall Street - 8th Floor
New York, NY 10005

For Information:
1-800-438-0057

Any questions or requests for assistance or for additional copies of the Offer to Purchase, this Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
NOTICE OF GUARANTEED DELIVERY
OF SHARES OF COMMON STOCK

This form or a facsimile hereof must be used to accept the Offer (as defined below) if:

- (a) certificates for shares of Common Stock, par value \$1.00 per share ("Shares"), of Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), are not immediately available; or
- (b) the procedure for book-entry transfer (set forth in Section 3 of the Company's Offer to Purchase dated May 20, 1996 (the "Offer to Purchase")) cannot be followed on a timely basis; or
- (c) time will not permit the Letter of Transmittal and all other required documents to be delivered to the depositary for the Offer (the "Depository") before the Expiration Date (as defined in Section 1 of the Offer to Purchase).

This form, properly completed and duly executed, may be delivered by hand, mail or facsimile transmission to the Depositary. See Section 3 of the Offer to Purchase.

To: FIRST CHICAGO TRUST COMPANY OF NEW YORK, Depositary

By Mail:

Facsimile Transmission:
(For Eligible Institutions only)

By Hand or Overnight Courier:

Tenders & Exchanges
Suite 4660 - FA
P.O. Box 2559
Jersey City, NJ 07303-2559

(201) 222-4720
or
(201) 222-4721

Tenders & Exchanges
Suite 4680 - FA
14 Wall Street - 8th Floor
New York, NY 10005

To Confirm Receipt of
Notice of Guaranteed Delivery:

(201) 222-4707

Delivery of this instrument to an address other than as set forth above or transmission of instructions to a facsimile number other than the ones listed above will not constitute a valid delivery.

This form is not to be used to guarantee signatures. If a signature on a Letter of Transmittal is required to be guaranteed by an "Eligible Institution" (as defined in the Offer to Purchase) under the instructions thereto, such signature guarantee must appear in the applicable space provided in the signature box on the Letter of Transmittal.

Ladies and Gentlemen:

The undersigned hereby tenders to the Company, at a price of \$80.00 per Share (or such other price set forth in an amendment to the Offer referred to below), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase and the related Letter of Transmittal (which together constitute the "Offer"), receipt of which is hereby acknowledged, _____ Shares pursuant to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase.

ODD LOTS

(See Instruction 7 of the Letter of Transmittal)

To be completed ONLY if Shares are being tendered by or on behalf of a person who beneficially owned as of the close of business on May 13, 1996, and who will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares.

The undersigned either (check one box):

- ☐ was the beneficial owner as of the close of business on May 13, 1996, and will continue to be the beneficial owner until the Expiration Date of an aggregate of fewer than 100 Shares, and is tendering all such Shares, or
- ☐ is an "Eligible Institution" that (i) is tendering, for the beneficial owners thereof, Shares with respect to which it is the record owner, and (ii) believes, based upon representations made to it by each such beneficial owner, that each such beneficial owner beneficially owned as of the close of business on May 13, 1996, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

No. of Shares tendered

Certificate Nos. (if available):

If Shares will be delivered by book-entry transfer:

Name of Tendering Institution:

Account No.

at:

- ☐ The Depository Trust Company
- ☐ Midwest Securities Trust Company
- ☐ Philadelphia Depository Trust Company

SIGN HERE

(Signature(s))

(Signature(s))

(Name(s)) (Please Print)

(Address)

(Zip Code)

(Area Code and Telephone No.)

GUARANTEE

(Not to be used for signature guarantee)

The undersigned, an "Eligible Institution", guarantees that (a) the above named person(s) "own(s)" the Shares tendered hereby within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended, (b) such tender of Shares complies with Rule 14e-4 and (c) the Depository will receive either the stock certificates representing the Shares tendered hereby, in proper form for transfer, or confirmation of the book-entry transfer of such Shares into the Depository's account at The Depository Trust Company, the Midwest Securities Trust Company or the Philadelphia Depository Trust Company, in any such case together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other required documents, all within five New York

Stock Exchange trading days after the date of execution of this notice.

Name of Firm:

Address:

Authorized Signature

Zip Code

Name:

Area Code and Telephone No:

Please Print

Title:

Dated:

DO NOT SEND STOCK CERTIFICATES WITH THIS FORM. YOUR STOCK CERTIFICATES MUST BE SENT WITH THE LETTER OF TRANSMITTAL

May 20, 1996

Dear Fellow Shareholder:

Fund American is offering to purchase up to 400,000 shares of its Common Stock from shareholders at a cash price of \$80.00 per share. This tender is being offered to provide shareholders with added liquidity. We are essentially re-instituting our December 4, 1995 tender that we were forced to cancel which called for 500,000 shares at \$71.00 net. Shareholders will benefit from the additional \$9.00 per share price that this tender brings. This tender, if fully subscribed, will exhaust the Company's remaining authorization to repurchase its Common Stock.

The offer is explained in detail in the enclosed Offer to Purchase and Letter of Transmittal. If you want to tender your shares, the instructions for tendering shares are also explained in detail in the enclosed materials. I encourage you to read these materials carefully before making any decision with respect to the offer.

Neither the Company nor its Board of Directors makes any recommendation as to whether any shareholder should tender any or all of such shareholder's shares pursuant to the offer. Each shareholder must make such shareholder's own decision whether to tender shares and, if so, how many shares to tender.

Any questions you have about the offer should be directed to First Chicago Trust Company of New York, the Information Agent, at 1-800-438-0057.

Respectfully submitted,

John J. Byrne
Chairman

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, New Hampshire 03755

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Offer to Purchase for Cash
Up to 400,000 Shares of its Common Stock
At \$80.00 Net Per Share

May 20, 1996

To Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees:

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), has appointed us to act as Information Agent in connection with its offer pursuant to which the Company is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$80.00 per Share (such price, or any other price set forth in an amendment to the Offer to Purchase referred to below, being the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated May 20, 1996 (the "Offer to Purchase"), and in the related Letter of Transmittal (which together constitute the "Offer"). We enclose herewith the materials listed below relating to the Offer.

All Shares properly tendered and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions described therein. The Company reserves the right, in its sole discretion, to purchase more than 400,000 Shares pursuant to the Offer. The Offer is not conditioned upon any minimum number of Shares being validly tendered. The Offer is, however, subject to certain other conditions. See Section 6 of the Offer to Purchase.

For your information and for forwarding to your clients for whom you hold Shares registered in your name or in the name of your nominee, we are enclosing the following documents:

- (1) Offer to Purchase dated May 20, 1996;
- (2) Letter of Transmittal for your use and for the information of your clients (together with "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9");
- (3) Notice of Guaranteed Delivery to be used to accept the Offer if certificates for Shares are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the depository for the Offer (the "Depository") before the Expiration Date (as defined in the Offer to Purchase);
- (4) Letter to Clients which may be sent to your clients for whose accounts you hold Shares registered in your name (or in the name of your nominee), with space provided for obtaining such clients' instructions with regard to the Offer;
- (5) Letter from John J. Byrne, Chairman, President and Chief Executive Officer of the Company, dated May 20, 1996, to shareholders of the Company; and
- (6) Return envelope addressed to First Chicago Trust Company of New York, as Depository.

PLEASE BRING THE OFFER TO THE ATTENTION OF YOUR CLIENTS AS PROMPTLY AS POSSIBLE. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, JUNE 17, 1996, UNLESS THE OFFER IS EXTENDED.

No fees or commissions will be payable to brokers, dealers or other persons for soliciting tenders of Shares pursuant to the Offer. The Company will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding any of the enclosed materials to your clients. The Company will pay any stock transfer taxes with respect to the transfer and sale of Shares to it or its order pursuant to the Offer, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

In order to take advantage of the Offer, a duly executed and properly completed Letter of Transmittal and any other required documents should be sent to the Depositary with either certificate(s) representing the tendered Shares or confirmation of their book-entry transfer, all in accordance with the instructions set forth in the Letter of Transmittal and the Offer to Purchase.

As described in Section 3 of the Offer to Purchase, tenders may be made even though stock certificates are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the Depositary before the Expiration Date, if such tenders are made by or through an "Eligible Institution" (as defined in the Offer to Purchase). Certificates for Shares so tendered in proper form for transfer (or a confirmation of a book-entry transfer of such Shares into the Depositary's account at one of the "Book-Entry Transfer Facilities" described in the Offer to Purchase), together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal, must be received by the Depositary within five New York Stock Exchange trading days after the date of execution of a properly completed and duly executed Notice of Guaranteed Delivery.

Any questions you have or requests for additional copies of the enclosed material may be directed to the undersigned at 1-800-438-0057.

Very truly yours,

First Chicago Trust Company of New York

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON THE AGENT OF THE COMPANY, THE DEPOSITARY OR THE INFORMATION AGENT OR AUTHORIZE YOU OR ANY OTHER PERSON TO MAKE ANY STATEMENTS OR USE ANY MATERIAL ON BEHALF OF ANY OF THEM WITH RESPECT TO THE OFFER, OTHER THAN THE MATERIAL ENCLOSED HERewith AND THE STATEMENTS SPECIFICALLY CONTAINED IN SUCH MATERIAL.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Offer to Purchase for Cash
Up to 400,000 Shares of its Common Stock
At \$80.00 Net Per Share

To Our Clients:

May 20, 1996

Enclosed for your consideration are the Offer to Purchase dated May 20, 1996, and the related Letter of Transmittal (which together constitute the "Offer") in connection with the Offer by Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), pursuant to which the Company is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$80.00 per Share (such price, or any other price set forth in an amendment to the Offer to Purchase referred to below being the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions of the Offer.

All Shares properly tendered and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions thereof. All Shares not purchased pursuant to the Offer, including Shares not purchased because of proration, will be returned to the tendering shareholders at the Company's expense as promptly as practicable following the Expiration Date (as defined in Section 1 of the Offer to Purchase). The Company reserves the right, in its sole discretion, to purchase more than 400,000 Shares pursuant to the Offer. See Section 1 of the Offer to Purchase.

We are the holder of record of Shares held for your account. As such, we are the only ones who can tender your Shares, and then only pursuant to your instructions. The Letter of Transmittal is for your information only and cannot be used by you to tender Shares we hold for your account.

Please instruct us as to whether you wish us to tender any of or all the Shares we hold for your account upon the terms and subject to the conditions of the Offer.

We call your attention to the following:

1. You may tender any portion of or all your Shares as indicated in the attached instruction form.
2. The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 6 of the Offer to Purchase.
3. The Offer, proration period and withdrawal rights will expire at 12:00 midnight, New York City time, on Monday, June 17, 1996, unless the Offer is extended.
4. The Offer is for 400,000 Shares, representing approximately 5.2% of the Shares outstanding as of May 20, 1996, and approximately 4.6% of the sum of the Shares then outstanding and all Shares which may be issued upon the exercise of outstanding employee stock options and warrants as of such date.
5. Tendering shareholders will not be obligated to pay any brokerage commissions, solicitation fees, or, subject to Instruction 6 of the Letter of Transmittal, any stock transfer taxes with respect to the transfer and sale of Shares to the Company pursuant to the Offer.
6. If you owned beneficially as of the close of business on May 13, 1996, and will continue to own beneficially until the Expiration Date (as defined in the Offer to Purchase), an aggregate of fewer than 100 Shares and you are tendering all such Shares and do not withdraw such Shares before the Expiration Date and complete the box captioned "Odd Lots" in the attached instruction form, the Company, upon the terms and subject to the conditions of the Offer, will accept all such Shares for purchase before proration, if any, of the purchase of other Shares tendered.

If you wish to have us tender any of or all your Shares, please so instruct us by completing, executing and returning to us the attached instruction form. An envelope to return your instruction form to us is enclosed. If you authorize us to tender your Shares, we will tender all such Shares unless you specify otherwise on the instruction form.

YOUR INSTRUCTIONS SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF BEFORE THE EXPIRATION DATE. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, JUNE 17, 1996, UNLESS THE OFFER IS EXTENDED.

As described in Section 1 of the Offer to Purchase and subject to matters described therein, if the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 400,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority:

- (a) first, all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who owned beneficially as of the close of business on May 13, 1996, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares and who tenders all Shares beneficially owned by such shareholder (partial tenders will not qualify for this preference); and
- (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

The Offer is not being made to, nor will the Company accept tenders from or on behalf of, owners of Shares residing in any jurisdiction in which the making of the Offer or its acceptance would not be in compliance with the laws of such jurisdiction.

Instructions
With Respect to the
Offer to Purchase for Cash
Up to 400,000 Shares of Common Stock
of

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase dated May 20, 1996, and the related Letter of Transmittal (which together constitute the "Offer"), in connection with the Offer by Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), to purchase for cash up to 400,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$80.00 per Share (or such other price that may be set forth in an amendment to the Offer), net to the seller in cash, upon the terms and subject to the conditions of the Offer.

The undersigned hereby instruct(s) you to tender to the Company the number of Shares indicated below or, if no number is indicated, all Shares you hold for the account of the undersigned, upon the terms and subject to the conditions of the Offer.

Aggregate number of Shares to be tendered by you for the account of the undersigned:*

_____ Shares

*Unless otherwise indicated, all the Shares held for the account of the undersigned will be tendered.

ODD LOTS

[] By checking this box, the undersigned represents that the undersigned beneficially owned as of the close of business on May 13, 1996, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

SIGNATURE BOX

Signature(s) _____

Dated _____

Name(s) and Address(es) _____

(Please Print)

Area Code and Telephone Number

Taxpayer Identification or
Social Security Number _____

=====

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase dated May 20, 1996, and the related Letter of Transmittal, and is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares residing in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction.

Notice of Offer to Purchase for Cash
by
FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Up to 400,000 Shares of Its Common Stock At
\$80.00 Net Per Share

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), to the Company, at \$80.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated May 20, 1996 (the "Offer to Purchase"), and in the related Letter of Transmittal (which together constitute the "Offer"). For purposes of the Offer, the Company shall be deemed to have accepted for payment (and thereby purchased), subject to proration, Shares which are tendered and not withdrawn when, as and if the Company gives oral or written notice to the Depositary of the Company's acceptance of such Shares for payment pursuant to the Offer. The Company reserves the right, in its sole discretion, to purchase more than 400,000 Shares pursuant to the Offer.

The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 6 of the Offer to Purchase.

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL
EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY,
JUNE 17, 1996, UNLESS THE OFFER IS EXTENDED.

Neither the Company nor its Board of Directors makes any recommendation as to whether any shareholder should tender any or all of such shareholder's Shares pursuant to the Offer. Each shareholder must make such shareholder's own decision whether to tender Shares and, if so, how many Shares to tender.

The Company reserves the right, in its sole discretion, at any time or from time to time, to extend the period of time during which the Offer is open by giving oral or written notice of such extension to the Depositary and making a public announcement thereof. See Sections 1 and 15 of the Offer to Purchase.

If the number of Shares properly tendered and not withdrawn before 12:00 midnight, New York City time, on Monday, June 17, 1996, or the latest time and date at which the Offer, if extended by the Company, shall expire (the "Expiration Date"), is greater than 400,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority: (a) first, all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on May 13, 1996, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares and who: (1) tenders all Shares beneficially owned by such shareholder (partial tenders will not qualify for this preference), and (2) completes the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

Except as otherwise provided in Section 4 of the Offer to Purchase, a tender of Shares pursuant to the Offer is irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date and, unless theretofore accepted for payment by the Company, after 12:00 midnight, New York City time, on Tuesday, July 16, 1996. See Section 4 of the Offer to Purchase.

For a withdrawal to be effective, the Depositary must timely receive (at one of its addresses set forth on the back cover of the Offer to Purchase) a written or facsimile transmission notice of withdrawal. Any notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and, if different from the name of the person who tendered the Shares, the name of the registered owner of such Shares. If the certificates have been delivered or otherwise identified to the Depositary, then, prior to the release of such certificates, the tendering shareholder must also submit the serial numbers shown on the particular certificates evidencing such Shares and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution (as defined in Section 3 of the Offer to Purchase) (except in the case of Shares tendered by an Eligible Institution). If Shares have been delivered pursuant to the procedure for book-entry transfer set forth in Section 3 of the Offer to Purchase, the notice of withdrawal must specify the name and number of the account at the applicable Book-Entry Transfer Facility (as defined in Section 3 of the Offer to Purchase) to be credited with the withdrawn Shares and otherwise comply with the procedures of such facility. A withdrawal of a tender of Shares may not be rescinded and Shares properly withdrawn shall thereafter be deemed to be not validly tendered for purposes of the Offer. Withdrawn Shares, however, may be retendered before the Expiration Date by again following any of the procedures described in Section 3 of the Offer to Purchase.

The Offer to Purchase and the Letter of Transmittal contain important

information that should be read before any decision is made with respect to the Offer. These documents are being mailed to record holders of Shares and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the Company's shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

The information required to be disclosed by Rule 13e-4(d)(1) of the General Rules and Regulations under the Securities Exchange Act of 1934 is contained in the Offer to Purchase and is incorporated herein by reference.

Any questions or requests for assistance may be directed to the Information Agent at its address and telephone number set forth below. Requests for copies of the Offer to Purchase, Letter of Transmittal, Notice of Guaranteed Delivery or other tender offer materials may be directed to the Information Agent and such copies will be furnished promptly at the Company's expense. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Depositary and the Information Agent for the Offer is:

First Chicago Trust Company of New York
P.O. Box 2559, STE 4660 - FAE
Jersey City, New Jersey 07303-2559
1-800-438-0057

Requests for materials may be telecopied to
201-222-4720
or
201-222-4721

May 20, 1996
=====

Fund
American

PRESS
RELEASE

CONTACT: Terry Baxter
802-649-2640

FUND AMERICAN ANNOUNCES CASH TENDER OFFER
FOR UP TO 400,000 SHARES AT \$80.00 NET
AND DECLARES DIVIDEND

HANOVER, New Hampshire, May 16, 1996 - The Board of Directors of Fund American Enterprises Holdings, Inc. today approved a cash tender offer to purchase up to 400,000 shares of its common stock at a price of \$80.00 net per share. The tender offer is expected to commence on Monday, May 20, 1996.

Chairman Jack Byrne said, "We are essentially re-instituting our December 4, 1995 tender that we were forced to cancel which called for 500,000 shares at \$71.00 net. Shareholders will benefit from the additional \$9.00 per share price that this tender brings".

The Company's common stock closed yesterday on the New York Stock Exchange at \$79.125 per share.

The Offer will not be conditioned upon any minimum number of shares being tendered. The Offer will be, however, subject to certain customary conditions. If the Offer commences on May 20th, the proration period and withdrawal rights are expected to expire at 12:00 midnight, New York City time, on Monday, June 17, 1996 unless the Offer is extended.

Neither the Company nor its Board of Directors makes any recommendations as to whether any shareholder should participate in the Offer.

The Board of Directors of Fund American Enterprises Holdings, Inc. today also declared a \$.20 per share quarterly dividend, payable on June 19, 1996, to holders of Common Stock of record as of June 10, 1996.

Fund American is traded on the New York Stock Exchange under the symbol FFC.

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, New Hampshire 03755
603-643-1567

Fund
American

PRESS
RELEASE

CONTACT: Terry Baxter
802-649-2640

FUND AMERICAN COMMENCES CASH TENDER OFFER
FOR UP TO 400,000 SHARES AT \$80.00 NET

HANOVER, New Hampshire, May 20, 1996 - Fund American Enterprises Holdings, Inc. today commenced its previously announced cash tender offer to purchase up to 400,000 shares of its common stock at a price of \$80.00 per share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated May 20, 1996, and the related Letter of Transmittal (which together constitute the "Offer").

The Offer is not conditioned upon any minimum number of shares being tendered. The Offer is, however, subject to certain customary conditions. The Offer, proration period and withdrawal rights are scheduled to expire at 12:00 midnight, New York City time, on Monday, June 17, 1996 unless the Offer is extended. The Company has reserved the right to purchase more than 400,000 shares in the Offer.

First Chicago Trust Company of New York is the Information Agent for the Offer and can be reached at 1-800-438-0057.

None of the Company, its Board of Directors or the Information Agent makes any recommendation as to whether any shareholder should participate in the Offer.

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, New Hampshire
03755-2053