

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1994

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8993

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-2708455 (I.R.S. Employer Identification No.)
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The 1820 House, Main Street, Norwich, Vermont (Address of principal executive offices)	05055-0850 (Zip Code)
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Registrant's telephone number, including area code: (802) 649-3633

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:  
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the registrant as of March 27, 1995, was \$629,386,740.

As of March 27, 1995, 7,659,937 shares of Common Stock with a par value of \$1.00 per share were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 1994 Annual Report to Shareholders (Parts II and IV). Portions of the registrant's Notice of Annual Meeting of Shareholders and Proxy Statement dated March 30, 1995 (Part III)

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## PART I

### Item 1. Business

#### GENERAL

Fund American Enterprises Holdings, Inc., (the "Company"), is a Delaware corporation which was organized in 1980. Within this report, the consolidated organization is referred to as "Fund American." The Company's principal operating activities are conducted through its wholly owned subsidiary, Source One Mortgage Services Corporation, and its subsidiaries ("Source One"). The Company added two operating affiliates during 1994: (i) a 23% voting interest in Financial Security Assurance Holdings Ltd. ("FSA"), a leading Aaa/AAA writer of financial guarantee insurance, and (ii) a 33% stake in Main Street America Holdings ("MSA"), a unit of National Grange Mutual Insurance Company, a New Hampshire-based property and casualty insurer. Fund American also owns a portfolio of common equity securities and other investments totalling \$489.7 million as of December 31, 1994. The Company's principal office is located at The 1820 House, Main Street, Norwich, Vermont, 05055-0850, and its telephone number is (802) 649-3633.

#### MORTGAGE ORIGINATION AND SERVICING OPERATIONS

##### General

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 December 31, 1994 Source One had a mortgage loan servicing portfolio totalling \$39.6 billion, including \$4.3 billion of loans subserviced for others, which is serviced on behalf of approximately 350 institutional investors and numerous other security holders. As of December 31, 1994 Source One had 161 retail branch offices in 28 states and originated \$4.6 billion in mortgage loans for the year 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 and other revenue (including underwriting and appraisal fees). Through subsidiaries, Source One also sells credit-related insurance products (such as life, disability, health, accidental death and property-casualty insurance) and provides bi-weekly mortgage payment services.

Source One was incorporated in 1972 and is the successor to Citizens Mortgage Corporation which was organized in 1946. Source One is a wholly-owned subsidiary of Fund American Enterprises, Inc. ("FAE") which is a wholly-owned subsidiary of the Company. Source One's principal executive offices are located in Farmington Hills, Michigan.

##### Industry Overview

Mortgage banking is the business of serving as a financial intermediary in the: (i) origination and purchase of mortgage loans; (ii) holding of such loans while aggregating sufficient loans to form appropriate mortgage-backed security pools; (iii) subsequent sale of such loans through pools or directly to investors; and (iv) ongoing management or servicing of such loans during the repayment period. Mortgage bankers generate revenue in each of the four stages of the mortgage banking process.

The origination process involves providing competitive mortgage loan rates, soliciting loan applications, reviewing title and credit matters, and funding loans at closing. Mortgage loans are often purchased from the originators thereof, who may receive a premium for releasing the right to service such purchased mortgage loans. The purchase price and any premium paid for servicing rights are greatly influenced by existing market conditions.

When interest rates on long-term mortgage loans exceed average interest rates incurred on total borrowings by Source One, as is generally the case, the holding of mortgage loans generates net interest income. In periods when borrowing rates exceed long-term mortgage lending rates, the holding of mortgage loans can generate net interest expense.

Marketing or selling mortgage loans requires matching the needs of the production market (consisting of homebuyers and homeowners seeking new mortgages) with the needs of the secondary market for mortgage loans (consisting of securities broker-dealers, depository institutions, insurance companies, pension funds and other investors). Conventional mortgage loans (i.e., those not guaranteed or insured by agencies of the Federal government) which are secured by one- to four-family residential properties, and which comply with applicable requirements, are packaged for direct sale or conversion to a mortgage-backed security, generally in pools of \$1.0 million or more. Such mortgage-backed securities are guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC") or the Federal National Mortgage Association ("FNMA"). Mortgage-backed securities are sold by mortgage banking companies primarily to securities broker-dealers. Federal Housing Administration ("FHA") insured mortgage loans and Veterans Administration ("VA") partially guaranteed mortgage loans are packaged in the form of modified pass-through mortgage-backed securities guaranteed by the Government National Mortgage Association ("GNMA") for sale primarily to securities broker-dealers. In addition, private entities may pool mortgage loans in the form of collateralized mortgage obligations or pass-through certificates, which may or may not qualify as real estate mortgage investment conduits ("REMICs") under the Internal Revenue Code of 1986, as amended, and offer the resulting mortgage-backed securities to the public through securities broker-dealers. There is also a limited private market for mortgage loans which have not been pooled or securitized.

Servicing involves: (i) collecting principal, interest and funds to be escrowed for tax and insurance payments from mortgage loan borrowers; (ii) remitting principal and interest to mortgage loan investors; (iii) paying property taxes and insurance premiums on mortgaged property; (iv) in some cases, advancing uncollected payments to mortgage loan investors; (v) administering delinquent loans; (vi) supervising foreclosures in the event of unremedied defaults; and (vii) performing all related accounting and reporting activities. Servicing generates cash income in the form of fees, which represent a percentage of the declining outstanding principal amount of the loans serviced and are collected from each mortgage loan payment received plus any late charges.

#### Mortgage Loan Production

Source One produces residential mortgage loans through a system of retail branch offices, a correspondent network of banks, thrift institutions and other mortgage lenders, mortgage brokers and a specialized marketing program. The existence of these mortgage production sources gives Source One the flexibility to shift its production between those sources as market conditions warrant and allows Source One to emphasize the production mode which is most economically advantageous.

Loans produced, whether through origination or purchase, include conventional residential mortgage loans as well as mortgage loans which are either insured by the FHA or partially guaranteed by the VA. In evaluating loans purchased through its correspondent network and loans originated through its broker network, Source One applies the same quality standards as those required for loans originated by Source One itself. Source One's quality control department reviews a random sample of the loans purchased to determine compliance with Source One's standards.

It is a policy of Source One to primarily produce fixed rate mortgage loans. As of December 31, 1994 approximately 3% of Source One's total mortgage loan servicing portfolio consisted of adjustable rate mortgage loans.

The following table sets forth selected information regarding Source One's mortgage loan production:

Millions	Year Ended December 31,				
	1994	1993	1992	1991	1990
Loan production by type of loan:					
FHA/VA insured	\$ 2,065	\$ 3,453	\$ 1,927	\$ 1,641	\$ 1,818
Conventional	2,521	7,999	5,664	2,386	1,376
Total	\$ 4,586	\$ 11,452	\$ 7,591	\$ 4,027	\$ 3,194
Loan production by origination source:					
Retail branch office originations	\$ 2,005	\$ 4,922	\$ 3,326	\$ 1,695	\$ 1,021
Correspondent network acquisitions	1,081	2,643	2,578	1,908	1,874
Mortgage broker originations	696	1,708	1,026	290	143
Refinance division originations	804	2,179	661	134	156
Total	\$ 4,586	\$ 11,452	\$ 7,591	\$ 4,027	\$ 3,194

Retail Branch Offices. As of December 31, 1994 Source One had 161 retail branch offices in 28 states. Each office has sales representatives who originate mortgage loans through contacts with real estate brokers, builders and developers, and others, as well as through direct contact with homebuyers.

As a result of a contracting mortgage loan origination market, Source One implemented a restructuring plan in 1994 to bring its mortgage loan production network in line with anticipated levels of mortgage loan production. As a result of this downsizing, Source One closed several retail branch offices during 1994.

As of December 31, 1994 Source One's retail branch offices were located in the following states:

State	Number of offices	State	Number of offices	State	Number of offices
Washington	31	New York	5	Rhode Island	2
California	28	Maryland	4	Tennessee	2
Texas	18	Virginia	4	Alaska	1
Arizona	7	Kentucky	3	Connecticut	1
Colorado	7	Missouri	3	Iowa	1
Florida	7	Kansas	2	Montana	1
Illinois	7	Massachusetts	2	Oklahoma	1
Michigan	6	New Jersey	2	Wisconsin	1
Ohio	6	Oregon	2		
Nevada	5	Pennsylvania	2		

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, FHLMC and FNMA, as well as specific contractual requirements of institutional investors who have agreed to acquire mortgage loans originated by Source One. Most branch office originations are referred to regional operating centers for preparation of loan documentation, evaluation of compliance with Source One's underwriting conditions and closing of the loans.

Correspondent Network. Source One conducts a program through which it agrees to purchase mortgage loans from a network of banks, thrift institutions and other mortgage lenders. The funding price for such loans is set by Source One on a daily basis. In addition, Source One pays a premium for the release of servicing rights which is negotiated on a case-by-case basis. As of December 31, 1994 there were approximately 200 participants in Source One's correspondent network.

Mortgage Brokers. In 1989 Source One commenced a program through which it closes loans originated by a network of mortgage brokers. The funding price for such loans is set by Source One on a daily basis. The mortgage broker receives compensation equivalent to the difference between Source One's pricing schedule and the closing price. Source One maintains offices to service this network in Arizona, California, Colorado, Illinois, Oregon, Virginia and Washington. As of December 31, 1994 there were approximately 1,000 active participants in Source One's mortgage broker network.

Specialized Marketing Program. Source One also generates mortgage loan originations through an operation which responds to refinancings requests from the population of loans currently serviced by Source One.

#### Sales of Loans

Source One sells loans either through mortgage-backed securities issued pursuant to programs of 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. During 1994 approximately 41%, 41% and 16% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. During 1993 approximately 29%, 45% and 25% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. Substantially all GNMA securities are sold without recourse to Source One for loss of principal in the event of a subsequent default by the mortgage borrower due to the underlying FHA and VA insurance. Servicing agreements relating to mortgage-backed securities issued pursuant to the programs of GNMA, FNMA or FHLMC require Source One to advance funds to make the required payments to investors in the event of a delinquency by the borrower. Source One expects that it would recover most funds advanced upon cure of default by the borrower or at foreclosure. However, in connection with VA partially guaranteed loans and certain conventional loans (which may be partially insured by private mortgage insurers), funds advanced may not cover losses due to potential declines in collateral value. In addition, most of Source One's servicing agreements for mortgage-backed securities typically require the payments to investors of a full month's interest on each loan although the loan may be paid off (by optional prepayment or foreclosure) other than on a month-end basis. In this instance, Source One is obligated to pay the investor interest at the note rate from the date of the loan payoff through the end of that calendar month without reimbursement.

Source One, through private placements and public offerings, has also sold mortgage loans through issuance of its mortgage pass-through certificates. Source One has issued \$521.7 million of REMIC certificates from 1986 through 1994. Source One is the primary servicer for these REMIC certificates, which were sold pursuant to five separate trusts which have no recourse provisions. Source One may offer additional mortgage-backed securities in the future if economic and market conditions warrant.

Historically, Source One's sales of loans have generated net gains. However, if secondary market interest rates decline after Source One obtains a mandatory forward commitment for a loan, the loan may not close and Source One may incur a loss from the cost of covering its obligations under such commitment. If secondary market interest rates increase after Source One commits to an interest rate for a loan, and Source One has not obtained a forward commitment, Source One may incur a loss when the loan is subsequently sold. To minimize this risk, Source One obtains mandatory forward commitments of up to 120 days to sell mortgage-backed securities with respect to all loans which have been funded and a substantial portion of loans in process (pipeline) which it believes will close.

Source One's risk management function closely monitors the mortgage loan pipeline to determine appropriate forward commitment coverage on a daily basis. In addition, the risk management area seeks to reduce counterparty risk by committing to sell mortgage loans only to approved dealers, with no dealer having in excess of 20% of current commitments. Source One currently transacts business with seven approved dealers.

## Loan Servicing

Source One currently retains the rights to service the majority of the mortgage loans it produces. In addition, Source One may acquire the rights to service or subservice 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.

During the second quarter of 1994 Source One sold the rights to service \$3.9 billion of mortgage loans to a third party. Source One has continued to service these loans pursuant to a five-year subservicing agreement. In February 1995 Source One reached a definitive agreement to sell \$9.8 billion of its mortgage servicing portfolio to a third party. The sale is expected to close in the first quarter of 1995, subject to required approvals. The sale of mortgage servicing was undertaken by Source One to take advantage of the substantial increase in the value of servicing rights that has been created by the rise in interest rates during 1994.

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 retains 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.

The following table summarizes the changes in Source One's mortgage loan servicing portfolio:

Billions	Year Ended December 31,				
	1994	1993	1992	1991	1990
Balance at beginning of year	\$38.4	\$37.3	\$41.0	\$35.6	\$29.7
Mortgage loan production	4.6	11.4	7.6	4.0	3.2
Servicing acquisitions	3.7	6.4	2.3	6.8	5.9
Total servicing in	8.3	17.8	9.9	10.8	9.1
Payoffs	4.7	13.5	11.5	3.9	2.0
Principal amortization, servicing released and foreclosures	2.4	3.2	2.1	1.5	1.2
Total servicing out	7.1	16.7	13.6	5.4	3.2
Balance at end of year	\$39.6	\$38.4	\$37.3	\$41.0	\$35.6

Source One closely monitors the rate of delinquencies and foreclosures incident to its servicing portfolio. The following table summarizes delinquency and foreclosure experience with respect to the residential mortgage loans serviced by Source One:

	Year Ended December 31,				
	1994	1993	1992	1991	1990
Percent of total residential loans serviced:					
Past due:					
31-59 days	3.15%	3.41%	3.26%	3.56%	3.38%
60-89 days	.54	.58	.65	.61	.59
90 days or more	.38	.45	.48	.41	.35
Total delinquencies	4.07%	4.44%	4.39%	4.58%	4.32%
Foreclosures	.77%	.92%	.77%	.74%	.70%

## Related Activities

In conjunction with its origination activities and portfolio servicing, Source One sells certain credit-related insurance products (such as life, disability, health, accidental death, and property-casualty insurance) and provides bi-weekly mortgage payment services.

Insurance Revenue. Source One acts as an agent and receives fees based on premium value but does not assume any insurance risk. Insurance products are sold through (i) solicitation at the time of mortgage application, (ii) direct mail solicitation by Source One shortly after mortgage loan closing, (iii) solicitation by direct solicitors and (iv) resolicitation of Source One's mortgage loan servicing portfolio on an annual basis. At certain locations, personal solicitation by Source One staff is permitted by state regulations which determine allowable insurance sales practices. Total fees recognized under these programs for 1994 were \$4.6 million.

Bi-Weekly Mortgage Payment Services Revenue. Source One provides bi-weekly mortgage payment services to new and existing mortgagors. For a one-time enrollment fee, Source One collects payments from a mortgagor on a bi-weekly basis. This arrangement does not involve refinancing or any change to the mortgage documents. Total bi-weekly fee revenue was \$1.1 million for the year ended December 31, 1994.

## INVESTMENT PORTFOLIO MANAGEMENT

Fund American's investment portfolio is primarily managed by a small group of employees located in Norwich, Vermont. Beginning August 29, 1994, pursuant to a Discretionary Investment Advisory Agreement between the Company and Warburg, Pincus Counsellors, Inc. ("Warburg Pincus"), Warburg Pincus is providing discretionary investment advisory services to Fund American with respect to a portfolio of investment securities totalling \$50.2 million as of December 31, 1994. Warburg Pincus is a registered investment advisor.

Between September 24, 1993 and July 31, 1994, pursuant to an Investment Management Agreement between the Company and Hanover Advisors, Inc. ("Hanover"), a wholly-owned subsidiary of White River Corporation, Hanover provided discretionary and non-discretionary investment advisory and investment accounting services to Fund American. Hanover and White River Corporation were formerly wholly-owned subsidiaries of the Company. Prior to September 24, 1993 Fund American's investment portfolio was managed by a small group of employees located in White Plains, New York.



Fund American's philosophy is to invest all assets to maximize their total return over a three- to five-year time frame. Under this approach, each dollar of after tax investment income, realized capital gains and unrealized appreciation is valued equally. Management believes in focusing its efforts and the entity's funds on a small number of quality companies selling at reasonable prices in the marketplace. While such an approach leads to a high concentration in a few securities, management believes it will provide superior returns over a three- to five-year horizon. However, management does not believe that owning a large portfolio of passive investment securities in a taxable corporation format will maximize shareholder returns over the long-term. Therefore, Fund American's long-term goal is to reinvest at least a portion of its investment securities (or proceeds from sales thereof) into operating businesses in which management has knowledge and experience.

#### CERTAIN BUSINESS CONDITIONS

Changes in the economy or prevailing interest rates can have significant effects, including material adverse effects, on the mortgage banking business and Source One.

During periods of economic growth, when the demand for housing is strong, mortgage originations and loan production income can be expected to increase, and foreclosures and loan losses may decline. Conversely, in periods of rising interest rates and/or economic slowdown or recession, mortgage originations and loan production income can be expected to decline, and foreclosures and loan losses may increase.

Inflation and changes in interest rates can have differing effects on various aspects of Source One's business, particularly with respect to marketing gains and losses on the sale of mortgage loans, mortgage loan production, the value of Source One's servicing portfolio and net interest revenue. Historically, Source One's loan originations and loan production income have increased in response to falling interest rates and have decreased during periods of rising interest rates. Periods of low inflation and falling interest rates tend to reduce loan servicing income and the value of Source One's mortgage loan servicing portfolio because prepayments of mortgages are greater and the average life of loan servicing rights is shortened. Conversely, periods of increasing inflation and rising interest rates tend to increase loan servicing income and the value of Source One's mortgage loan servicing portfolio because prepayments of mortgages are lower and the average life of loan servicing rights is lengthened.

#### COMPETITION

Source One competes nationally and locally for loan production with other mortgage bankers, state and national banks, thrift institutions and insurance companies. National banks and thrift institutions have substantially more flexibility in their loan origination programs than Source One, which must originate loans meeting the standards of the secondary market. Mortgage lenders compete primarily with respect to price and service. Competition may also occur on mortgage terms and closing costs. Source One competes, in part, by using its commissioned sales force to maintain close relationships with real estate brokers, builders and developers and members of its correspondent network. In the opinion of management of Source One, no single mortgage lender dominates the industry.

#### REGULATION

Source One is subject to the rules and regulations of, and examinations by, FNMA, FHLMC, GNMA, FHA and VA with respect to originating, processing, selling and servicing mortgage loans. These rules and regulations, among other things, prohibit discrimination, provide for inspections and appraisals of properties, require credit reports on prospective borrowers and, in some cases, establish maximum interest rates, fees and loan amounts. Lenders are required to submit audited financial statements annually. FNMA and GNMA require the maintenance of specified net worth levels which vary depending on the amount of FNMA loans serviced and GNMA mortgage-backed securities issued by Source One. Mortgage loan origination activities are also subject to fair housing laws, the Equal Credit Opportunity Act, the Federal Truth-in-Lending Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, the Home Mortgage Disclosure Act, and regulations promulgated thereunder which, among other things, prohibit discrimination in residential lending and require disclosure of certain information to borrowers.

Certain conventional mortgage loans are also subject to state usury statutes; FHA and VA loans are exempt from the effects of such statutes. In addition, there are various state laws and regulations affecting Source One's mortgage banking and insurance operations. Source One's audit and quality control departments monitor compliance with all these laws and regulations. Statutory limitations have occasionally constrained the activities of the FHA, VA and GNMA. To date, Congress has in each case extended the agencies' authority either before or shortly after the agencies have been forced to suspend their activities. Thus, there has been little or no adverse effect on the processing, closing and marketing of FHA and VA loans. There can be no assurance, however, that Congress will continue to make such extensions. In the event such extensions are not forthcoming in the future, the processing, closing and marketing of FHA and VA loans could be adversely affected.

#### EMPLOYEES

As of December 31, 1994 the Company employed 12 persons and Source One employed 2,055 persons (of whom 420 were engaged in loan servicing activities and 1,635 were engaged in residential loan production activities, appraisal functions, and administrative and managerial responsibilities). None of Fund American's employees is covered by a collective bargaining agreement. Management believes that Fund American's employee relations are good.

#### Item 2. Properties

The Company rents 1,800 square feet of space for use as its principal office at The 1820 House, Norwich, Vermont, under a lease expiring in 1995. Source One owns its principal office in Farmington Hills, Michigan, which houses the majority of its employees. Source One also owns an office building in West Bloomfield, Michigan. Source One leases several other office facilities and operating equipment under cancelable and noncancelable agreements. Most of such leases contain renewal clauses.

#### Item 3. Legal Proceedings

Various claims have been made against Fund American in the normal course of its business. In management's opinion, the outcome of such claims will not, in the aggregate, have a material effect on Fund American's financial position or results of operations.

#### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of Fund American's shareholders during the fourth quarter of 1994.

EXECUTIVE OFFICERS OF THE REGISTRANT AND ITS SUBSIDIARIES (as of March 27, 1995)

Name	Position	Age	Executive officer since
Terry L. Baxter	President and Secretary of FAE	49	1994
Dennis P. Beaulieu	Corporate Secretary	47	1995
John J. Byrne	Chairman, President and Chief Executive Officer	62	1985
James A. Conrad	President and Chief Executive Officer of Source One	53	1985
K. Thomas Kemp	Executive Vice President	54	1991
Michael S. Paquette	Vice President and Controller	31	1993
Robert W. Richards	Chairman of Source One	52	1979
Allan L. Waters	Senior Vice President and Chief Financial Officer	37	1990

All executive officers are elected by the Company's Board of Directors for a term of one year or until their successors have been elected and have duly qualified.

Mr. Baxter was elected President and Secretary of FAE in January 1994. Prior to joining the Company in 1994, Mr. Baxter was Managing Director of the National Transportation Safety Board from 1990. Prior to that, he was the Assistant Director of OMB in the Reagan Administration. Mr. Baxter is a director of FAE, MSA, Source One and White Mountains Insurance Holdings, Inc., a wholly owned subsidiary of the Company ("White Mountains").

Mr. Beaulieu was elected Corporate Secretary in February 1995 and also serves as Vice President and Secretary of White Mountains. Prior to joining Fund American in 1995, Mr. Beaulieu was Senior Vice President and Chief Financial Officer of New Dartmouth Bank. Mr. Beaulieu is a director of White Mountains.

Mr. Byrne has served as Chairman, President and Chief Executive Officer since 1990, as Chairman and Chief Executive Officer from 1985 to 1990 and was Chairman and Chief Executive Officer of Fireman's Fund Insurance Company ("Fireman's Fund") from 1989 through January 2, 1991. Mr. Byrne is also Chairman of FSA, Chairman of FAE, Chairman of White Mountains and a director of Source One.

Mr. Conrad has served as President and Chief Executive Officer of Source One since 1990, as Executive Vice President of its Production Division from 1987 to 1989, and as Corporate Vice President of its Wholesale Division from 1985 to 1987. Mr. Conrad is a director of Source One.

Mr. Kemp has served as Vice President, Treasurer and Secretary since 1991, was elected Executive Vice President in 1993 and became a director of the Company in 1994. He is also President and Chief Executive Officer of White Mountains. Mr. Kemp was a Vice President of Fireman's Fund from 1990 to January 2, 1991. Prior to joining Fireman's Fund, Mr. Kemp was President of Resolute Reinsurance Company. Mr. Kemp is also a director of FSA, FAE, MSA, Source One and White Mountains.

Mr. Paquette was elected Vice President and Chief Accounting Officer in 1993 and was appointed Vice President and Controller in February 1995. Mr. Paquette is also Vice President and Controller of White Mountains. He was formerly Secretary of FAE from 1990 to 1993 and has been a member of the Fund American organization since 1989. Mr. Paquette is a director of FAE and White Mountains.

Mr. Richards has served as Chairman of Source One since 1989, as its President from 1987 to 1989, and as its Executive Vice President from 1985 to 1987.

Mr. Waters was elected Senior Vice President and Chief Financial Officer in 1993. Mr. Waters is also Senior Vice President and Chief Financial Officer of White Mountains. He was formerly Vice President and Controller of FAE from 1991 to 1993; was Vice President, Controller and Assistant Secretary of the Company from 1990 to 1991, and was Vice President, Finance of the Company from 1988 to 1990. Mr. Waters is a director of FSA, FAE, Source One and White Mountains.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

As of March 27, 1995 there were 666 registered holders of shares of the Company's Common Stock, par value \$1.00 per share ("Shares").

The Company does not currently pay regular cash dividends to holders of Shares. The Company's Board of Directors may reconsider from time to time its policy with respect to payment of regular periodic dividends on Shares.

The remaining information called for by this item is reported as "Quarterly trading range for shares of common stock" and "Stock Exchange Information" appearing on pages 52 and 56, respectively, of the Company's 1994 Annual Report to Shareholders, herein incorporated by reference.

### Item 6. Selected Financial Data

Reported on page 10 of the Company's 1994 Annual Report to Shareholders, herein incorporated by reference.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Reported on pages 11 through 21 of the Company's 1994 Annual Report to Shareholders, herein incorporated by reference.

### Item 8. Financial Statements and Supplementary Data

Reported in the consolidated financial statements of Fund American and the notes thereto and the report thereon of Ernst & Young LLP, independent auditors, appearing on pages 22 through 49 and 51 of the Company's 1994 Annual Report to Shareholders, herein incorporated by reference.

### Item 9. Changes in and disagreements with Accountants on Accounting and Financial Disclosure

None.

## PART III

### Item 10. Directors and Executive Officers

#### a. Directors (as of March 27, 1995)

Reported under the caption "Election of Directors" on pages 3 through 5 of the Company's 1995 Proxy Statement, herein incorporated by reference.

#### b. Executive Officers (as of March 27, 1995)

Reported in Part I pursuant to General Instruction G to Form 10-K.

### Item 11. Executive Compensation

Reported under the captions "Compensation of Executive Officers" on pages 9 through 11, "Reports of the Compensation Committee on Executive Compensation" on pages 11 through 14, "Shareholder Return Graph" on page 15, and "Compensation Plans" on page 16 through 17 of the Company's 1995 Proxy Statement, herein incorporated by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

Reported under the caption "Voting Securities and Principal Holders Thereof" on pages 6 through 8 of the Company's 1995 Proxy Statement, herein incorporated by reference.

Item 13. Certain Relationships and Related Transactions

Reported under the captions "Certain Transactions" on page 11, and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" on page 17 of the Company's 1995 Proxy Statement, herein incorporated by reference.

PART IV.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

a. (1) Financial Statements

The financial statements applicable to the Company and its consolidated affiliates have been incorporated by reference herein from the Company's 1994 Annual Report to Shareholders as they appear in the Index to Financial Statements and Financial Statement Schedules shown on page 12 of this report.

(2) Financial Statement Schedules

The financial statement schedules and report of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 12 of this report.

b. Reports on Form 8-K

No reports on Form 8-K were issued by the Company during the fourth quarter of 1994.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
Index to Financial Statements and Financial Statement Schedules

	Annual Report page(s)*	Form 10-K page(s)
-----		
Financial statements:		
Consolidated balance sheets as of December 31, 1994 and 1993.....	22	
Consolidated income statements for each of the years ended		
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\* The Company's 1994 Annual Report to Shareholders.

All other schedules are omitted as they are not applicable or the information required is included in the financial statements or notes thereto.

## SCHEDULE III

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
(Parent Company only)

## CONDENSED BALANCE SHEETS

(Millions)	December 31,	
	1994	1993
<b>Assets:</b>		
Common equity securities and other investments	\$ 148.7	\$ 165.5
Short-term investments, at amortized cost	58.2	127.8
Cash	.1	2.1
Other assets	23.9	27.7
Investments in unconsolidated affiliates, at equity	69.7	--
Investments in wholly-owned subsidiaries, at equity	679.2	873.5
<b>Total assets</b>	<b>\$ 979.8</b>	<b>\$ 1,196.6</b>
<b>Liabilities:</b>		
Debt	\$ 153.8	\$ 178.4
Accounts payable and other liabilities	164.9	113.2
<b>Total liabilities</b>	<b>318.7</b>	<b>291.6</b>
Shareholders' equity	661.1	905.0
<b>Total liabilities and shareholders' equity</b>	<b>\$ 979.8</b>	<b>\$ 1,196.6</b>

## CONDENSED INCOME STATEMENTS

(Millions)	Year Ended December 31,		
	1994	1993	1992
Revenues	\$ 14.2	\$ 11.1	\$ 22.6
Expenses	21.2	29.6	15.2
<b>Pretax operating earnings (loss)</b>	<b>(7.0)</b>	<b>(18.5)</b>	<b>7.4</b>
Net realized investment gains	22.7	68.9	48.6
Change in net unrealized investment gains and losses	--	(61.3)	4.1
<b>Net investment gains</b>	<b>22.7</b>	<b>7.6</b>	<b>52.7</b>
Pretax earnings (loss)	15.7	(10.9)	60.1
Income tax provision	7.6	14.3	21.8
<b>Parent company only operating income (loss)</b>	<b>8.1</b>	<b>(25.2)</b>	<b>38.3</b>
Equity in operating income of subsidiaries	13.0	95.6	15.9
Gain from sale of discontinued operations, after tax	--	--	.7
Cumulative effect of accounting change -- purchased mortgage servicing, after tax	(44.3)	--	--
Cumulative effect of accounting change -- postretirement benefits, after tax	--	--	(1.9)
Cumulative effect of accounting change -- income taxes	--	--	(23.8)
<b>Consolidated net income</b>	<b>\$ (23.2)</b>	<b>\$ 70.4</b>	<b>\$ 29.2</b>

SCHEDULE III  
(continued)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
(Parent Company only)

CONDENSED CASH FLOWS

(Millions)	Year Ended December 31,		
	1994	1993	1992
Net income (loss)	\$ (23.2)	\$ 70.4	\$ 29.2
Charges (credits) to reconcile net income to net cash from operations:			
Net realized investment gains	(22.7)	(68.9)	(48.6)
Change in net unrealized investment gains and losses	--	61.3	(4.1)
Equity in operating income of subsidiaries and affiliates	(15.6)	(95.6)	(15.9)
Dividends received and returns of capital from subsidiaries and affiliates	121.3	114.6	--
Gain from sale of discontinued operations, after tax	--	--	(.7)
Cumulative effect of accounting change -- purchased mortgage servicing, after tax	44.3	--	--
Cumulative effect of accounting change -- postretirement benefits, after tax	--	--	1.9
Cumulative effect of accounting change -- income taxes	--	--	23.8
Decrease (increase) in current income taxes receivable	35.1	(10.3)	98.8
Deferred income tax provision	2.8	21.0	4.1
Other, net	10.1	1.9	15.1
Net cash provided from operations	152.1	94.4	103.6
Cash flows from investing activities:			
Net decrease (increase) in short-term investments	69.6	(28.3)	133.7
Sales and maturities of common equity securities and other investments	73.3	216.7	229.9
Purchases of common equity securities and other investments	(60.3)	(314.6)	(.3)
Investments in unconsolidated affiliates	(44.0)	--	--
Sale of discontinued operations	--	--	(7.9)
Other	--	(1.7)	--
Net cash provided from (used for) investing activities	38.6	(127.9)	355.4
Cash flows from financing activities:			
(Decrease) increase in short-term debt	--	(100.0)	100.0
Proceeds from issuances of long-term debt	--	178.0	--
Repayments of long-term debt	(23.9)	--	--
Redemption of preferred stock	(82.0)	--	(185.0)
Proceeds from issuances of common stock from treasury	2.8	2.1	29.4
Purchases of common stock retired	(78.8)	(41.8)	(371.7)
Dividends paid to preferred shareholders	(10.8)	(12.2)	(22.2)
Net cash (used for) provided from financing activities	(192.7)	26.1	(449.5)
Net (decrease) increase in cash during year	(2.0)	(7.4)	9.5
Cash balance at beginning of year	2.1	9.5	--
Cash balance at end of year	\$ .1	\$ 2.1	\$ 9.5



c. Exhibits

Exhibit number	Name
2	- Distribution Agreement, effective September 24, 1993 among the Company and White River Corporation (incorporated by reference to Exhibit (2.1) of the Company's Report on Form 8-K dated December 6, 1993)
3(i)	- Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(a) of the Company's 1993 Annual Report on Form 10-K)
(ii)	- Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3(b) of the Company's 1993 Annual Report on Form 10-K)
4	- Indenture dated January 1, 1993, with The First National Bank of Chicago, as trustee, pursuant to the Company's offering of \$150 million of medium-term notes (incorporated by reference to Exhibit (4) of the Company's Report on Form 8-K dated January 15, 1993)
9	- Voting Trust Agreement dated September 2, 1994 between the Company, U S West Capital Corporation and First Chicago Trust Company of New York (filed pursuant to Exhibit 10(a) herein)
10	- Material Contracts:
(a)	- Credit Agreement dated June 2, 1994 among the Company, Fund American Enterprises, Inc., FFOG, Inc., the banks named therein and The Chase Manhattan Bank (*)
(b)	- Securities Purchase Agreement dated April 10, 1994 between the Company, U S West, Inc., U S West Capital Corporation and Financial Security Assurance Holdings Ltd. (incorporated by reference to Exhibit 10(a) of the Company's Report on Form 8-K dated April 10, 1994)
(c)	- Common Stock Warrant Agreement with respect to shares of the Company's Common stock between the Company and John J. Byrne (incorporated by reference to Exhibit 10(v) of the Company's Registration Statement on Form S-1 (No. 33-0199)) (**)
(d)	- Loan Agreement between the Company and its Chairman, John J. Byrne, dated December 30, 1992 (incorporated by reference to Exhibit 10(s) of the Company's 1992 Annual Report on Form 10-K) (**)
(e)	- The Company's Retirement Plan for Non-Employee Directors (incorporated by reference to Exhibit 10(aa) of the Company's 1992 Annual Report on Form 10-K) (**)
(f)	- The Company's Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10(bb) of the Company's 1992 Annual Report on Form 10-K) (**)
(g)	- The Company's Deferred Benefit Plan (incorporated by reference to Exhibit 10(cc) of the Company's 1992 Annual Report on Form 10-K) (**)
(h)	- The Company's Amended 1985 Long-Term Incentive Plan (incorporated by reference to Exhibit 10(i) of the Company's 1990 Annual Report on Form 10-K) (**)
(i)	- Source One Mortgage Services Corporation's Long-Term Incentive Plan (*) (**)
(j)	- Source One Mortgage Services Corporation's Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10(s) of the Company's 1993 Annual Report on Form 10-K) (**)
(k)	- Source One Mortgage Services Corporation's Amended and Restated Executive Phantom Stock Plan (incorporated by reference to Exhibit 10(t) of the Company's 1993 Annual Report on Form 10-K) (**)
(l)	- Source One Mortgage Services Corporation's Stock Appreciation Rights Plan (incorporated by reference to Exhibit 10(u) of the Company's 1993 Annual Report on Form 10-K) (**)
(m)	- Investment Contract by and between Source One Mortgage Services Corporation and James A. Conrad (incorporated by reference to Exhibit 10(v) of the Company's 1993 Annual Report on Form 10-K) (**)
(n)	- Investment Contract by and between Source One Mortgage Services Corporation and Robert W. Richards (incorporated by reference to Exhibit 10(w) of the Company's 1993 Annual Report on Form 10-K) (**)
(o)	- Credit Agreement, dated December 13, 1993, among the Company and White River Corporation (incorporated by reference to Exhibit 10(x) of the Company's 1993 Annual Report on Form 10-K) (**)

- 11 - Statement Re Computation of Per Share Earnings (\*)
- 13 - Fund American Enterprises Holdings, Inc. 1994 Annual Report to Shareholders. Such report, except portions which are expressly incorporated by reference in this report on Form 10-K, is furnished only for the information of the Securities and Exchange Commission and is not being "filed" as part hereof (\*)
- 21 - Subsidiaries of the Registrant (\*)
- 23 - Consent of Independent Auditors (\*)
- 24 - Powers of Attorney (\*)

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- (\*) filed herewith.
- (\*\*) management contracts or compensation plans/arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of Form 10-K.

# SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By: /s/ MICHAEL S. PAQUETTE

Michael S. Paquette  
Vice President and Controller

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
JOHN J. BYRNE* ----- John J. Byrne	Chairman, President and Chief Executive Officer	March 30, 1995
HOWARD L. CLARK* ----- Howard L. Clark	Director	March 30, 1995
HOWARD L. CLARK, JR.* ----- Howard L. Clark, Jr.	Director	March 30, 1995
ROBERT P. COCHRAN* ----- Robert P. Cochran	Director	March 30, 1995
GEORGE J. GILLESPIE, III* ----- George J. Gillespie, III	Director	March 30, 1995
K. THOMAS KEMP* ----- K. Thomas Kemp	Executive Vice President and Director	March 30, 1995
GORDON S. MACKLIN* ----- Gordon S. Macklin	Director	March 30, 1995
MICHAEL S. PAQUETTE* ----- Michael S. Paquette	Vice President and Controller	March 30, 1995
ALLAN L. WATERS* ----- Allan L. Waters	Senior Vice President and Chief Financial Officer	March 30, 1995
ARTHUR ZANKEL* ----- Arthur Zankel	Director	March 30, 1995

\*By: /s/ K. THOMAS KEMP

K. Thomas Kemp, Attorney-in-Fact

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FUND AMERICAN ENTERPRISES HOLDINGS, INC.

FUND AMERICAN ENTERPRISES, INC.

and

FFOG, INC.

---

CREDIT AGREEMENT

Dated as of June 2, 1994

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THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION),  
as Agent

---

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This Table of Contents is not part of the Agreement to which it is attached but is inserted for convenience only.

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SCHEDULE I - Material Agreements  
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EXHIBIT A-1	Form of Syndicated Note
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EXHIBIT B-2	Form of Money Market Quote
EXHIBIT C	Form of Opinion of Counsel to the Borrowers
EXHIBIT D	Calculation of Finance Asset to Debt Coverage Ratios

CREDIT AGREEMENT dated as of June 2, 1994, between: FUND AMERICAN ENTERPRISES HOLDINGS, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (together with its successors and assigns, "Holdings"); FUND AMERICAN ENTERPRISES, INC., a corporation duly

organized and validly existing under the laws of the State of Delaware and a Wholly Owned Subsidiary of Holdings (together with its successors and assigns,

"Enterprises") and FFOG, INC., a corporation duly organized and validly existing

under the laws of the State of Delaware and a Wholly Owned Subsidiary of Holdings (together with its successors and assigns, "FFOG" and together with

Holdings and Enterprises, the "Borrowers"); each of the lenders that is a

signatory hereto or which, pursuant to Section 12.06(b) hereof, shall become a "Bank" hereunder (individually, a "Bank" and, collectively, the "Banks"); and

THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), a national banking association, as agent for the Banks (in such capacity, together with its successors in such capacity, the "Agent").

The Borrowers have requested that the Banks make loans to them in an aggregate principal amount not exceeding \$75,000,000 at any one time outstanding (and each Borrower has agreed to guarantee the direct obligations of each other Borrower hereunder) and the Banks are prepared to make such loans upon the terms hereof. Accordingly, the parties hereto agree as follows:

#### Section 1. Definitions and Accounting Matters.

##### 1.01 Certain Defined Terms. As used herein, the following terms

shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"Acquisition" shall mean any transaction, or any series of related transactions, by which Holdings and/or any of its Subsidiaries (a) acquires any ongoing business or all or substantially all of the assets of any corporation or other entity or any division thereof, whether through purchase of assets, merger or otherwise; (b) directly or indirectly acquires ownership or control of at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors; or (c) directly or indirectly acquires control of a majority ownership interest in any partnership or joint venture.

"Affiliate" shall mean any Person which directly or indirectly controls, or is under common control with, or is controlled by, Holdings. As used in this definition, "control" (including, with its correlative meanings,

"controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event, any Person which owns directly or indirectly 5% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 5% or more of the partnership or



other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person. Notwithstanding the foregoing, no individual shall be deemed to be an Affiliate solely by reason of his or her being a director, officer or employee of Holdings or any of its Subsidiaries and Holdings and its Subsidiaries shall not be deemed to be Affiliates of each other.

"Applicable Lending Office" shall mean, for each Bank and for each

-----  
Type of Loan, the "Lending Office" of such Bank (or of an affiliate of such Bank) designated for such Type of Loan on the signature pages hereof or such other office of such Bank (or of an affiliate of such Bank) as such Bank may from time to time specify to the Agent and Holdings as the office by which its Loans of such Type are to be made and maintained.

"Applicable Margin" shall mean, with respect to each Type of

-----  
Syndicated Loan, for any day, the percentage set forth below which corresponds to the Borrower's Rating Level for such day:

Borrower's Rating Level	Percentage
-----	-----
1 through 7	0.2500%
8 through 10	0.3500%
11	0.8750%

"Bankruptcy Code" shall mean Title 11 of the United States Code

-----  
entitled "Bankruptcy" as now or hereafter in effect, or any successor thereto.

"Base Rate" shall mean, for any day, the higher of (a) the Federal

-----  
Funds Rate for such day plus 1/2 of 1% per annum and (b) the Prime Rate for such day. Each change in any interest rate provided for herein based upon the Base Rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate.

"Base Rate Loans" shall mean Syndicated Loans which bear interest

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at rates based upon the Base Rate.

"Borrower's Rating Level" shall mean the number set forth in the

-----  
column "Borrower's Rating Level" which corresponds to a Borrower's Debt Ratings assigned by Moody's and S&P. In the event that there is a difference in the Borrower's Debt Ratings assigned by Moody's and S&P of one level, then if the better of the Borrower's Debt Ratings is BBB- or Baa3 or better, the Borrower's Rating Level shall be the number which corresponds with the better of the Borrower's Debt Ratings, except that if either of the Borrower's Debt Ratings shall be BB+ or Ba1 or lower, then the Borrower's Rating Level shall be the number which corresponds with the lower of the Borrower's Debt Ratings. In the event there is a difference in the Borrower's Debt Ratings assigned by Moody's and S&P of two or more levels, then if the better of the Borrower's Debt Ratings is BBB- or Baa3 or better, the Borrower's Ratings Level shall be the number which

corresponds with the level one below the better of the Borrower's Debt Ratings except that if either of the Borrower's Debt Ratings shall be BB+ or Ba1 or lower, then the Borrower's Rating Level shall be the number which corresponds with the lower of the Borrower's Debt Ratings. Each change in the Borrower's Rating Level shall take effect at the time of such change in the Borrower's Debt Ratings.

Borrower's Rating Level	Borrower's Debt Ratings	
	Moody's	S&P
	-----	---
1	Aaa	AAA
2	Aa1	AA+
3	Aa2	AA
4	Aa3	AA-
5	A1	A+
6	A2	A
7	A3	A-
8	Baa1	BBB+
9	Baa2	BBB
10	Baa3	BBB-
11	Ba1 or lower	BB+ or lower

"Business Day" shall mean any day on which commercial banks are  
-----

not authorized or required to close in New York City and, if such day relates to the giving of notices or quotes in connection with a LIBOR Auction or to a borrowing of, a payment or prepayment of principal of or interest on, or a Conversion of or into, or an Interest Period for, a Eurodollar Loan or a LIBOR Market Loan or a notice by a Borrower with respect to any such borrowing, payment, prepayment, Conversion or Interest Period, which is also a day on which dealings in Dollar deposits are carried out in the London interbank market.

"Capital Lease Obligations" shall mean, with respect to any  
-----

Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal Property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Change of Control" shall mean an event or series of events by  
-----

which (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than John Byrne or American Express Company and its affiliates) becomes, whether by means of any issuance or direct or indirect transfer of securities, merger, consolidation, liquidation, dissolution or otherwise, the "beneficial owner" (as such term is used in Rule 13d-3 under such Act except that a Person shall be deemed to be a "beneficial" owner of all shares that any such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly through one or more intermediaries, of more than 30% of the total voting rights attached to the then-outstanding

securities of any class or classes of Holdings the holders of which are ordinarily, in the absence of contingencies, entitled to vote for corporate directors; (b) during any period of 12 months, individuals who at the beginning of such period constituted Holdings Board of Directors (together with any new directors whose election by Holdings Board of Directors or whose nomination for election by Holdings' stockholders, was approved by a vote of at least 66% of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors then in office; or (c) Holdings' stockholders approve any plan or proposal for the liquidation or dissolution of Holdings.

"Chase" shall mean The Chase Manhattan Bank (National  
-----

Association).

"Class" shall have the meaning assigned to such term in Section  
-----

1.03 hereof.

"Closing Date" shall mean the date upon which this Agreement has  
-----

been executed by the Borrowers, the Agent and the Banks and the conditions precedent to the initial Loans hereunder set forth in Section 7 hereof have been satisfied.

"Code" shall mean the Internal Revenue Code of 1986, as amended  
-----

from time to time.

"Commitment" shall mean, as to each Bank, the obligation of such  
-----

Bank to make Syndicated Loans pursuant to Section 2.01 hereof in an aggregate amount at any one time outstanding up to but not exceeding (a) in the case of a Bank that is a party to this Agreement as of the date hereof, the amount set opposite such Bank's name on the signature pages hereof under the caption "Commitment" and (b) in the case of any other Bank, the aggregate amount of the Commitments of other Banks acquired by it pursuant to Section 12.06(b) hereof (in each case, as the same may be reduced at any time or from time to time pursuant to Section 2.04 hereof or increased or reduced at any time or from time to time pursuant to said Section 12.06(b)).

"Commitment Termination Date" shall mean the 364th day following  
-----

the Closing Date.

"Consolidated Debt" shall mean, at any time, the aggregate  
-----

outstanding principal amount of all Indebtedness of Holdings and the Consolidated Subsidiaries at such time determined on a consolidated basis in accordance with GAAP.

"Consolidated Subsidiary" shall mean each Subsidiary of Holdings  
-----

(whether now existing or hereafter created or acquired) the financial statements of which shall be (or should be) consolidated with the financial statements of Holdings in accordance with GAAP.

"Consolidated Tangible Net Worth" shall mean, at any time, the  
-----

shareholders equity of Holdings and its Consolidated Subsidiaries determined on a consolidated basis in accordance with GAAP, minus Intangible Assets.

"Continue", "Continuation" and "Continued" shall refer to the  
-----  
continuation pursuant to Section 2.09 hereof of a Fixed Rate Loan of one Type as  
a Fixed Rate Loan of the same Type from one Interest Period to the next Interest  
Period.

"Convert", "Conversion" and "Converted" shall refer to a  
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conversion pursuant to Section 2.09 hereof of Base Rate Loans into Eurodollar  
Loans or of Eurodollar Loans into Base Rate Loans.

"Credit Documents" shall mean, collectively, this Agreement and  
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the Notes.

"Default" shall mean an Event of Default or an event which with  
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notice or lapse of time or both would become an Event of Default.

"Dollars" and "\$" shall mean lawful money of the United States of  
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America.

"Environmental Laws" shall mean any and all Federal, state, local  
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and foreign statutes, laws, regulations, ordinances, rules, judgments, orders,  
decrees, permits, concessions, grants, franchises, licenses, agreements or other  
governmental restrictions relating to the environment or to emissions,  
discharges, releases or threatened releases of pollutants, contaminants,  
chemicals, or industrial, toxic or hazardous substances or wastes into the  
environment including, without limitation, ambient air, surface water, ground  
water, or land, or otherwise relating to the manufacture, processing,  
distribution, use, treatment, storage, disposal, transport, or handling of  
pollutants, contaminants, chemicals, or industrial, toxic or hazardous  
substances or wastes.

"ERISA" shall mean the Employee Retirement Income Security Act of  
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1974, as amended from time to time.

"ERISA Affiliate" shall mean any corporation or trade or business  
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which is a member of the same controlled group of corporations (within the  
meaning of Section 414(b) of the Code) as Holdings or is under common control  
(within the meaning of Section 414(c) of the Code) with Holdings.

"Eurodollar Loans" shall mean Syndicated Loans the interest rates  
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on which are determined on the basis of rates referred to in the definition of  
"Fixed Base Rate" in this Section 1.01.

"Event of Default" shall have the meaning assigned to such term in  
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Section 10 hereof.

"Facility Fee Rate" shall mean for any day, the percentage set  
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forth below which corresponds to the Borrower's Rating Level for such day:

Borrower's Rating Level	Percentage
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1 through 7	0.1500%
8 through 10	0.1500%
11	0.3750%

"Federal Funds Rate" shall mean, for any day, the rate per annum

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equal to the overnight Federal funds asked price ("ASK") effective rate set forth on page 5 of the Telerate screen at approximately 10:00 a.m. (New York City time) on such day, as determined by the Agent, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on the next preceding Business Day as so set forth at approximately such time on such Telerate screen on such next preceding Business Day, and (b) if such rate is not so set forth on such Telerate screen for any day, the Federal Funds Rate for such day shall be the average rate charged to the Agent on such day on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day as determined by the Agent.

"Finance Assets" shall mean (i) United States Government

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obligations (other than cash equivalents); (ii) debt securities or debt instruments with a rating of BBB- or higher from S&P, Baa3 or higher by Moody's, class (2) or higher by the National Association of Insurance Commissioners, or if none of the foregoing entities or their successors shall exist the equivalent of such rating by any other nationally recognized securities rating agency (but excluding any debt securities constituting loans or advances among the Borrower and its wholly-owned Subsidiaries); (iii) any fund investing exclusively in investments described in clauses (i) and (ii) which fund may also hold immaterial amounts of cash pending investment or distribution; (iv) equity securities listed and traded on the New York Stock Exchange, on the American Stock Exchange, or among the National Market Issues reported on NASDAQ; and (v) U S West Preferred Stock so long as such stock is subject to the put right contained in Section 9.3 of the U.S. West Securities Purchase Agreement; provided, that Finance Assets shall not include any securities pledged to

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secure any obligation (contingent or otherwise) and provided, further, that the

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total value of Finance Assets calculated with respect to FFOG shall be reduced by the amount of any contingent obligation of FFOG pursuant to the Stock Purchase Agreement dated as of February 28, 1994 and as subsequently amended, between Source One Mortgage Services Corporation and FFOG.

"Final Maturity Date" shall mean the date 15 months following the

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Closing Date.

"Fixed Base Rate" shall mean, with respect to any Fixed Rate Loan

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for any Interest Period therefor, the arithmetic mean (rounded upwards, if necessary, to the nearest 1/100 of 1%) of the rates per annum quoted by the respective Reference Banks at approximately 11:00 a.m. London time (or as soon thereafter as practicable) on the date two Business Days prior to the first day of such Interest Period for the offering by the respective Reference Banks to leading banks in the London interbank market of Dollar deposits having a term comparable to such Interest Period and in an amount comparable to the principal amount of the Eurodollar Loan or LIBOR Market Loan to be made by the respective Reference Banks for such Interest Period.

If any Reference Bank is not participating in any Fixed Rate Loan during any Interest Period therefor, the Fixed Base Rate for such Loan for such Interest Period shall be determined by reference to the amount of the Loan which such Reference Bank would have made or had outstanding had it been participating in such Loan during such Interest Period; provided that in the case of any LIBOR Market Loan, the Fixed Base Rate for such Loan shall be determined with reference to deposits of \$25,000,000. If any Reference Bank does not timely furnish such information for determination of any Fixed Base Rate, the Agent shall determine such Fixed Base Rate on the basis of information timely furnished by the remaining Reference Banks.

"Fixed Rate" shall mean, for any Fixed Rate Loan for any Interest  
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Period therefor, a rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Agent to be equal to the Fixed Base Rate for such Loan for such Interest Period divided by 1 minus the Reserve Requirement for such Loan for such Interest Period.

"Fixed Rate Loans" shall mean Eurodollar Loans and, for the  
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purposes of the definition of "Fixed Base Rate" in this Section 1.01 and for purposes of Section 5 hereof, LIBOR Market Loans.

"GAAP" shall mean generally accepted accounting principles applied  
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on a basis consistent with those which, in accordance with the last sentence of Section 1.02(a) hereof, are to be used in making the calculations for purposes of determining compliance with the terms of this Agreement.

"Guarantee" shall mean a guarantee, an endorsement, a contingent  
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agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) Property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of his, her or its obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a bank or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms "Guarantee" and "Guaranteed" used as a verb shall  
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have a correlative meaning.

"Indebtedness" shall mean, for any Person: (a) indebtedness  
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created, issued or incurred by such Person for borrowed money (whether by loan or the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person, except such short-term repurchase agreements as may be characterized as assets under GAAP); (b) obligations of such Person to pay the deferred purchase or deferred acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are

rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by banks and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person; provided that (i) financial guarantees entered into in the ordinary course of business by Financial Security Assurance Holdings Ltd. or its subsidiaries shall not be included within "Indebtedness" for purposes of Section 9.08(b) (if Financial Security Assurance Holdings Ltd. shall become a Subsidiary), and (ii) the obligations described in the provisos to the definition of "Finance Assets" herein shall not be included as "Indebtedness" for purposes of Section 9.08(c).

"Information Memorandum" shall mean the Confidential Information

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Memorandum relating to the credit facility provided for hereby distributed with a letter from Chase and Chase Securities, Inc. to prospective participants in such facility dated April 18, 1994.

"Intangible Assets" shall mean, at any time, the book value of all

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Properties of Holdings and the Consolidated Subsidiaries that would be treated as intangibles under GAAP (determined on a consolidated basis in accordance with GAAP), including, without limitation, goodwill, purchased deposit premiums, patents, trademarks, service marks, trade names, copyrights, charters, franchises, licenses, minority interests in Consolidated Subsidiaries, organization, reorganization and developmental expense and any write-up in the book value of such Properties resulting from a revaluation thereof subsequent to March 31, 1993; provided that purchased and capitalized servicing rights shall not be treated as intangibles.

"Interest Period" shall mean:

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(a) with respect to any Eurodollar Loan, each period commencing on the date such Loan is made or Converted from a Loan of another Type or the last day of the next preceding Interest Period for such Loan and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Borrower of such Loan may select as provided in Section 4.05 hereof, except that each Interest Period which commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month;

(b) With respect to any Set Rate Loan, the period commencing on the date such Loan is made and ending on any Business Day up to 180 days thereafter, as the Borrower of such Loan may select as provided in Section 2.03(b) hereof; and

(c) With respect to any LIBOR Market Loan, the period commencing on the date such Loan is made and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Borrower of such Loan may select as provided in Section 2.03(b) hereof, except that each Interest Period which commences on the last Business Day of a calendar month (or any day for which there is no numerically

corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month.

Notwithstanding the foregoing: (i) if any Interest Period for any Loan would otherwise end after the Final Maturity Date, such Interest Period shall end on the Final Maturity Date; (ii) each Interest Period which would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day (or, in the case of an Interest Period for a Eurodollar Loan or a LIBOR Market Loan, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day); and (iii) no Interest Period for any Loan (other than a Set Rate Loan) shall have a duration of less than one month (in the case of a Eurodollar Loan or a LIBOR Market Loan) and, if the Interest Period for any Fixed Rate or LIBOR Market Loan would otherwise be a shorter period (by reason of clause (i) above or otherwise), such Loan shall not be available hereunder.

"LIBO Margin" shall have the meaning assigned to such term in

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Section 2.03(c)(ii)(C) hereof.

"LIBO Rate" shall mean, for any LIBOR Market Loan, a rate per

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annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by the Agent to be equal to the rate of interest specified in the definition of "Fixed Base Rate" in this Section 1.01 for the Interest Period for such Loan divided by 1 minus the Reserve Requirement for such Loan for such Interest Period.

"LIBOR Auction" shall mean a solicitation of Money Market Quotes

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setting forth LIBO Margins based on the LIBO Rate pursuant to Section 2.03 hereof.

"LIBOR Market Loans" shall mean Money Market Loans the interest

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rates on which are determined on the basis of LIBO Rates pursuant to a LIBOR Auction.

"Lien" shall mean, with respect to any Property, any mortgage,

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lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this Agreement, a Borrower shall be deemed to own subject to a Lien any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement (other than an operating lease) relating to such Property.

"Loans" shall mean Money Market Loans and Syndicated Loans.

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"Majority Banks" shall mean Banks having at least 66% of the

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aggregate amount of the Commitments or, if the Commitments shall have terminated, Banks holding at least 66% of the aggregate unpaid principal amount of the Loans, provided that for such purpose there shall be excluded any Commitments directly or indirectly held by Holdings, any of its Subsidiaries or any of its Affiliates following an assignment or participation as contemplated by Section 12.06 hereof.



"Margin Stock" shall mean margin stock within the meaning of  
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Regulations G, U and X.

"Material Adverse Effect" shall mean a material adverse effect on  
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(a) the Property, business, operations, financial condition, liabilities or capitalization of Holdings and its Subsidiaries taken as a whole, (b) the ability of any of the Borrowers to perform its obligations under any of the Credit Documents, (c) the validity or enforceability of any of the Credit Documents, (d) the rights and remedies of the Banks and the Agent under any of the Credit Documents or (e) the timely payment of the principal of or interest on the Loans or other amounts payable in connection therewith.

"Material Subsidiary" shall mean at any time each Subsidiary of  
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Holdings which is a Borrower and each Subsidiary of Holdings which would be a significant subsidiary under Regulation S-X of the Securities and Exchange Commission or any entity succeeding to any or all of its functions.

"Money Market Borrowing" shall have the meaning assigned to such  
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term in Section 2.03(b) hereof.

"Money Market Loans" shall mean the loans provided for by Section  
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2.03 hereof.

"Money Market Notes" shall mean the promissory notes provided for  
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by Section 2.08(b) hereof.

"Money Market Quote" shall mean an offer in accordance with  
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Section 2.03(c) hereof by a Bank to make a Money Market Loan with one single specified interest rate.

"Money Market Quote Request" shall have the meaning assigned to  
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such term in Section 2.03(b) hereof.

"Money Market Investments" shall mean:  
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(a) direct obligations of the United States of America, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States of America, or of any agency thereof, in either case maturing not more than one year from the date of acquisition thereof;

(b) certificates of deposit issued by any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least \$500,000,000, maturing not more than 90 days from the date of acquisition thereof; and

(c) commercial paper rated A-1 or better or P-1 or better by S&P or Moody's, respectively, maturing not more than 90 days from the date of acquisition thereof.

"Moody's" shall mean Moody's Investors Service, Inc. or any  
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successor thereto which is engaged in the business of rating securities.

"Multiemployer Plan" shall mean a multiemployer plan defined as  
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such in Section 3(37) of ERISA to which contributions have been made by Holdings  
or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Notes" shall mean the promissory notes provided for by Section  
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2.08 hereof, and shall include the Syndicated Notes and the Money Market Notes.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any  
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entity succeeding to any or all of its functions under ERISA.

"Person" shall mean any individual, corporation, company,  
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voluntary association, partnership, joint venture, trust, unincorporated  
organization or government (or any agency, instrumentality or political  
subdivision thereof).

"Plan" shall mean an employee benefit or other plan established or  
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maintained by Holdings or any ERISA Affiliate and which is covered by Title IV  
of ERISA, other than a Multiemployer Plan.

"Post-Default Rate" shall mean, in respect of any principal of any  
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Loan or any other amount under this Agreement or any Note that is not paid when  
due (whether at stated maturity, by acceleration or otherwise), a rate per annum  
during the period from and including the due date to but excluding the date on  
which such amount is paid in full equal to 2% above the Base Rate as in effect  
from time to time (provided that, if the amount so in default is principal of a  
Fixed Rate Loan or a Money Market Loan and the due date thereof is a day other  
than the last day of an Interest Period therefor, the "Post-Default Rate" for  
such principal shall be, for the period from and including such due date to but  
excluding the last day of such Interest Period, 2% above the interest rate for  
such Loan as provided in Section 3.02 hereof and, thereafter, the rate provided  
for above in this definition).

"Prime Rate" shall mean the rate of interest from time to time  
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announced by Chase at the Principal Office as its prime commercial lending rate.

"Principal Office" shall mean the principal office of the Agent  
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and Chase, presently located at 1 Chase Manhattan Plaza, New York, New York  
10081.

"Property" shall mean any right or interest in or to property of  
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any kind whatsoever, whether real, personal or mixed and whether tangible or  
intangible.

"Quarterly Dates" shall mean the last day of March, June,  
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September and December in each year, the first of which shall be the first such  
day after the date of this Agreement.

"Reference Banks" shall mean Chase, Credit Lyonnais and Shawmut

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Bank Connecticut, N.A. (or their Applicable Lending Offices, as the case may be).

"Regulation D", "Regulation G", "Regulation U" and "Regulation X"

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shall mean, respectively, Regulations D, G, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be amended or supplemented from time to time.

"Regulatory Change" shall mean, with respect to any Bank, any

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change after the date of this Agreement in United States Federal, state or foreign law or regulations (including, without limitation, Regulation D) or the adoption or making after such date of any interpretation, directive or request applying to a class of banks including such Bank of or under any United States Federal, state or foreign law or regulations (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reserve Requirement" shall mean, for any Interest Period for any

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Fixed Rate Loan or LIBOR Market Loan, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding one billion Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall include any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (i) any category of liabilities which includes deposits by reference to which the Fixed Base Rate for Eurodollar Loans or LIBOR Market Loans (as the case may be) is to be determined as provided in the definition of "Fixed Base Rate" in this Section 1.01 or (ii) any category of extensions of credit or other assets which includes Eurodollar Loans or LIBOR Market Loans.

"S&P" shall mean Standard & Poors Corporation, or any successor

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thereto which is engaged in the business of rating securities.

"Set Rate" shall have the meaning assigned to such term in

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Section 2.03(c)(ii)(D) hereof.

"Set Rate Auction" shall mean a solicitation of Money Market

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Quotes setting forth Set Rates pursuant to Section 2.03 hereof.

"Set Rate Loans" shall mean Money Market Loans the interest rates

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on which are determined on the basis of Set Rates pursuant to a Set Rate Auction.

"Subsidiary" shall mean, for any Person, any corporation,

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partnership (other than any limited partnership of which such Person is solely a limited partner) or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing

similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person. "Wholly Owned Subsidiary" shall mean, for any

Person, any Subsidiary of which all of such shares or ownership interests, other than (in the case of a corporation) directors' qualifying shares, are so owned or controlled by such Person.

"Syndicated Loans" shall mean the loans provided for by Section

2.01 hereof.

"Syndicated Notes" shall mean the promissory notes provided for

by Section 2.08(a) hereof.

"Type" shall have the meaning assigned that term in Section 1.03

hereof.

"U S West Preferred Stock" shall mean the U S West Series B

cumulative redeemable preferred stock \$1.00 par value per share purchased by Holdings pursuant to the and subject to the terms of the U S West Securities Purchase Agreement.

"U S West Securities Purchase Agreement" shall mean the Securities

Purchase Agreement dated April 10, 1994 among Holdings, U S West, Inc. U S West Capital Corporation and Financial Security Assurance Holdings Ltd., as it may be amended from time to time, subject to Section 9.08(d).

#### 1.02 Accounting Terms and Determinations.

(a) Except with respect to calculations made for purposes of determining compliance with the terms of this Agreement and certificates and reports respecting compliance with the terms of this Agreement (as to which the next sentence of this Section 1.02 (a) sets forth the applicable requirement) and except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Banks hereunder shall (unless otherwise disclosed to the Banks in writing at the time of delivery thereof in the manner described in subsection (b) below) be prepared, in accordance with GAAP applied on a basis consistent with that used in the preparation of the latest financial statements furnished to the Banks hereunder (which, prior to the first financial statements delivered under Section 9.01 hereof, shall mean the financial statements referred to in Section 8.02 hereof). All calculations made for the purposes of determining compliance with the terms of this Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP applied on a basis consistent with that used in the preparation of the annual or quarterly financial statements furnished to the Banks pursuant to Section 9.01 hereof unless (i) Holdings shall have notified the Agent of its objection to determining such compliance on such basis at the time of delivery of such financial statements or (ii) the Majority Banks shall have notified Holdings (through the Agent) of their objection to

determining such compliance on such basis within 30 days after delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 9.01 hereof, shall mean the financial statements referred to in Section 8.02 hereof).

(b) Holdings shall deliver to the Banks at the same time as the delivery of any annual or quarterly financial statement under Section 9.01 hereof a description in reasonable detail of any material variation between the application of accounting principles employed in the preparation of such statement and the application of accounting principles employed in the preparation of the next preceding annual or quarterly financial statements as to which no objection has been made in accordance with the last sentence of subsection (a) above, and reasonable estimates of the difference between such statements arising as a consequence thereof.

(c) No Borrower will change the last day of its fiscal year from December 31 of each year, or the last days of the first three fiscal quarters in each of its fiscal years from March 31, June 30, and September 30 of each year, respectively.

#### 1.03 Classes and Types of Loans. Loans hereunder are

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distinguished by "Class" and by "Type". The "Class" of a Loan refers to whether such Loan is a Money Market Loan or a Syndicated Loan, each of which constitutes a Class. The "Type" of a Loan refers to whether such Loan is a Base Rate Loan, a Eurodollar Loan, a Set Rate Loan or a LIBOR Market Loan, each of which constitutes a Type. Loans may be identified by both Class and Type.

### Section 2. Commitments

#### 2.01 Syndicated Loans. Each Bank severally agrees, on the terms

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of this Agreement, to make loans to the Borrowers in Dollars during the period from and including the Closing Date to but not including the Commitment Termination Date in an aggregate principal amount at any one time outstanding up to but not exceeding the amount of the Commitment of such Bank as in effect from time to time. Subject to the terms of this Agreement, during such period the Borrowers may borrow, repay and reborrow the amount of the Commitments by means of Base Rate Loans and Eurodollar Loans and may Convert Syndicated Loans of one Type into Syndicated Loans of the other Type (as provided in Section 2.09 hereof) or Continue Loans of one Type as Loans of the same Type (as provided in Section 2.09 hereof); provided that:

(i) there may be no more than 10 different Interest Periods for both Syndicated Loans and Money Market Loans outstanding at the same time (for which purpose Interest Periods described in different lettered clauses of the definition of the term "Interest Period" shall be deemed to be different Interest Periods even if they are coterminous); and

(ii) the aggregate principal amount of all Money Market Loans, together with the

aggregate principal amount of all Syndicated Loans, at any one time outstanding shall not exceed the aggregate amount of the Commitments at such time.

2.02 Borrowings of Syndicated Loans. Each Borrower shall give the

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Agent (which shall promptly notify the Banks) notice of each borrowing by such Borrower hereunder as provided in Section 4.05 hereof. Not later than 1:00 p.m. New York time on the date specified for each borrowing of Syndicated Loans hereunder, each Bank shall make available the amount of the Syndicated Loan to be made by it on such date to the Agent, at account number NYAO-DI-900-9-000002 maintained by the Agent with Chase at the Principal Office, in immediately available funds, for account of the relevant Borrower. The amount so received by the Agent shall, subject to the terms and conditions of this Agreement, be made available to the relevant Borrower by depositing the same, in immediately available funds, in an account of such Borrower maintained with Chase at the Principal Office designated by such Borrower.

2.03 Money Market Loans.

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(a) In addition to borrowings of Syndicated Loans, at any time prior to the Commitment Termination Date each Borrower may, as set forth in this Section 2.03, request the Banks to make offers to make Money Market Loans to such Borrower in Dollars. The Banks may, but shall have no obligation to, make such offers and such Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section 2.03. Money Market Loans may be LIBOR Market Loans or Set Rate Loans, provided that:

(i) there may be no more than 10 different Interest Periods for both Syndicated Loans and Money Market Loans outstanding at the same time (for which purpose Interest Periods described in different lettered clauses of the definition of the term "Interest Period" shall be deemed to be different Interest Periods even if they are coterminous); and

(ii) the aggregate principal amount of all Money Market Loans, together with the aggregate principal amount of all Syndicated Loans, at any one time outstanding shall not exceed the aggregate amount of the Commitments at such time.

(b) When a Borrower wishes to request offers to make Money Market Loans under this Section 2.03, it shall give the Agent (which shall promptly notify the Banks) notice (a "Money Market Quote Request") so as to be received

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no later than 11:00 a.m. New York time on (x) the fourth Business Day prior to the date of borrowing proposed therein, in the case of a LIBOR Auction or (y) the Business Day next preceding the date of borrowing proposed therein, in the case of a Set Rate Auction (or, in any such case, such other time and date as such Borrower and the Agent, with the consent of the Majority Banks, may agree). A Borrower may request offers to make Money Market Loans for up to three different Interest Periods in a single notice (for which purpose Interest Periods in different lettered clauses of the definition of the term "Interest Period" shall be deemed to be different Interest Periods even if they are coterminous); provided that the request for each separate Interest Period shall be deemed to be a separate Money Market Quote Request for a separate borrowing (a "Money Market Borrowing"), but only

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one fee specified in Section 2.05(b) shall be payable if not more than three Interest Periods are requested in the same Money Market Quote Request. Each such notice shall be substantially in the form of Exhibit B-1 hereto and shall specify as to each Money Market Borrowing:

(i) the relevant Borrower and the proposed date of such borrowing, which shall be a Business Day;

(ii) the aggregate amount of such Money Market Borrowing, which shall be at least \$10,000,000 (or in a larger multiple of \$1,000,000) but shall not cause the limits specified in Section 2.03(a) hereof to be violated;

(iii) the duration of the Interest Period applicable thereto, subject to the provisions of the definition in Section 1.01 hereof of the term "Interest Period";

(iv) whether the Money Market Quotes requested for a particular Interest Period are seeking quotes for LIBOR Market Loans or Set Rate Loans; and

(v) if the Money Market Quotes requested are seeking quotes for Set Rate Loans, the date on which the Money Market Quotes are to be submitted if it is before the proposed date of borrowing (the date on which such Money Market Quotes are to be submitted is called the "Quotation Date").  
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Except as otherwise provided in this Section 2.03(b), no Money Market Quote Request shall be given within five Business Days (or such other number of days as the relevant Borrower and the Agent, with the consent of the Majority Banks, may agree) of any other Money Market Quote Request.

(c)(i) Each Bank may submit one or more Money Market Quotes, each containing an offer to make a Money Market Loan in response to any Money Market Quote Request; provided that, if the relevant Borrower request under Section 2.03(b) hereof specified more than one Interest Period, such Bank may make a single submission containing one or more Money Market Quotes for each such Interest Period. Each Money Market Quote must be submitted to the Agent not later than (x) 2:00 p.m. New York time on the fourth Business Day prior to the proposed date of borrowing, in the case of a LIBOR Auction or (y) 10:00 a.m. New York time on the Quotation Date, in the case of a Set Rate Auction (or, in any such case, such other time and date as the relevant Borrower and the Agent, with the consent of the Majority Banks, may agree); provided that any Money Market Quote submitted by the Bank which is acting as Agent (or its Applicable Lending Office) may be submitted, and may only be submitted, if such Bank (or such Applicable Lending Office) notifies the relevant Borrower of the terms of the offer contained therein not later than (x) 1:00 p.m. New York time on the fourth Business Day prior to the proposed date of borrowing, in the case of a LIBOR Auction or (y) 9:45 a.m. New York time on the Quotation Date, in the case of a Set Rate Auction. Subject to Sections 5.02(b) (in the case of a LIBOR Auction only), 5.03, 7.02 and 10 hereof, any

Money Market Quote so made shall be irrevocable except with the consent of the Agent given on the instructions of the relevant Borrower.

(ii) Each Money Market Quote shall be substantially in the form of Exhibit B-2 hereto and shall specify:

(A) the relevant Borrower and the proposed date of borrowing and the Interest Period therefor;

(B) the principal amount of the Money Market Loan for which each such offer is being made, which principal amount shall be at least \$10,000,000 or a larger multiple of \$1,000,000; provided that the aggregate principal amount of all Money Market Loans for which a Bank submits Money Market Quotes (x) may be greater or less than the Commitment of such Bank but (y) may not exceed the principal amount of the Money Market Borrowing for a particular Interest Period for which offers were requested;

(C) in the case of a LIBOR Auction, the margin above or below (or equal to) the applicable LIBO Rate (the "LIBO Margin")

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offered for each such Money Market Loan, expressed as a percentage (rounded upwards, if necessary, to the nearest 1/10,000th of 1%) to be added to or subtracted from the applicable LIBO Rate;

(D) in the case of a Set Rate Auction, the rate of interest per annum (rounded upwards, if necessary, to the nearest 1/10,000th of 1%) offered for each such Money Market Loan (the "Set Rate"); and  
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(E) the identity of the quoting Bank (and whether such Bank is a U.S. Person (as that term is defined in Section 5.07(a) hereof) and, if such Bank is not a U.S. Person, whether such Bank is entitled to submit a Form 1001 (as so defined) or a Form 4224 (as so defined)).

Unless otherwise agreed by the Agent and the relevant Borrower, no Money Market Quote shall contain qualifying, conditional or similar language or propose terms other than or in addition to those set forth in the applicable Money Market Quote Request and, in particular, no Money Market Quote may be conditioned upon acceptance by the relevant Borrower of all (or some specified minimum) of the principal amount of the Money Market Loan for which such Money Market Quote is being made.

(d) The Agent shall (x) in the case of a Set Rate Auction, as promptly as practicable after the Money Market Quote is submitted (but in any event not later than 10:15 a.m. New York time on the Quotation Date) or (y) in the case of a LIBOR Auction, by 4:00 p.m. New York time on the day a Money Market Quote is submitted, notify the relevant Borrower of the terms (i) of any Money Market Quote submitted by a Bank that is in accordance with



Section 2.03(c) hereof and (ii) of any Money Market Quote that amends, modifies or is otherwise inconsistent with a previous Money Market Quote submitted by such Bank with respect to the same Money Market Quote Request. Any such subsequent Money Market Quote shall be disregarded by the Agent unless such subsequent Money Market Quote is submitted solely to correct a manifest error in such former Money Market Quote. Such notice by the Agent shall specify (A) the aggregate principal amount of the Money Market Borrowing for which offers have been received and (B) the respective principal amounts and LIBO Margins or Set Rates, as the case may be, so offered by each Bank (identifying the Bank that made each Money Market Quote).

(e) Not later than 11:00 a.m. New York time on (x) the third Business Day prior to the proposed date of borrowing, in the case of a LIBOR Auction or (y) the Quotation Date, in the case of a Set Rate Auction (or, in any such case, such other time and date as the relevant Borrower and the Agent, with the consent of the Majority Banks, may agree), such Borrower shall notify the Agent of acceptance or nonacceptance of the offers so notified to it pursuant to Section 2.03(d) hereof (and the failure of such Borrower to give such notice by such time shall constitute nonacceptance) and the Agent shall promptly notify each affected Bank. In the case of acceptance, such notice shall specify the aggregate principal amount of offers for each Interest Period that are accepted. The relevant Borrower may accept any Money Market Quote in whole or in part (provided that any Money Market Quote accepted in part shall be at least \$10,000,000 or in a larger multiple of \$1,000,000); provided that:

(i) the aggregate principal amount of each Money Market Borrowing may not exceed the applicable amount set forth in the related Money Market Quote Request;

(ii) the aggregate principal amount of each Money Market Borrowing shall be at least \$10,000,000 (or in a larger multiple of \$1,000,000) but shall not cause the limits specified in Section 2.03(a) hereof to be violated;

(iii) acceptance of offers may be made only in ascending order of LIBO Margins or Set Rates, as the case may be, in each case beginning with the lowest rate so offered (except that such Borrower need not accept any offer from a Bank that is not a U.S. Person (as that term is defined in Section 5.07(a) hereof) and is not entitled, as of the date of such offer, to submit a Form 1001 (as so defined) or a Form 4224 (as so defined)); and

(iv) such Borrower may not accept any offer if the Agent has advised such Borrower that such offer fails to comply with Section 2.03(c)(ii) hereof or otherwise fails to comply with the requirements of this Agreement (including, without limitation, Section 2.03(a) hereof).

If offers are made by two or more Banks with the same LIBO Margins or Set Rates, as the case may be, for a greater aggregate principal amount than the amount in respect of which offers are accepted for the related Interest Period, the principal amount of Money Market Loans in respect

of which such offers are accepted shall be allocated by the relevant Borrower among such Banks as nearly as possible (in multiples of \$1,000,000) in proportion to the aggregate principal amount of such offers and determinations by such Borrower of the amounts of Money Market Loans shall be conclusive in the absence of manifest error.

(f) Any Bank whose offer to make any Money Market Loan has been accepted shall, not later than 1:00 p.m. New York time on the date specified for the making of such Loan, make the amount of such Loan available to the Agent at account number NYAO-DI-900-9-000002 maintained by the Agent with Chase at the Principal Office in immediately available funds, for account of the relevant Borrower. The amount so received by the Agent shall, subject to the terms and conditions of this Agreement, be made available to the relevant Borrower on such date by depositing the same, in immediately available funds, in an account of such Borrower maintained with Chase at the Principal Office designated by such Borrower.

(g) Except for the purpose and to the extent expressly stated in Section 2.04(b) hereof, the amount of any Money Market Loan made by any Bank shall not constitute a utilization of such Bank's Commitment.

#### 2.04 Changes of Commitments.

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(a) On the Commitment Termination Date undrawn Commitments shall expire, and any amounts paid or prepaid may not be reborrowed.

(b) Holdings shall have the right at any time or from time to time (i) so long as no Syndicated Loans or Money Market Loans are outstanding, to terminate the Commitments and (ii) to reduce the aggregate unused amount of the Commitments (for which purpose use of the Commitments shall be deemed to include the aggregate principal amount of all Money Market Loans); provided that (x) Holdings shall give notice of each such termination or reduction as provided in Section 4.05 hereof, and (y) each partial reduction of unused Commitments shall be in an aggregate amount at least equal to \$10,000,000 and in multiples of \$1,000,000 in excess thereof.

(c) All Loans shall mature on the Final Maturity Date.

(d) The Commitments once terminated or reduced may not be reinstated.

#### 2.05 Fees.

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(a) (i) Prior to the Commitment Termination Date, Holdings shall pay to the Agent for account of each Bank a facility fee on the amount of such Bank's Commitment (as in effect from time to time), whether or not utilized, for each day during the period from and including the date hereof to but not including the earlier of (A) the date such Commitment is terminated in full and (B) the Commitment Termination Date, at a rate per annum equal to the

Facility Fee Rate for such day; (ii) following the Commitment Termination Date, Holdings shall pay to the Agent for account of each Bank a facility fee on the amount of such Bank's pro rata share of any outstanding Loans (which shall be computed as if such loans were Syndicated Loans) for each day during the period from and including the Commitment Termination Date to but not including the date all Loans are repaid in full, at a rate per annum equal to the Facility Fee Rate for such day. Accrued facility fee shall be payable in arrears on each Quarterly Date and on the earlier of (i) the date such Commitment is terminated in full and (ii) the Final Maturity Date (or, if the principal of all Loans and all interest thereon shall not be paid in full on the Final Maturity Date, the date all such amounts shall be paid in full).

(b) Each Borrower shall pay to the Agent for account of the Agent a fee in an amount equal to \$1,500 upon the making of each Money Market Quote Request by such Borrower.

(c) A utilization fee shall be paid to the Agent for the account of each Bank with respect to each day on which the aggregate outstanding principal amount of all Loans of all Banks exceeds \$37,500,000 on such day and shall be equal to 0.10% of such excess amount. Accrued utilization fee shall be payable in arrears on each Quarterly Date and on the earlier of (i) the date the Commitments are terminated in full and (ii) the Final Maturity Date (or, if the principal of all Loans and all interest thereon shall not be paid in full on the Final Maturity Date, the date all such amounts shall be paid in full).

2.06 Lending Offices. The Loans of each Type made by each Bank

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shall be made and maintained at such Bank's Applicable Lending Office for Loans of such Type.

2.07 Several Obligations; Remedies Independent. The failure of

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any Bank to make any Loan to be made by it on the date specified therefor shall not relieve any other Bank of its obligation to make its Loan on such date, but neither any Bank nor the Agent shall be responsible for the failure of any other Bank to make a Loan to be made by such other Bank. The amounts payable by each Borrower at any time hereunder and under the Notes to each Bank shall be a separate and independent debt and each Bank shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Bank or the Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

2.08 Notes.

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(a) The Syndicated Loans made by each Bank to each Borrower shall be evidenced by a single promissory note of such Borrower substantially in the form of Exhibit A-1 hereto, dated the date hereof, payable to such Bank in a principal amount equal to the amount of its Commitment as originally in effect and otherwise duly completed.

(b) The Money Market Loans made by any Bank to each Borrower shall be evidenced by a single promissory note of such Borrower substantially in the form of Exhibit A-2

hereto, dated the date hereof, payable to such Bank and otherwise duly completed.

(c) The date, amount, Type, interest rate, and duration of Interest Period (if applicable) of each Loan of each Class made by each Bank to any Borrower, and each payment made on account of the principal thereof, shall be recorded by such Bank on its books and, prior to any transfer of the relevant Note of such Borrower evidencing the Loans of such Class held by it, endorsed by such Bank on the schedule attached to such Note or any continuation thereof; provided that the failure of such Bank to make any such recordation or endorsement shall not affect the obligations of such Borrower to make a payment when due of any amount owing under such Note.

(d) No Bank shall be entitled to have its Notes subdivided, by exchange for promissory notes of lesser denominations or otherwise, except in connection with a permitted assignment of all or any portion of such Bank's Commitment, Loans and Notes pursuant to Section 12.06(b) hereof.

#### 2.09 Prepayments and Conversions or Continuations of Loans.

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Subject to Section 4.04 hereof, each Borrower shall have the right to prepay its Syndicated Loans, or to Convert its Syndicated Loans of one Type into Syndicated Loans of the other Type or Continue its Syndicated Loans of one Type as Syndicated Loans of the same Type, at any time or from time to time, provided that: (i) such Borrower shall give the Agent notice of each such prepayment, Conversion or Continuation as provided in Section 4.05 hereof; and (ii) Fixed Rate Loans may be prepaid or Converted only on the last day of an Interest Period for such Loans. Money Market Loans may not be prepaid under this Section 2.09. Notwithstanding the foregoing, and without limiting the rights and remedies of the Banks under Section 10 hereof, in the event that any Event of Default shall have occurred and be continuing, the Agent may (and at the request of the Majority Banks shall) suspend the right of the Borrowers to borrow any Syndicated Loan as a Fixed Rate Loan, to Convert any Syndicated Loan into a Fixed Rate Loan, and to Continue any Syndicated Loan as a Fixed Rate Loan, in which event all Syndicated Loans shall be Converted into Base Rate Loans (on the last day(s) of the respective Interest Periods therefor) or (if outstanding as Base Rate Loans) Continued as Base Rate Loans.

#### Section 3. Payments of Principal and Interest.

##### 3.01 Repayment of Loans.

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(a) Subject to clause (b) below, each Borrower hereby promises to pay to the Agent for account of each Bank the entire outstanding principal amount of each Loan made by such Bank to such Borrower, and each Loan shall mature, on the Final Maturity Date .

(b) Each Borrower hereby promises to pay to the Agent for account of each Bank that makes any Money Market Loan to such Borrower the principal amount of such Money Market Loan, and such Money Market Loan shall mature, on the last day of the Interest Period

for such Money Market Loan.

3.02 Interest. Each Borrower hereby promises to pay to the Agent

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for account of each Bank interest on the unpaid principal amount of each Loan made by such Bank to such Borrower for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full, at the following rates per annum:

(a) during such periods as such Loan is a Base Rate Loan, the Base Rate (as in effect from time to time) plus the Applicable Margin (if any);

(b) during such periods as such Loan is a Fixed Rate Loan, for each Interest Period relating thereto, the Fixed Rate for such Loan for such Interest Period plus the Applicable Margin;

(c) if such Loan is a LIBOR Market Loan, the LIBO Rate for such Loan for the Interest Period therefor plus (or minus) the LIBO Margin quoted by the Bank making such Loan in accordance with Section 2.03 hereof; and

(d) if such Loan is a Set Rate Loan, the Set Rate for such Loan for the Interest Period therefor quoted by the Bank making such Loan in accordance with Section 2.03 hereof.

Notwithstanding the foregoing, each Borrower hereby promises to pay to the Agent for account of each Bank interest at the applicable Post-Default Rate on any principal of any Loan made by such Bank to such Borrower and on any other amount payable by such Borrower hereunder or under the Notes of such Borrower held by such Bank to or for account of such Bank, which shall not be paid in full when due (whether at stated maturity, by acceleration or otherwise), for the period from and including the due date thereof to but excluding the date the same is paid in full. Accrued interest on each Loan shall be payable (i) in the case of a Base Rate Loan, quarterly on the Quarterly Dates, (ii) in the case of a Fixed Rate Loan or a Money Market Loan, on the last day of each Interest Period therefor and, if such Interest Period is longer than three months, at three month intervals, and (iii) in the case of any Loan, upon the payment or prepayment thereof or the Conversion of such Loan to a Loan of another Type (but only on the principal amount so paid, prepaid or Converted), except that interest payable at the Post-Default Rate shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, the Agent shall give notice thereof to the Banks to which such interest is payable and to the relevant Borrower or Borrowers.

Section 4. Payments; Pro Rata Treatment; Computations; Etc.

4.01 Payments.

(a) Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by each Borrower under this Agreement and its Notes (including, without limitation, all fees referred to herein) shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to the Agent at account number NYAO-DI-900-9-000002 maintained by the Agent with Chase at the Principal Office, not later than 1:00 p.m. New York time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) Any Bank for whose account any such payment is to be made, may (but shall not be obligated to) debit the amount of any such payment which is not made by such time to any ordinary deposit account of any Borrower with such Bank (with notice to such Borrower).

(c) Each Borrower shall, at the time it makes any payment under this Agreement or any Note, specify to the Agent (which shall so notify the intended recipient(s) thereof) the Loans or other amounts payable hereunder to which such payment is to be applied in which case such payment shall, subject to Section 4.02 hereof and unless an Event of Default has occurred and is continuing, be applied as so specified (and in the event that such Borrower fails to so specify, or if an Event of Default has occurred and is continuing, such Bank shall, subject to Section 4.02 hereof, apply the amount of such payment received by it from the Agent in such manner as the Majority Banks (or, in the absence of a determination by the Majority Banks, the Agent) may determine to be appropriate).

(d) Each payment received by the Agent under this Agreement or any Note for account of any Bank shall be paid by the Agent promptly to such Bank, in immediately available funds, for account of such Bank's Applicable Lending Office for the Loan or other obligation in respect of which such payment is made.

(e) If the due date of any payment under this Agreement or any Note would otherwise fall on a day which is not a Business Day such date shall be extended to the next succeeding Business Day and interest shall be payable for any principal so extended for the period of such extension.

4.02 Pro Rata Treatment. Except to the extent otherwise provided

herein: (a) each borrowing under Section 2.01 hereof shall be made from the Banks, each payment of facility fee under Section 2.05 hereof shall be made for account of the Banks, and each termination or reduction of the amount of the Commitments under Section 2.04 hereof shall be applied to the respective Commitments of the Banks, pro rata according to the amounts of their respective Commitments; (b) the making, Conversion and Continuation of Syndicated Loans of

particular Type (other than Conversions provided for by Section 5.04 hereof) shall be made pro rata among the Banks according to the amounts of their respective Commitments (in the case of making of Syndicated Loans) or Syndicated Loans (in the case of Conversions and Continuations of Syndicated Loans) and the then current Interest Period for each Syndicated Loan of such Type shall be coterminous; (c) each payment or prepayment of principal of Syndicated Loans by any Borrower shall be made for account of the Banks pro rata in accordance with the respective unpaid principal amounts of the Syndicated Loans held by them; and (d) each payment of interest on Syndicated Loans by any Borrower shall be made for account of the Banks pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Banks.

4.03 Computations. Interest on Money Market Loans, Fixed Rate

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Loans and Base Rate Loans that bear interest based on the Federal Funds Rate and facility fees shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable and interest on Base Rate Loans that bear interest based on the Prime Rate shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable.

4.04 Minimum Amounts. Except for Conversions or prepayments made

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pursuant to Section 5.04 hereof, each borrowing, Conversion and prepayment of principal of Eurodollar Loans shall be in an amount at least equal to \$10,000,000 and in multiples of \$1,000,000 in excess thereof, each borrowing, Conversion and prepayment of principal of Base Rate Loans shall be in an amount at least equal to \$5,000,000 and in multiples of \$1,000,000 in excess thereof and each borrowing and Conversion of Money Market Loans shall be in an aggregate principal amount at least equal to \$10,000,000 and in multiples of \$1,000,000 in excess thereof (borrowings, Conversions or prepayments of or into Loans of different Types or, in the case of Fixed Rate Loans, having different Interest Periods at the same time hereunder to be deemed separate borrowings, Conversions and prepayments for purposes of the foregoing, one for each Type or Interest Period). Anything in this Agreement to the contrary notwithstanding, the aggregate principal amount of each Type of Fixed Rate Loans which are Syndicated Loans and have the same Interest Period shall be in an amount at least equal to \$10,000,000 and in multiples of \$1,000,000 in excess thereof and, if any such Fixed Rate Loans would otherwise be in a lesser principal amount for any period, such Loans shall be Base Rate Loans during such period.

4.05 Certain Notices. Except as otherwise provided in

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Section 2.03 hereof with respect to Money Market Loans, notices by Holdings to the Agent of terminations or reductions of the Commitments, and by any Borrower of borrowings, Conversions, Continuations and optional prepayments of Loans, of Types of Loans and of the duration of Interest Periods shall be irrevocable and shall be effective only if received by the Agent not later than 10:00 a.m. New York time on the number of Business Days prior to the date of the relevant termination, reduction, borrowing, Conversion, Continuation or prepayment or the first day of such Interest Period specified below:

Notice -----	Number of Business Days Prior -----
Termination or reduction of the Commitments	4
Borrowing or prepayment of, or conversion into, Base Rate Loans	same day
Borrowing or prepayment of, Conversions into, Continuations as, or duration of Interest Period for, Eurodollar Loans	3

Each such notice of termination or reduction shall specify the amount of the Commitments to be terminated or reduced. Each such notice of borrowing, Conversion, Continuation or optional prepayment shall specify the Loans to be borrowed, Converted, Continued or prepaid (and the Borrower of such Loans) and the amount (subject to Section 4.04 hereof) and Type of each Loan to be borrowed, Converted, Continued or prepaid (and, in the case of a Conversion, the Type of Loan to result from such Conversion) and the date of borrowing, Conversion, Continuation or optional prepayment (which shall be a Business Day). Each such notice of borrowing or Continuation of, or Conversion into, Fixed Rate Loans shall specify the duration of the Interest Period therefor. The Agent shall promptly notify the Banks of the contents of each such notice. In the event that the Borrower of a Fixed Rate Loan fails to select the Type of Loan, or the duration of any Interest Period, for such Loan within the time period and otherwise as provided in this Section 4.05, such Loan (if outstanding as a Fixed Rate Loan) will be automatically Converted into a Base Rate Loan on the last day of the then current Interest Period for such Loan or (if outstanding as a Base Rate Loan) will remain as, or (if not then outstanding) will be made as, a Base Rate Loan.

#### 4.06 Non-Receipt of Funds by the Agent. Unless the Agent shall

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have been notified by a Bank or any Borrower (the "Payor") prior to the date on

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which the Payor is to make payment to the Agent of (in the case of a Bank) the proceeds of a Loan to be made by it hereunder or (in the case of such Borrower) a payment to the Agent for account of one or more of the Banks hereunder (such payment being herein called the "Required Payment"), which notice shall be

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effective upon receipt, that the Payor does not intend to make the Required Payment to the Agent, the Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date and, if the Payor has not in fact made the Required Payment to the Agent, the recipient(s) of such payment shall, on demand, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the



Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, the Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid.

4.07 Sharing of Payments, Etc.  
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(a) Each Borrower agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Bank may otherwise have, each Bank shall be entitled, at its option, to offset balances held by it for account of such Borrower at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Bank's Loans to such Borrower or any other amount owing by such Borrower to such Bank hereunder (including, without limitation, under Section 6 hereof) or under any Note held by such Bank, that is not paid when due (regardless of whether such balances are then due to such Borrower), in which case it shall promptly notify such Borrower and the Agent thereof, provided that such Bank's failure to give such notice shall not affect the validity thereof.

(b) If any Bank shall obtain from any Borrower payment of any principal of or interest on any Loan of any Class owing to it from such Borrower or payment of any other amount owing by such Borrower hereunder (including, without limitation, under Section 6 hereof) or under any Note held by such Bank through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise (other than from the Agent as provided herein and other than an amount paid to a Bank pursuant to Section 5.01), and, as a result of such payment, such Bank shall have received a greater percentage of the principal of or interest on the Loans of such Class then due hereunder by such Borrower to such Bank or such other amounts then due hereunder by such Borrower to such Bank than the percentage received by any other Banks, it shall promptly purchase from such other Banks participations in (or, if and to the extent specified by such Bank, direct interests in) the Loans of such Class or such other amounts, respectively, owing to such other Banks (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Banks shall share the benefit of such excess payment (net of any expenses which may be incurred by such Bank in obtaining or preserving such excess payment) pro rata in accordance with the unpaid principal of and/or interest on the Loans of such Class or such other amounts, respectively, owing to each of the Banks. To such end all the Banks shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

(c) Each Borrower agrees that any Bank so purchasing such a participation (or direct interest) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Bank were a direct holder of Loans or other amounts (as the case may be) owing to such Bank in the amount of such participation.

(d) Nothing contained herein shall require any Bank to exercise any such right or shall affect the right of any Bank to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of any Borrower. If, under any applicable

bankruptcy, insolvency or other similar law, any Bank receives a secured claim in lieu of a set-off to which this Section 4.07 applies, such Bank shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Banks entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

Section 5. Yield Protection, Etc.  
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5.01 Additional Costs.  
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(a) Each Borrower shall pay directly to each Bank from time to time such amounts as such Bank may determine to be necessary to compensate it for any costs which such Bank determines are attributable to its making or maintaining of any Fixed Rate Loans to such Borrower or its obligation to make any Fixed Rate Loans to such Borrower hereunder, or any reduction in any amount receivable by such Bank hereunder in respect of any of such Loans or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change which:  
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(i) changes the basis of taxation of any amounts payable to such Bank by such Borrower under this Agreement or its Notes in respect of any of such Loans (other than taxes imposed on or measured by the overall net income of such Bank or of its Applicable Lending Office for any of such Loans by a jurisdiction in which such Bank has its principal office or such Applicable Lending Office); or

(ii) imposes or modifies any reserve, special deposit or similar requirements (other than the Reserve Requirement utilized in the determination of the Fixed Rate or LIBO Rate, as the case may be, for such Loan) relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Bank (including any of such Loans or any deposits referred to in the definition of "Fixed Base Rate" in Section 1.01 hereof), or any commitment of such Bank (including the Commitment of such Bank hereunder); or

(iii) imposes any other condition affecting this Agreement or its Notes (or any of such extensions of credit or liabilities) or its Commitment.

If any Bank requests compensation from any Borrower under this Section 5.01(a), Holdings may, by notice to such Bank (with a copy to the Agent), suspend the obligation of such Bank to make or Continue Loans to the Borrowers of the Type with respect to which such compensation is requested, or to Convert Loans of any other Type into Loans of such Type, until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of Section 5.04 hereof shall be applicable).

(b) Without limiting the effect of the provisions of paragraph (a) of this Section 5.01, in the event that, by reason of any Regulatory Change, any Bank either (i) incurs

Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Bank which includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of such Bank which includes Eurodollar Loans or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if such Bank so elects by notice to Holdings (with a copy to the Agent), the obligation of such Bank to make or Continue, or to Convert Loans of any other Type into, Loans of such Type hereunder shall be suspended until such Regulatory Change ceases to be in effect (in which case the provisions of Section 5.04 hereof shall be applicable).

(c) Without limiting the effect of the foregoing provisions of this Section 5.01 (but without duplication), Holdings shall pay directly to each Bank from time to time on request such amounts as such Bank may determine to be necessary to compensate such Bank (or, without duplication, the bank holding company of which such Bank is a subsidiary) for any costs which it determines are attributable to the maintenance by such Bank (or any Applicable Lending Office or such bank holding company), pursuant to any law or regulation or any interpretation, directive or request (whether or not having the force of law) of any court or governmental or monetary authority,

(i) following any Regulatory Change, or

(ii) implementing any risk-based capital guideline or requirement (whether or not having the force of law and whether or not the failure to comply therewith would be unlawful) hereafter issued by any government or governmental or supervisory authority implementing at the national level the Basle Accord (including, without limitation, any amendment to, or modification or interpretation of, the Final Risk-Based Capital Guidelines of the Board of Governors of the Federal Reserve System (12 CFR Part 208, Appendix A; 12 CFR Part 225, Appendix A) and any amendment to, or modification or interpretation of, the Final Risk-Based Capital Guidelines of the Office of the Comptroller of the Currency (12 CFR Part 3, Appendix A)),

of capital in respect of its Commitment or Loans (such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Bank (or any Applicable Lending Office or such bank holding company) to a level below that which such Bank (or any Applicable Lending Office or such bank holding company) could have achieved but for such law, regulation, interpretation, directive or request). For purposes of this Section 5.01(c), "Basle Accord" shall mean the proposals for risk-based capital

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framework described by the Basle Committee on Banking Regulations and Supervisory Practices in its paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended, modified and supplemented and in effect from time to time or any replacement thereof.

(d) If any Bank does not give notice to Holdings of any event occurring after the date of this Agreement that will entitle such Bank to compensation under Section 5.01 (a) hereof

within 45 days after it obtains actual knowledge of such an event, such Bank shall, with respect to compensation payable pursuant to said Section 5.01(a) in respect of any costs resulting from such event, only be entitled to payment under said Section 5.01(a) for costs incurred from and after the date 45 days prior to the date that such Bank does give such notice. Each Bank will designate a different Applicable Lending Office for the Loans of such Bank affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of such Bank, be disadvantageous to such Bank. Each Bank will furnish to Holdings a statement setting forth the basis and amount of each request by such Bank for compensation under paragraph (a) or (c) of this Section 5.01. Determinations and allocations by any Bank for purposes of this Section 5.01 of the effect of any Regulatory Change pursuant to paragraph (a) or (b) of this Section 5.01, or of the effect of capital maintained pursuant to paragraph (c) of this Section 5.01, on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Bank under this Section 5.01, shall be conclusive, provided that such determinations and allocations are made on a reasonable basis.

5.02 Limitation on Types of Loans. Anything herein to the

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contrary notwithstanding, if, on or prior to the determination of any Fixed Base Rate for any Interest Period:

(a) the Agent determines, which determination shall be conclusive, that quotations of interest rates for the relevant deposits referred to in the definition of "Fixed Base Rate" in Section 1.01 hereof are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for any Type of Fixed Rate Loans as provided herein; or

(b) the Majority Banks determine (or any Bank that has outstanding a Money Market Quote with respect to a LIBOR Market Loan determines), which determination shall be conclusive, and notify (or notifies, as the case may be) the Agent that the relevant rates of interest referred to in the definition of "Fixed Base Rate" in Section 1.01 hereof upon the basis of which the rate of interest for Eurodollar Loans (or LIBOR Market Loans, as the case may be) for such Interest Period is to be determined are not likely adequately to cover the cost to such Banks (or to such quoting Bank) of making or maintaining such Type of Loans for such Interest Period and such shortfall is an amount determined by such Banks (or such quoting Bank) to be material;

then the Agent shall give Holdings and each Bank prompt notice thereof, and so long as such condition remains in effect, the Banks (or such quoting Bank) shall be under no obligation to make additional Loans of such Type, to Continue Loans of such Type or to Convert Loans of any other Type into Loans of such Type and each Borrower shall, on the last day(s) of the then current Interest Period(s) for its outstanding Loans of such Type, either prepay such Loans or Convert such Loans into another Type of Loan in accordance with Section 2.09 hereof.

5.03 Illegality. Notwithstanding any other provision of this

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Agreement, in the

event that it becomes unlawful for any Bank or its Applicable Lending Office to honor its obligation to make or maintain Eurodollar Loans or LIBOR Market Loans hereunder, then such Bank shall promptly notify Holdings thereof (with a copy to the Agent) and such Bank's obligation to make or Continue, or to Convert Loans of any other Type into, Eurodollar Loans shall be suspended until such time as such Bank may again make and maintain Eurodollar Loans (in which case the provisions of Section 5.04 hereof shall be applicable), and such Bank shall no longer be obligated to make any LIBOR Market Loan that it has offered to make.

5.04 Treatment of Affected Loans. If the obligation of any Bank

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to make a particular Type of Fixed Rate Loans or Continue, or to Convert Loans of any other Type into, Loans of a particular Type shall be suspended pursuant to Section 5.01 or 5.03 hereof (Loans of such Type being herein called "Affected

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Loans" and such Type being herein called the "Affected Type"), such Bank's

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Affected Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for Affected Loans (or, in the case of a Conversion required by Section 5.01(b) or 5.03 hereof, on such earlier date as such Bank may specify to Holdings with a copy to the Agent) and, unless and until such Bank gives notice as provided below that the circumstances specified in Section 5.01 or 5.03 hereof which gave rise to such Conversion no longer exist:

(a) to the extent that such Bank's Affected Loans have been so Converted, all payments and prepayments of principal which would otherwise be applied to such Bank's Affected Loans shall be applied instead to its Base Rate Loans;

(b) all Loans which would otherwise be made or Continued by such Bank as Loans of the Affected Type shall be made or Continued instead as Base Rate Loans and all Loans of such Bank which would otherwise be Converted into Loans of the Affected Type shall be Converted instead (or shall remain as) Base Rate Loans; and

(c) if Loans of other Banks of the Affected Type are subsequently Converted into Loans of another Type (other than Base Rate Loans), such Bank's Base Rate Loans shall be automatically Converted on the Conversion date for such Loans of the other Banks into Loans of such other Type to the extent necessary so that, after giving effect thereto, all Loans held by such Bank and the Banks whose Loans are so Converted are held pro rata (as to principal amounts, Types and Interest Periods) in accordance with their respective Commitments.

If such Bank gives notice to Holdings with a copy to the Agent that the circumstances specified in Section 5.01 or 5.03 hereof which gave rise to the Conversion of such Bank's Affected Loans pursuant to this Section 5.04 no longer exist (which such Bank agrees to do promptly upon such circumstances ceasing to exist) at a time when Loans of the Affected Type are outstanding, such Bank's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Loans of the Affected Type, to the extent necessary so that, after giving effect thereto, all Loans held by the Banks holding Loans of the Affected Type and by such Bank are held pro rata (as to principal amounts, Types and Interest

Periods) in accordance with their respective Commitments.

5.05 Compensation. Each Borrower shall pay to the Agent for

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account of each Bank, upon the request of such Bank through the Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Bank) to compensate it for any loss, cost or expense which such Bank determines is attributable to:

(a) any payment, prepayment or Conversion of a Fixed Rate Loan or a Set Rate Loan of such Bank to such Borrower for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 10 hereof or a Conversion of Loans pursuant to Section 5.04 hereof) on a date other than the last day of the Interest Period for such Loan; or

(b) any failure by such Borrower for any reason (including, without limitation, the failure of any of the conditions precedent specified in Section 7 hereof to be satisfied) to borrow a Fixed Rate Loan or a Set Rate Loan (with respect to which, in the case of a Money Market Loan, such Borrower has accepted a Money Market Quote) from such Bank on the date for such borrowing specified in the relevant notice of borrowing given pursuant to Section 2.02 or 2.03(b) hereof.

Without limiting the effect of the preceding sentence, such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest which otherwise would have accrued on the principal amount so paid, prepaid or Converted or not borrowed for the period from the date of such payment, prepayment, Conversion or failure to borrow to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Loan which would have commenced on the date specified for such borrowing) at the applicable rate of interest (less the Applicable Margin) for such Loan provided for herein over (ii) the amount of interest which otherwise would have accrued on such principal amount at a rate per annum equal to the interest component of the amount such Bank would have received in the London interbank market (if such Loan is a Eurodollar Loan or a LIBOR Market Loan) or the United States secondary certificate of deposit market (if such Loan is a Set Rate Loan) for Dollar deposits placed with leading banks in amounts comparable to such principal amount and with maturities comparable to such period (as reasonably determined by such Bank).

5.06 Replacement Banks. Provided that no Default shall have

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occurred and be continuing, Holdings may, at any time, replace any Bank that has requested compensation from any Borrower pursuant to Section 5.01 or 5.07 hereof or whose obligation to make additional Loans has been suspended pursuant to Section 5.03 hereof (any such bank being herein called an "Affected Bank") by

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giving not less than 10 Business Days' prior notice to the Agent (which shall promptly notify such Affected Bank and each other Bank) that it intends to replace such Affected Bank with one or more assignees selected by Holdings and acceptable to the Agent. The method (whether by assignment or otherwise) of and documentation for such replacement shall be in accordance with Section 12.06(b) or otherwise acceptable to the Affected Bank and the Agent. Upon the effective date of any replacement under this Section 5.06 (and as a condition thereto) Holdings shall, or shall cause the replacement lender(s) to, pay to the Affected Bank being replaced any amounts owing to such Affected Bank hereunder (including, without limitation, interest, facility fees, compensation and additional amounts under this Section 5, in each case accrued to the effective date of such replacement), whereupon each replacement lender shall become a "Bank" for all purposes of this Agreement having a Commitment in the amount of such Affected Bank's Commitment assumed by it, and such Commitment of the Affected Bank being replaced shall be terminated upon such effective date and all of such Affected Bank's rights and obligations under this Agreement shall terminate (provided that the obligations of the Borrowers under Sections 5.01,

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5.05, 5.07 and 12.03 hereof to such Affected Bank shall survive such replacement as provided in Section 12.07 hereof).

5.07 U.S. Taxes.

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(a) Each Borrower agrees to pay to the Agent for account of each Bank that is not a U.S. Person such additional amounts as are necessary in order that the net payment of any amount due to such Bank hereunder after deduction for or withholding in respect of any U.S. Tax imposed with respect to such payment (or in lieu thereof, payment of such U.S. Tax by such Bank), will not be less than the amount provided herein to be then due and payable to or for account of such Bank, provided that the foregoing obligation to pay such additional amounts shall not apply:

(i) to any payment to such Bank hereunder if such Bank is, on the date hereof (or on the date it becomes a Bank as provided in Section 12.06(b) hereof) and on the date of any change in the Applicable Lending Office of such Bank, either entitled to submit a Form 1001 (relating to such Bank and entitling it to a complete exemption from withholding on all interest to be received by it hereunder in respect of the Loans) or Form 4224 (relating to all interest to be received by such Bank hereunder in respect of its Loans), or

(ii) to any U.S. Tax that would not have been imposed but for the failure by such Bank to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connections with the United States of America of such Bank if such compliance is required by statute or

regulation of the United States of America as a precondition to relief or exemption from such U.S. Tax.

For the purposes of this Section 5.07(a), (w) "Form 1001" shall mean Form 1001

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(Ownership, Exemption, or Reduced Rate Certificate) of the Department of the Treasury of the United States of America, (x) "Form 4224" shall mean Form 4224

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(Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States) of the Department of the Treasury of the United States of America (or in relation to either such Form such successor and related forms as may from time to time be adopted by the relevant taxing authorities of the United States of America to document a claim to which such Form relates), (y) "U.S. Person" shall mean a citizen, national or

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resident of the United States of America, a corporation, partnership or other entity created or organized in or under any laws of the United States of America, or any estate or trust that is subject to United States Federal income taxation regardless of the source of its income and (z) "U.S. Taxes" shall mean

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any present or future tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof or therein.

(b) Within 30 days after a Borrower pays any amount to the Agent for account of any Bank from which it is required by law to make any deduction or withholding, and within 30 days after it is required by law to remit such deduction or withholding to any relevant taxing or other authority, such Borrower shall deliver to the Agent for delivery to such Bank evidence satisfactory to such Bank of such deduction, withholding or payment (as the case may be).



Section 6. Guarantee.

6.01 Guarantee. The Borrowers acknowledge and agree that each Loan

made under this Agreement shall be for the benefit of all Borrowers and the proceeds thereof shall be utilized by any or all of the Borrowers in such amounts and at such times as they may agree between themselves from time to time. Each of the Borrowers further acknowledges and agrees that it directly benefits from the financial accommodations hereby extended to the other Borrowers. Neither the Agent, nor any Bank shall have any responsibility to ascertain whether or in what amounts the proceeds of the Loans have been utilized by any of the Borrowers. Each Borrower hereby guarantees to each Bank and the Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest on the Loans made by the Banks to any other Borrower and the Notes held by each Bank of any other Borrower and all other amounts from time to time owing to the Banks or the Agent by any other Borrower under this Agreement and under any other Borrower's Notes, in each case strictly in accordance with the terms hereof or thereof. As used in this Section 6: (a) the term "Guarantor" refers to a Borrower in its capacity as a guarantor hereunder;

and (b) the term "Guaranteed Obligations", when used with respect to a

Guarantor, refers to the obligations of any other Borrower guaranteed by such Guarantor hereunder. Each Guarantor hereby further agrees that upon default in the payment when due (whether at stated maturity, by acceleration or otherwise) of any of its Guaranteed Obligations, such Guarantor will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of such Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

6.02 Obligations Unconditional. The obligations of each Guarantor

under Section 6.01 hereof are absolute and unconditional irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of any other Borrower or Borrowers under this Agreement and Notes of any other Borrower or Borrowers, or any substitution, release or exchange of any other guarantee of or security for its Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 6.02 that the obligations of such Guarantor under this Section 6 shall be absolute and unconditional under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of any Guarantor under this Section 6 which shall remain absolute and unconditional as described above:

(i) at any time or from time to time, without notice to such Guarantor, the time for any performance of or compliance with any of its Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of this Agreement or the Notes

or any other agreement or instrument referred to herein or therein shall be done or omitted;

(iii) the maturity of any of its Guaranteed Obligations shall be accelerated, or any of its Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under this Agreement or the Notes of any other Borrower shall be waived or any other guarantee of any of its Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

(iv) any lien or security interest granted to, or in favor of, the Agent or any Bank or Banks as security for any of its Guaranteed Obligations shall fail to be perfected.

Each Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Agent or any Bank exhaust any right, power or remedy or proceed against any other Borrower under this Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of such Guarantor's Guaranteed Obligations.

6.03 Reinstatement. The obligations of each Guarantor under this

Section 6 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of any other Borrower in respect of such Guarantor's Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of such Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and such Guarantor agrees that it will indemnify the Agent and each Bank on demand for all reasonable costs and expenses (including, without limitation, fees of counsel) incurred by the Agent or such Bank in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

6.04 Subrogation. Each Guarantor hereby waives all rights of

subrogation or contribution, whether arising by contract or operation of law (including, without limitation, any such right arising under the Bankruptcy Code) or otherwise by reason of any payment by it pursuant to the provisions of this Section 6. Enterprises and FFOG further agree with Holdings for the benefit of each of Enterprises's and FFOG's creditors (including, without limitation, each Bank and the Agent) that any such payment by it as a Guarantor hereunder shall constitute, to the fullest extent permitted by applicable law, a dividend on the common stock of Enterprises or FFOG, respectively, owned by Holdings or a return of capital paid by Holdings to Enterprises or FFOG, respectively and, thereafter, an equity investment in Holdings by Enterprises or FFOG, as the case may be. Holdings further agrees for the benefit of each of its creditors (including, without limitation, each Bank and the Agent) that any such payment by it as a Guarantor hereunder shall constitute, to the fullest extent permitted by applicable law, a contribution of capital by Holdings to Enterprises or FFOG, as the case may be or, if evidenced by an instrument in form and substance (and containing terms of subordination) satisfactory to the Majority Banks, indebtedness subordinated in right of payment to the principal of and interest (including post-

petition interest) on the Loans.

6.05 Remedies. Each Guarantor agrees that, as between it and the

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Banks, the obligations of any other Borrower under this Agreement and the Notes of any other Borrower may be declared to be forthwith due and payable as provided in Section 10 hereof (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 10) for purposes of Section 6.01 hereof notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against any other Borrower and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by any other Borrower) shall forthwith become due and payable by any other Borrower for purposes of said Section 6.01.

6.06 Continuing Guarantee. The guarantee of each Guarantor in

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this Section 6 is a continuing guarantee, and shall apply to all of its Guaranteed Obligations whenever arising.

6.07 Limitation on Guarantee Obligations of Enterprises. In any

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action or proceeding involving any state corporate law, or any state or Federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of Enterprises or FFOG under Section 6.01 hereof would otherwise be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors of Enterprises or FFOG, on account of the amount of its liability under said Section 6.01, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by Enterprises or FFOG, any Bank, the Agent or any other Person, be automatically limited and reduced to the highest amount which is valid and enforceable and not subordinated to the claims of other creditors of Enterprises or FFOG as determined in such action or proceeding.

Section 7. Conditions Precedent.

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7.01 Initial Loan. The obligation of each Bank to make its

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initial Loan hereunder is subject to the receipt by the Agent of the following documents and evidence, each of which shall be satisfactory to the Agent in form and substance (the Agent to furnish each Bank with a copy of each such document received by it reasonably promptly after the Closing Date):

(a) Notes. The Notes of the Borrowers described in Section 2.08,

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duly executed by each of the Borrowers.

(b) Corporate Documents. The following documents, each certified

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as indicated below:

(i) a copy of the charter, as amended, of each of the Borrowers certified by the Secretary of State of the State of Delaware, and a certificate as to the good standing of and charter documents filed by each of the Borrowers from such

Secretary of State, dated as of a recent date;

(ii) a certificate of the Secretary or an Assistant Secretary of each of the Borrowers, dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Borrower as in effect on the date of such certificate, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of such Borrower authorizing the execution, delivery and performance of such of the Credit Documents to which such Borrower is or is intended to be a party and borrowings by it hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the charter of such Borrower has not been amended since the date of the certification thereof furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer of such Borrower executing such of the Credit Documents to which such Borrower is or is intended to be a party and each other document to be delivered by such Borrower from time to time in connection therewith (and the Agent and each Bank may conclusively rely on such certificate until it receives notice in writing from such Borrower); and

(iii) a certificate of another officer of each Borrower, dated the Closing Date, as to the incumbency and specimen signature of the Secretary or Assistant Secretary, as the case may be, of such Borrower.

(c) Officer's Certificate. A certificate of a senior officer of -----  
each Borrower, dated the Closing Date, to the effect set forth in clauses (a) and (b)(i) of Section 7.02 hereof (both immediately prior to the Closing Date and after giving effect to the Loan or Loans to be made on the Closing Date).

(d) Opinion of Counsel to the Borrowers. An opinion of Brobeck, -----  
Phleger & Harrison, counsel to the Borrowers, substantially in the form of Exhibit C hereto.

(e) Fees and Expenses. Evidence (including, without limitation, -----  
payment instructions given by Holdings) satisfactory to the Agent that the fees and expenses referred to in Section 12.03 hereof, to the extent that statements or bills, in reasonable detail, and all other fees payable by Holdings or any Borrower to the Agent or any or all of the Banks in connection with the transactions contemplated hereby, to the extent then due and payable, have been paid.

(f) Other Documents. Such other documents as the Agent or any -----  
Bank or counsel to the Agent may reasonably request.

7.02 Initial and Subsequent Loans. The obligation of any Bank to -----  
make any Loan (including any Money Market Loan and such Bank's initial Loan, whether a Money Market Loan or a Syndicated Loan) to any Borrower upon the occasion of each borrowing hereunder is subject

to the further conditions precedent that, both immediately prior to the making of such Loan and also after giving effect thereto: (a) no Default shall have occurred and be continuing or would result therefrom; and (b) unless such borrowing will not increase the aggregate outstanding principal amount of the Loans, (i) the representations and warranties made by each of the Borrowers in Section 8 hereof shall be true in all material respects on and as of the date of the making of such Loan with the same force and effect as if made on and as of such date; and (ii) the Borrower shall have delivered a certificate of a senior financial officer in the form of Exhibit D hereto attesting to compliance with the covenant contained in Section 9.08(c) after giving effect to such borrowing and attesting to the nature and value of such Borrower's Finance Assets. Each notice of borrowing delivered by a Borrower hereunder shall constitute a certification by such Borrower to the effect set forth in the preceding sentence (both as of the date of such notice and, unless any Borrower otherwise notifies the Agent prior to the date of such borrowing, as of the date of such borrowing).

Section 8. Representations and Warranties. The Borrowers hereby

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jointly and severally represent and warrant to the Banks and the Agent that:

8.01 Corporate Existence. Each of Holdings and its Subsidiaries:

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(a) is a corporation, partnership or other entity duly organized and validly existing under the laws of the jurisdiction of its organization; (b) has all requisite corporate or other power, and has all material governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify would have a Material Adverse Effect.

8.02 Financial Condition. The consolidated balance sheets of

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Holdings and its Consolidated Subsidiaries as at December 31, 1993 and the related consolidated statements of income, retained earnings and cash flow of Holdings and its Consolidated Subsidiaries for the fiscal year ended on said date, with the opinion thereon of Ernst & Young, heretofore furnished to each of the Banks, are complete and correct and fairly present the consolidated financial condition of Holdings and its Consolidated Subsidiaries and the consolidated results of their operations for the fiscal year ended on said date, all in accordance with GAAP applied on a consistent basis. Neither Holdings nor any of its Subsidiaries had on said dates any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said balance sheets or in the notes thereto as at said dates. Since December 31, 1993, there has been no material adverse change in the consolidated financial condition, operations, business or prospects taken as a whole of Holdings and its Consolidated Subsidiaries from that set forth in said financial statements as at said date.

8.03 Litigation. There are no lawsuits or other proceedings

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pending, or to the knowledge of any Borrower threatened against or affecting, Holdings or any of its Subsidiaries or any of their respective properties or assets before any court or arbitrator or by or before any

governmental commission, bureau or other regulatory authority (including, without limitation, the Securities and Exchange Commission) which would be likely, individually or in the aggregate, to have a Material Adverse Effect.

8.04 No Breach. None of the execution and delivery of this

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Agreement and the Notes, the consummation of the transactions herein and therein contemplated and compliance with the terms and provisions hereof and thereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of Holdings or any of its Subsidiaries, or any applicable law or regulation (including, without limitation, Regulations G, U and X), or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which Holdings or any of its Subsidiaries is a party or by which any of them is bound or to which any of them is subject, which consent shall have been duly obtained on or prior to the Closing Date, or constitute a default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any Property of Holdings or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

8.05 Action. Each Borrower has all necessary corporate power and

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authority to execute, deliver and perform its obligations under each of the Credit Documents to which it is or is intended to be a party; the execution, delivery and performance by each Borrower of each of the Credit Documents to which it is or is intended to be a party have been duly authorized by all necessary corporate action on its part; and this Agreement has been duly and validly executed and delivered by each Borrower and constitutes, and each of the Notes when executed and delivered for value will constitute, the legal, valid and binding obligation of such Borrower as is or is intended to be a party thereto, enforceable in accordance with its terms.

8.06 Approvals. No authorizations, approvals or consents of,

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and no filings or registrations with, any governmental or regulatory authority or agency are necessary for the execution, delivery or performance by any Borrower of the Credit Documents to which it is or is intended to be a party or for the validity or enforceability thereof.

8.07 Use of Loans. Neither Holdings nor any of its Subsidiaries

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is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock.

8.08 ERISA. Holdings and the ERISA Affiliates have fulfilled

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their respective obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the presently applicable provisions of ERISA and the Code, and have not incurred any liability to the PBGC or any Plan or Multiemployer Plan (other than to make contributions in the ordinary course of business).

8.09 Taxes. United States Federal income tax returns of Holdings

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and its Subsidiaries have been examined and closed through the fiscal year of Holdings ended December 31, 1983. Holdings and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes

due pursuant to such returns or pursuant to any assessment received by Holdings or any of its Subsidiaries. The charges, accruals and reserves on the books of Holdings and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of each Obligor, adequate. If Holdings is a member of an affiliated group of corporations filing consolidated returns for United States Federal income tax purposes, it is the "common parent" of such group.

8.10 Investment Company Act. No Borrower is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

8.11 Public Utility Holding Company Act. No Borrower is a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

8.12 Credit Agreements. Schedule I hereto is a complete and correct list, as of the date of this Agreement, of each credit agreement, loan agreement, indenture, purchase agreement, guarantee or other arrangement providing for or otherwise relating to any Indebtedness of or any extension of credit (or commitment for any extension of credit) to, or guarantee by, any Borrower the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) \$20,000,000 and the aggregate principal or face amount outstanding or which may become outstanding under each such arrangement is correctly described in said Schedule I.

8.13 Hazardous Materials. Holdings and each of its Subsidiaries have obtained all permits, licenses and other authorizations which are required under all Environmental Laws, except to the extent failure to have any such permit, license or authorization would not have a Material Adverse Effect. Holdings and each of its Subsidiaries are in compliance with the terms and conditions of all such permits, licenses and authorizations, and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply would not have a Material Adverse Effect.

8.14 Material Subsidiaries. Set forth in Schedule II hereto is a complete and correct list, as of the date of this Agreement, of all Material Subsidiaries (and the respective jurisdiction of incorporation of each such Material Subsidiary). Except as disclosed in Schedule II hereto Holdings owns, free and clear of Liens, all outstanding shares of such Material Subsidiaries indicated on said Schedule II as being owned by it, other than directors' qualifying shares (and each Material Subsidiary owns, free and clear of Liens, all outstanding shares of any Material Subsidiaries indicated on said Schedule II as being owned by it, other than directors' qualifying shares), and all such shares are validly issued, fully paid and non-assessable.

8.15 True and Complete Disclosure. No information, report, financial statement, exhibit, schedule or disclosure letter (including, without limitation, the Information

Memorandum, and in light of any subsequent corrections or modifications thereto delivered to the Banks prior to the date hereof) furnished in writing by or on behalf of Holdings or any of its Subsidiaries the Agent or any Bank in connection with the negotiation, preparation or delivery of this Agreement and the Notes or included therein or delivered pursuant thereto contains any untrue statement of material fact or omits or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All written information furnished after the date hereof by Holdings and its Subsidiaries to the Agent and the Banks in connection with this Agreement and the Notes and the transactions contemplated hereby and thereby will be true, complete and accurate in every material respect, or (in the case of projections) based on reasonable estimates, on the date as of which such information is stated or certified. There is no fact known to Holdings that could have a Material Adverse Effect that has not been disclosed herein or in a report, financial statement, exhibit, schedule, disclosure letter or other writing furnished to the Banks for use in connection with the transactions contemplated hereby. The foregoing provisions of this Section 8.15, insofar as they relate to the Information Memorandum, are qualified as follows:

(a) the information contained therein is subject to the disclaimers set forth therein; and

(b) any information therein regarding the terms of the credit facility described therein is qualified by the terms of this Agreement.

Section 9. Covenants of the Borrowers. The Borrowers hereby agree

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with the Banks and the Agent that, so long as any Commitment or Loan is outstanding and until payment in full of all amounts of principal of, and interest on, the Loans and all fees payable under Section 2.05 hereof:

9.01 Financial Statements. Holdings shall deliver to the Agent

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(with sufficient copies for each of the Banks):

(a) as soon as available and in any event within 45 days after the end of each of the first three quarterly fiscal periods of each fiscal year of Holdings the consolidated statements of income, retained earnings and cash flow of Holdings and the Consolidated Subsidiaries for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheets as at the end of such period, setting forth in each case in comparative form the corresponding consolidated figures for the corresponding period in the preceding fiscal year, accompanied by a certificate of a senior financial officer of Holdings, which certificate shall state that said financial statements fairly present the consolidated financial condition and results of operations of Holdings and the Consolidated Subsidiaries in accordance with GAAP, as at the end of, and for, such period (subject to normal year-end audit adjustments);



(b) as soon as available and in any event within 90 days after the end of each fiscal year of Holdings, consolidated statements of income, retained earnings and cash flow of Holdings and the Consolidated Subsidiaries for such year and the related consolidated balance sheets as at the end of such year, setting forth in each case in comparative form the corresponding consolidated figures for the preceding fiscal year, and accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said consolidated financial statements fairly present the consolidated financial condition and results of operations of Holdings and the Consolidated Subsidiaries as at the end of, and for, such fiscal year in accordance with GAAP;

(c) within 90 days after the end of each fiscal year of Holdings, Enterprises and FFOG, statements of income, retained earnings and cash flow of each such Borrower for such year and the related balance sheets as at the end of such year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year, and accompanied by a certificate of a senior financial officer of each such Borrower, which shall state that said financial statements fairly present the financial condition and results of operations of such Borrower as at the end of, and for, such fiscal year in accordance with GAAP;

(d) upon the reasonable request of the Agent or any Bank, and in any event at the end of each month during which loans to any Borrower are outstanding, a certificate of a senior financial officer of each Borrower as to which loans are outstanding in the form of Exhibit D hereto attesting to compliance with the covenant contained in Section 9.08(c) and the nature and value of such Borrower's Finance Assets;

(e) promptly upon their becoming available, copies of all registration statements and regular periodic reports, if any, which Holdings shall have filed with the Securities and Exchange Commission (or any governmental agency substituted therefor) or any national securities exchange;

(f) promptly upon the mailing thereof to the shareholders of Holdings generally, copies of all financial statements, reports and proxy statements so mailed;

(g) as soon as possible, and in any event within ten days after Holdings knows or has reason to believe that any of the events or conditions specified below with respect to any Plan or Multiemployer Plan have occurred or exist, a statement signed by a senior financial officer of Holdings setting forth details respecting such event or condition and the action, if any, which Holdings or the relevant ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to PBGC by Holdings or such ERISA Affiliate with respect to such event or condition):

(i) any reportable event, as defined in Section 4043(b) of ERISA and the regulations issued thereunder, with respect to a Plan, as to which PBGC has not

by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event (provided that a failure to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA shall be a reportable event regardless of the issuance of any waivers in accordance with Section 412(d) of the Code);

(ii) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan;

(iii) the institution by PBGC of proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by Holdings or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by PBGC with respect to such Multiemployer Plan;

(iv) the complete or partial withdrawal by Holdings or any ERISA Affiliate under Section 4201 or 4204 of ERISA from a Multiemployer Plan, or the receipt by Holdings or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has terminated under Section 4041A of ERISA; and

(v) the institution of a proceeding by a fiduciary of any Multiemployer Plan against Holdings or any ERISA Affiliate to enforce Section 515 of ERISA, which proceeding is not dismissed within 30 days;

(h) promptly after any Borrower knows or has reason to believe that any Default has occurred, a notice of such Default describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that Holdings has taken and proposes to take with respect thereto; and

(i) from time to time such other information regarding the financial condition, operations, business or prospects of either Holdings or any of its Subsidiaries (including, without limitation, any Plan or Multiemployer Plan, and any reports or other information required to be filed under ERISA) as any Bank or the Agent may reasonably request.

Holdings will furnish to each Bank, at the time it furnishes each set of financial statements pursuant to paragraph (a) or (b) above, a certificate of a senior financial officer of Holdings (i) to the effect that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the Borrowers have taken and propose to take with respect thereto) and (ii) setting forth in reasonable detail the computations necessary to determine whether the Borrowers are in compliance with Sections 9.08(a), (b) and (c) hereof, as of the end of the respective fiscal quarter or fiscal year.

9.02 Litigation. Holdings will promptly give to each Bank notice

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in writing of all litigation and of all proceedings before any courts, arbitrators or governmental or regulatory agencies (including, without limitation, the Securities and Exchange Commission and the insurance commission or other similar regulatory body of any state) affecting Holdings or any of its Subsidiaries except litigation or proceedings which are not likely to have a Material Adverse Effect.

9.03 Existence, Etc. Each Borrower will, and will cause each of

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its Subsidiaries that are Material Subsidiaries to: preserve and maintain its legal existence and all of its material rights, privileges and franchises (provided that nothing in this Section 9.03 shall prohibit any transaction expressly permitted under Section 9.05 hereof); comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities if failure to comply with such requirements would have a Material Adverse Effect; pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its Property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained and except where the failure to pay such tax, assessment, charge or levy would not have a Material Adverse Effect; maintain all of its Properties used or useful in its business in good working order and condition, ordinary wear and tear excepted, except where the failure to so maintain such Properties would not have a Material Adverse Effect; and permit representatives of any Bank or the Agent, during normal business hours, to examine, copy and make extracts from its books and records, to inspect its Properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested by such Bank or the Agent (as the case may be).

9.04 Insurance. Each Borrower will, and will cause each of its

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Material Subsidiaries to, maintain insurance (including self-insurance) in such amounts and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which such Borrower or such Subsidiary (as the case may be) operates.

9.05 Prohibition of Fundamental Changes. No Borrower will, nor

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will it permit any of its Material Subsidiaries to: (a) enter into any transaction of merger or consolidation or amalgamation (a "Combination"), or

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liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), (b) be a party to any Acquisition, or (c) convey, sell, lease, transfer or otherwise dispose of all or any substantial part of its business or Property, whether now owned or hereafter acquired (other than in the ordinary course of business as presently conducted), except for any Combination, any Acquisition or any such disposition provided that:

(i) no Default shall have occurred and be continuing or would result therefrom;

(ii) in the case of any Combination, Holdings or one of its Subsidiaries that is a corporation organized under the laws of the United States or any State thereof shall be the surviving corporation (and, if any Borrower shall be a party to any

Combination and shall not be the surviving corporation, the surviving corporation shall have expressly assumed, by an instrument in writing satisfactory to the Agent, all of the obligations of such Borrower hereunder and under such Borrower's Notes); and

(iii) in the case of any Acquisition of the type referred to in clause (b) or (c) of the definition of such term in Section 1.01 hereof, the board of directors (or other body performing similar functions) of such Person (or the owner of such Person) shall have approved such Acquisition.

Notwithstanding the foregoing, no Borrower will, nor will it permit any of its Subsidiaries to, convey, sell, transfer or otherwise dispose of (including by way of a Combination) any capital stock of any of its Subsidiaries (or permit any of its Subsidiaries to issue any additional capital stock) if, after giving effect thereto, such Subsidiary would no longer be a Subsidiary of Holdings.

9.06 Limitation on Liens. If any Borrower shall create, incur,

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assume or suffer to exist any Lien in upon any of its Finance Assets, whether now owned or hereafter acquired, it will simultaneously grant the Agent, on behalf of the Banks, a Lien pari passu with such Lien upon the Finance Assets subject to such Lien, and shall not thereafter release such lien without compliance with the provisions of Regulation U, including, without limitation, its withdrawal and substitution provisions.

9.07 Use of Proceeds. Each Borrower will use the proceeds of the

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Loans made to it hereunder for its general corporate purposes in compliance with all applicable legal and regulatory requirements, including, without limitation, Regulations G, U and X, the Securities Act of 1933 and the Securities Exchange Act of 1934 and the regulations thereunder. No Borrower shall, nor will any of their Subsidiaries, use the proceeds of the Loans hereunder to acquire the stock or assets of any Person except with the prior written consent of the Board of Directors (or other body performing similar functions) of such Person (or the owner of such Person). Neither the Agent nor any Bank shall have any responsibility as to the use of any of such proceeds.

9.08 Financial Covenants.

(a) Minimum Consolidated Tangible Net Worth. Holdings will not

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permit Consolidated Tangible Net Worth to be less than \$525,000,000 at any time.

(b) Maximum Consolidated Debt to Consolidated Tangible Net Worth

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Ratio. Holdings will not permit the ratio of Consolidated Debt to Consolidated  
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Tangible Net Worth to exceed 4.5:1 at any time.

(c) Minimum Finance Assets to Debt Ratio. At any time any Loans

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made to any Borrower are outstanding hereunder and the sum of such Borrower's cash and Money Market

Investments is not greater than or equal to its Indebtedness (including its Indebtedness in respect of Loans made to it hereunder but excluding its Indebtedness under its Guarantee in Section 6 hereof of the Loans made to any other Borrower hereunder), such Borrower will not permit the ratio of (a) the aggregate value of its Finance Assets to (b) the outstanding aggregate principal amount of its Indebtedness (including its Indebtedness in respect of Loans made to it hereunder but excluding its Indebtedness under its Guarantee in Section 6 hereof of the Loans made to any other Borrower hereunder) minus its cash and

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Money Market Investments, to be less than 1.5:1. For purposes of this Section 9.08(c), the value of Finance Assets shall be the closing prices on the exchange on which such securities are listed and traded on the day prior to the day of determination, and in the case of U S West Preferred Stock, the value at which it may be put to U S West pursuant to Section 9.3 of the U.S. West Securities Purchase Agreement.

(d) U S West Securities Purchase Agreement. No Borrower holding

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U S West Preferred Stock will waive or agree to any modification of the U S West Securities Purchase Agreement that affects the put rights under Section 9.3 thereof. At any time that there has occurred and is continuing an Event of Default of the type described in clause (a) of Section 10 hereof, any Borrower having Loans outstanding and holding U S West Preferred Stock agrees that, upon the request of the Agent acting at the direction of the Majority Banks, it will either (i) exercise all of its put rights under Section 9.3 of the U S West Securities Purchase Agreement, or (ii) replace the U S West Preferred Stock with cash equal the value at which the U S West Preferred Stock it holds may be put to U S West pursuant to Section 9.3 of the U S West Securities Purchase Agreement, or (iii) replace the U S West Preferred Stock with a sufficient amount of Finance Assets other than such stock such that the covenant contained in clause (c) of this Section 9.08 is satisfied.

Section 10. Events of Default. If one or more of the following

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events (herein called "Events of Default") shall occur and be continuing:

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(a) Any Borrower shall default in the payment or prepayment when due of any principal of or interest on any Loan (and one Business Day shall have elapsed in the case of a default in the payment of interest); or any Borrower shall default for any period of five consecutive Business Days in the payment when due of any fee or any other amount payable by it hereunder or under any Note; or

(b) Holdings or any of its Subsidiaries shall default in the payment when due of any principal of or interest on any of its other Indebtedness (the aggregate principal amount of which is \$15,000,000 or more), or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness shall occur (after giving effect to any applicable grace period) if the effect of such event is to cause, or (with the giving of any notice) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity; or

(c) Any representation, warranty or certification made or deemed made in any Credit Document (or in any modification or supplement thereto) by any Borrower, or any certificate furnished to any Bank or the Agent pursuant to the provisions thereof, shall prove to have been false or misleading as of the time made or furnished in any material respect; or

(d) Any Borrower shall default in the performance of any of its obligations under any of Sections 9.01(h) hereof, and Sections 9.05 through 9.08 hereof (inclusive) hereof; or any Borrower shall fail to deliver the certificate called for by Section 9.01(d) hereof within 2 Business Days of the date such certificate is due; or any Borrower shall default in the performance of any of its other obligations in this Agreement and such default shall continue unremedied for a period of ten days after notice thereof to Holdings by the Agent or any Bank (through the Agent); or

(e) Any Borrower or any of its Subsidiaries shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or

(f) Any Borrower or any of its Subsidiaries shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its Property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code (as now or hereafter in effect), (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code, or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(g) A proceeding or case shall be commenced, without the application or consent of any Borrower or any of its Subsidiaries, in any court of competent jurisdiction, seeking (i) its liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of such Borrower or such Subsidiary or of all or any substantial part of its assets, or (iii) similar relief in respect of such Borrower or such Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against such Borrower or such Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

(h) A final judgment or judgments for the payment of money in excess of \$15,000,000 in the aggregate shall be rendered by a one or more courts, administrative tribunals or other bodies having jurisdiction against any Borrower and/or any of its

Subsidiaries and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 60 days from the date of entry thereof and such Borrower or the relevant Subsidiary shall not, within said period of 60 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

(i) An event or condition specified in Section 9.01(g) hereof shall occur or exist with respect to any Plan or Multiemployer Plan and, as a result of such event or condition, together with all other such events or conditions, any Borrower or any ERISA Affiliate shall incur or in the opinion of the Majority Banks shall be reasonably likely to incur a liability to a Plan, a Multiemployer Plan or PBGC (or any combination of the foregoing) which would constitute, in the determination of the Majority Banks, a Material Adverse Effect; or

(j) A Change of Control shall occur;

THEREUPON: (1) in the case of an Event of Default other than one referred to in clause (f) or (g) of this Section 10 with respect to any Borrower, (A) the Agent may and, upon request of the Majority Banks, shall, by notice to Holdings, terminate the Commitments and they shall thereupon terminate, and (B) the Agent may and, upon request of Banks holding at least 51% of the aggregate unpaid principal amount of the Loans shall, by notice to Holdings, declare the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by each of the Borrowers hereunder and under the Notes (including, without limitation, any amounts payable under Section 5.05 hereof) to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each Borrower; and (2) in the case of the occurrence of an Event of Default referred to in clause (f) or (g) of this Section 10 with respect to any Borrower, the Commitments shall automatically be terminated and the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by each of the Borrowers hereunder and under the Notes (including, without limitation, any amounts payable under Section 5.05 hereof) shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each of the Borrowers.

Section 11. The Agent.

11.01 Appointment, Powers and Immunities. Each Bank hereby

irrevocably appoints and authorizes the Agent to act as its agent hereunder with such powers as are specifically delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Agent (which term as used in this sentence and in Section 11.05 and the first sentence of Section 11.06 hereof shall include reference to its affiliates and its own and its affiliates' officers, directors, employees and agents): (a) shall have no duties or responsibilities except those expressly set forth in this Agreement, and shall not by reason of this Agreement be a trustee for any Bank; (b) shall not be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any Note or any other document referred to or provided for herein or therein or for any failure by any Borrower or any other Person to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a notice of the assignment or transfer thereof shall have been filed with the Agent, together with the consent of Holdings to such assignment or transfer.

11.02 Reliance by Agent. The Agent shall be entitled to rely upon

any certification, notice or other communication (including any thereof by telephone, telex, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Agent. As to any matters not expressly provided for by this Agreement, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions given by the Majority Banks, and such instructions of the Majority Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks.

11.03 Defaults. The Agent shall not be deemed to have knowledge

or notice of the occurrence of a Default (other than the non-payment of principal of or interest on Loans or of facility fees) unless the Agent has received notice from a Bank or a Borrower specifying such Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default, the Agent shall give prompt notice thereof to the Banks (and shall give each Bank prompt notice of each such non-payment). The Agent shall (subject to the other provisions of this Section 11) take such action with respect to such Default as shall be directed by the Majority Banks, provided that, unless and until the Agent shall have



received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Banks except to the extent that this Agreement expressly requires that such action be taken, or not be taken, only with the consent or upon the authorization of the Majority Banks or all of the Banks.

11.04 Rights as a Bank. With respect to its Commitment and the

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Loans made by it, Chase (and any successor acting as Agent) in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as the Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include the Agent in its individual capacity. Chase (and any successor acting as Agent) and its affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with any Borrower (and any of its Subsidiaries or Affiliates) as if it were not acting as the Agent, and Chase and its affiliates may accept fees and other consideration from any Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Banks.

11.05 Indemnification. The Banks agree to indemnify the Agent (to

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the extent not reimbursed under Section 12.03 hereof, but without limiting the obligations of the Borrowers under said Section 12.03) ratably in accordance with their respective Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent (including by any Bank) arising out of or by reason of any investigation or any way relating to or arising out of this Agreement or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby (including, without limitation, the costs and expenses which the Borrowers are obligated to pay under Section 12.03 hereof, but excluding, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents, provided that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified.

11.06 Non-Reliance on Agent and Other Banks. Each Bank agrees

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that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrowers and their respective Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Agent shall not be required to keep itself informed as to the performance or observance by any Borrower of this Agreement or any other document referred to or provided for herein or therein or to inspect the Properties or books of such Borrower or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any

credit or other information concerning the affairs, financial condition or business of any Borrower or any of its Subsidiaries (or any of their affiliates) which may come into the possession of the Agent or any of its affiliates.

11.07 Failure to Act. Except for action expressly required of the  
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Agent hereunder, the Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from the Banks of their indemnification obligations under Section 11.05 hereof against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

11.08 Resignation or Removal of Agent. Subject to the appointment  
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and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving notice thereof to the Banks, and the Agent may be removed at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment within 30 days after the retiring Agent's giving of notice of resignation or the Majority Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a bank with a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Section 11 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent.

Section 12. Miscellaneous.  
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12.01 Waiver. No failure on the part of the Agent or any Bank to  
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exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement or any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement or any Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

12.02 Notices. All notices and other communications provided for

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herein (including, without limitation, any modifications of, or waivers or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telex or telecopy), or, with respect to notices given pursuant to Section 2.03 hereof, by telephone, confirmed in writing by telecopier by the close of business on the day the notice is given, delivered (or telephoned, as the case may be) to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telex or telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

12.03 Expenses, Etc. The Borrowers jointly and severally agree to

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pay or reimburse each of the Banks and the Agent for paying: (a) all reasonable out-of-pocket costs and expenses of the Agent, in connection with (i) the negotiation, preparation, execution and delivery of this Agreement and the Notes and the making of the initial Loans hereunder and (ii) any amendment, modification or waiver of any of the terms of this Agreement; (b) all reasonable costs and expenses of the Banks and the Agent (including reasonable counsels' fees and expenses) in connection with (i) any Default and any enforcement or collection proceedings resulting therefrom and (ii) the enforcement of this Section 12.03; and (c) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the Notes or any other document referred to herein or therein and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration or recording contemplated by this Agreement or any other document referred to herein or therein.

The Borrowers hereby jointly and severally agree to indemnify the Agent and each Bank and their respective directors, officers, employees and agents for, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them (including any and all losses, liabilities, claims, damages or expenses incurred by the Agent to any Bank) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by any Borrower or any of its Subsidiaries of the proceeds of any of the extensions of credit hereunder, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified).

12.04 Amendments, Etc. Except as otherwise expressly provided in

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this Agreement, any provision of this Agreement may be amended or modified only by an instrument in writing signed by each of the Borrowers and the Majority Banks, or by each Borrower and the Agent acting with the consent of, or upon the direction of, the Majority Banks, and any provision of this Agreement may be waived by the Majority Banks or by the Agent acting with the consent of the Majority Banks; provided that no amendment, modification or waiver shall, unless by an

instrument signed by all of the Banks or by the Agent acting with the consent of all of the Banks: (i) increase or extend the term, or extend the time or waive any requirement for the reduction or termination, of the Commitments, (ii) extend the date fixed for the payment of principal of or interest on any Loan or any fee hereunder, (iii) reduce the amount of any such payment of principal, (iv) reduce the rate at which interest is payable thereon or any fee is payable hereunder, (v) alter the terms of this Section 12.04 or any other express requirement contained in this Agreement to the effect that the consent of or other action by all of the Banks be obtained for any provision of, or any other action hereunder (vii) amend the definition of the term "Majority Banks", or (viii) amend, modify or waive any provision of Section 6 hereof; provided that any amendment of Section 11 hereof, and any other amendment which affects the rights or obligations of the Agent hereunder, shall require the consent of the Agent.

12.05 Successors and Assigns. This Agreement shall be binding

upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.06 Assignments and Participations.

(a) No Borrower may assign its rights or obligations hereunder or under the Notes without the prior consent of all of the Banks and the Agent.

(b) Each Bank may assign all or any part of its Loans, its Notes, and its Commitment (but only with the consent of Holdings and the Agent, such consent not to be unreasonably withheld); provided that: (i) no such consent by the Agent shall be required in the case of any assignment to another Bank; (ii) any such partial assignment shall be in an amount at least equal to \$10,000,000 unless such partial assignment is made to another Bank; (iii) each such assignment by a Bank of its Loans, Notes or Commitment shall be made in such manner so that the same portion of its Loans, Notes and Commitment is assigned to the respective assignee; and (iv) any such assignment to a Person that is not a U.S. Person (as that term is defined in Section 5.07(a) hereof) and that is not, as of the date of such assignment, entitled to submit a Form 1001 or a Form 4224 (as these terms are defined in Section 5.07(a) hereof) shall require the prior consent of Holdings (which consent shall not be unreasonably withheld or delayed). Upon execution and delivery by the assignee to Holdings and the Agent of an instrument in writing pursuant to which such assignee agrees to become a "Bank" hereunder (if not already a Bank) having the Commitment and Loans specified in such instrument, and upon consent thereto by the Agent and Holdings to the extent required above, the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of the Agent), the obligations, rights and benefits of a Bank hereunder holding the Commitment and Loans (or portions thereof) assigned to it (in addition to the Commitment and Loans, if any, theretofore held by such assignee) and the assigning Bank shall, to the extent of such assignment, be released from the Commitment (or portion thereof) so assigned. Each assigning Bank shall pay the Agent an assignment fee of \$2,500 as a further condition to effectiveness of such assignment.

(c) A Bank may sell or agree to sell to one or more other Persons a participation in all or any part of any Loans held by it, or in its Commitment, in which event each purchaser of

a participation (a "Participant") shall not have, except as otherwise provided

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in Section 4.07(c) hereof, any rights or benefits under this Agreement or any Note (the Participant's rights against such Bank in respect of such participation to be those set forth in the agreements executed by such Bank in favor of the Participant). All amounts payable by the Borrowers to any Bank under Section 5 hereof in respect of Loans held by it, and its Commitment, shall be determined as if such Bank had not sold or agreed to sell any participations in such Loans and Commitment, and as if such Bank were funding and maintaining each of such Loans and such Commitment in the same way that it is funding the portion of such Loan and such Commitment in which no participations have been sold. In no event shall a Bank that sells a participation agree with the Participant to take or refrain from taking any action hereunder or under such Bank's Notes except that such Bank may agree with the Participant that it will not, without the consent of the Participant, agree to (i) increase or extend the term, or extend the time or waive any requirement for the reduction or termination, of such Bank's Commitment, (ii) extend the date fixed for the payment of principal or interest on the related Loan or Loans or any portion of any fee hereunder payable to the Participant, (iii) reduce the amount of any such payment of principal, (iv) reduce the rate at which interest is payable thereon, or any fee hereunder payable to the Participant, to a level below the rate at which the Participant is entitled to receive such interest or fee, or (v) consent to any modification, supplement or waiver hereof to the extent that the same requires the consent of each Bank.

(d) Anything in this Section 12.06 to the contrary notwithstanding, any Bank may assign and pledge all or any portion of its Loans and its Notes to any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Bank from its obligations hereunder.

(e) A Bank may furnish any information concerning Holdings or any of its Subsidiaries in the possession of such Bank from time to time to assignees and participants (including prospective assignees and participants), subject, however, to the provisions of Section 12.12(b) hereof.

12.07 Survival. The obligations of each Borrower under Sections

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5.01, 5.05, 5.07, and 12.03 hereof and the obligations of the Banks under Section 11.05 hereof shall survive the repayment of the Loans and the termination of the Commitments. In addition, each representation and warranty made, or deemed to be made by a notice of any borrowing hereunder, herein or pursuant hereto shall survive the making of such representation and warranty, and no Bank shall be deemed to have waived, by reason of making any extension of credit hereunder, any Default which may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that such Bank or the Agent may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such extension of credit was made.

12.08 Captions. The table of contents and captions and section

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headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

12.09 Counterparts. This Agreement may be executed in any number

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of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

12.10 Governing Law; Submission to Jurisdiction. This Agreement

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and the Notes shall be governed by, and construed in accordance with, the law of the State of New York. Each Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court sitting in New York City for the purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

12.11 Waiver of Jury Trial. EACH OF THE BORROWERS, THE AGENT AND

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THE BANKS HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

12.12 Treatment of Certain Information; Confidentiality.

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(a) Each Borrower acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Bank or by one or more subsidiaries or affiliates of such Bank and (ii) information delivered to each Bank by such Borrower and its Subsidiaries may be provided to each such subsidiary and affiliate, it being understood that any such subsidiary or affiliate receiving such information shall be bound by the provisions of clause (b) below as if it were a Bank hereunder.

(b) Each Bank and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices, any non-public information supplied to it by any Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel for any of the Banks or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Bank (or to Chase Securities, Inc.), (v) in connection with any litigation to which any one or more of the Banks or the Agent is a party, (vi) to a subsidiary or affiliate of such Bank as provided in clause (a) above, (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) agrees with the respective Bank to keep such information confidential on substantially the terms set forth in this Section 12.12(b), (viii) to any other Person in the course of the enforcement of any Bank's rights or remedies hereunder or under any of such Bank's Notes, or (ix) to any other creditor of any Borrower or any of its Subsidiaries at any time during the continuance of a Default; provided that in no event shall any Bank or the Agent be obligated or required to return any materials furnished by either Borrower.

12.13 Integration. The Facility Documents set forth the entire

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agreement between the parties hereto relating to the transactions contemplated thereby and supersede any prior oral or written statements or agreements with respect to such transactions, except with respect to certain amounts payable to Chase which are set forth in a letter dated March 17, 1994.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

THE BORROWERS  
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FUND AMERICAN ENTERPRISES  
HOLDINGS, INC.

By \_\_\_\_\_  
Title:

Address for Notices:

Fund American Enterprises  
Holdings, Inc.  
The 1820 House  
Main Street  
Norwich, Vermont 05055-0850

Telecopier No.: (802)649-2240

Telephone No.: (802)649-3633

Attention: Chief Financial Officer



FUND AMERICAN ENTERPRISES, INC.

By \_\_\_\_\_  
Title:

Address for Notices:

Fund American Enterprises, Inc.  
The 1820 House  
Main Street  
Norwich, Vermont 05055-0850

Telecopier No.: (802)649-2240

Telephone No.: (802)649-3633

Attention: President

FFOG, INC.

By \_\_\_\_\_  
Title:

Address for Notices:

FFOG, Inc.  
c/o Delaware Corporate Management  
1105 North Market Street  
Suite 1300, P.O. Box 8985  
Wilmington, Delaware 19899

Telecopier No.: (302) 427-7663

Telephone No.: (302) 427-7650

Attention: Edward J. Jones, Secretary

with a copy to:

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Fund American Enterprises Holdings, Inc.  
The 1820 House  
Main Street  
Norwich, Vermont 05055-0850

Telecopier No.: (802)649-2240

Telephone No.: (802)649-3633

Attention: Chief Financial Officer

THE BANKS  
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Commitment  
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\$25,000,000

THE CHASE MANHATTAN BANK (NATIONAL  
ASSOCIATION)

By \_\_\_\_\_  
Title:

Lending Office for all Loans:  
The Chase Manhattan Bank  
(National Association)  
1 Chase Manhattan Plaza  
New York, New York 10081

Address for Notices:  
The Chase Manhattan Bank  
(National Association)  
1 Chase Manhattan Plaza  
New York, New York 10081

Telecopier No.: (212) 552-3651

Telephone No.: (212) 552-3671

Attention: Ms. Sarah L. Martin  
Vice President

Commitment  
-----  
\$10,000,000

CIBC, INC.

By \_\_\_\_\_  
Title:

Lending Office for all Loans:

CIBC, INC.  
Two Paces West  
2727 Paces Ferry Road  
Suite 1200  
Atlanta, Georgia 30339

Address for Notices:

CIBC, INC.  
Two Paces West  
2727 Paces Ferry Road  
Suite 1200  
Atlanta, Georgia 30339

Telecopier No.: (404) 319-4950

Telephone No.: (404) 319-4852

Attention: Vickie Summey

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Commitment  
-----  
\$15,000,000

CREDIT LYONNAIS NEW YORK BRANCH

By \_\_\_\_\_  
Title:

CREDIT LYONNAIS CAYMAN ISLAND  
BRANCH

By \_\_\_\_\_  
Title:

Lending Office for all Loans:

Credit Lyonnais New York Branch  
Credit Lyonnais Cayman Island Branch  
Credit Lyonnais Building 1301  
Avenue of the Americas  
New York, New York 10019

Address for Notices:

Credit Lyonnais  
Credit Lyonnais Building  
1301 Avenue of the Americas  
New York, New York 10019

Telecopier No.: (212) 261-3401

Telephone No.: (212) 261-7367

Attention: Gregory H. Raue

Commitment  
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\$15,000,000

SHAWMUT BANK CONNECTICUT, N.A.

By \_\_\_\_\_  
Title:

Lending Office for all Loans:

Shawmut Bank Connecticut, N.A.  
777 Main Street  
Hartford, Connecticut 06115

Address for Notices:

Shawmut Bank Connecticut, N.A.  
777 Main Street  
Hartford, Connecticut 06115

Telecopier No.: (203) 240-1264

Telephone No.: (203) 728-2678

Attention: Daniel P. Towle

Commitment  
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\$10,000,000

SOCIETE GENERALE, NEW YORK BRANCH

By \_\_\_\_\_  
Title:

Lending Office for all Loans:

Societe Generale, New York Branch  
50 Rockefeller Plaza  
New York, New York 10020

Address for Notices:

Societe Generale, New York Branch  
50 Rockefeller Plaza  
New York, New York 10020

Telecopier No.: (212) 830-7153

Telephone No.: (212) 830-6138

Attention: Dorene Randall

THE AGENT  
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THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION),  
as Agent

By \_\_\_\_\_

Title:

Address for Notices to  
Chase as Agent:

The Chase Manhattan Bank  
(National Association)  
4 Chase MetroTech Center  
Brooklyn, New York 11245

Telecopier No.: (718) 242-6909

Telephone No.: (718) 242-7945

Attention: Lucy D'Orazio  
New York Agency

Telex No.: 6720516  
(Answerback: CMB NYA UW)



Material Agreements  
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[See Sections 8.12 and 9.07(c)]

Material Subsidiaries  
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[See Section 8.14]

[Form of Note for Syndicated Note]  
PROMISSORY NOTE

\$ \_\_\_\_\_, 1994  
New York, New York

FOR VALUE RECEIVED, [NAME OF BORROWER], a corporation organized under the laws of the State of Delaware (the "Company"), hereby promises to pay

to [NAME OF BANK] (the "Bank"), for the account of its respective Applicable

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Lending Offices provided for by the Credit Agreement referred to below, at the principal office of The Chase Manhattan Bank (National Association) at 1 Chase Manhattan Plaza, New York, New York 10081, the principal sum of \_\_\_\_\_ DOLLARS (or such lesser amount as shall equal the aggregate unpaid principal amount of the Syndicated Loans made by the Bank to the Company under the Credit Agreement), in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Credit Agreement, and to pay interest on the unpaid principal amount of each such Syndicated Loan, at such office, in like money and funds, for the period commencing on the date of such Syndicated Loan until such Syndicated Loan shall be paid in full, at the rates per annum and on the date provided in the Credit Agreement.

The date, amount, type, interest rate and maturity date of each Syndicated Loan made by the Bank to the Company, and each payment made on account of the principal thereof, shall be recorded by the Bank on its books and, prior to any transfer of this Note, endorsed by the Bank on the schedule attached hereto or any continuation thereof.

This Note is one of the Notes referred to in the Credit Agreement (as at any time amended, the "Credit Agreement") dated as of \_\_\_\_\_, 1994 among

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the Company, the Guarantors named therein, the Banks named therein (including the Bank) and The Chase Manhattan Bank (National Association), as Agent, and evidences Syndicated Loans made by the Bank thereunder. Capitalized terms used in this Note have the respective meanings assigned to them in the Credit Agreement.

The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Syndicated Loans upon the terms and conditions specified therein.

Except as permitted by Section 12.06(b), (c) and (d) of the Credit Agreement, this Note may not be assigned by the Bank to any other Person.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

[NAME OF BORROWER]

By \_\_\_\_\_  
Name:  
Title:

This Note is guaranteed as provided by Section 6 of the Credit Agreement.

[NAME OF GUARANTOR]

By \_\_\_\_\_  
Name:  
Title:

[NAME OF GUARANTOR]

By \_\_\_\_\_  
Name:  
Title:

# SCHEDULE OF LOANS

This Note evidences Syndicated Loans made under the within described Credit Agreement to the Company, on the dates, in the principal amounts, of the types, bearing interest at the rates and maturing on the dates set forth below, subject to the payments and prepayments of principal set forth below:

Principal Date of Principal Loan ----- Made By -----	Amount of Notation Loan -----	Type of Loan -----	Maturity Date of Loan -----	Amount Paid or Prepaid -----	Unpaid A m o u n t -----
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[Form of Note for Money Market Note]  
PROMISSORY NOTE

\_\_\_\_\_, 1994  
New York, New York

FOR VALUE RECEIVED, [NAME OF BORROWER], a corporation organized under the laws of the State of Delaware (the "Company"), hereby promises to pay

[NAME OF BANK] (the "Bank"), for account of its respective Applicable Lending

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Offices provided for by the Credit Agreement referred to below, at the principal office of The Chase Manhattan Bank (National Association) at 1 Chase Manhattan Plaza, New York, New York 10081, the aggregate unpaid principal amount of the Money Market Loans made by the Bank to the Company under the Credit Agreement, in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Credit Agreement, and to pay interest on the unpaid principal amount of each such Money Market Loan, at such office, in like money and funds, for the period commencing on the date of such Money Market Loan until such Money Market Loan shall be paid in full, at the rates per annum and on the dates provided in the Credit Agreement.

The date, amount, type, interest rate and maturity date of each Money Market Loan made by the Bank to the Company, and each payment made on account of the principal thereof, shall be recorded by the Bank on its books and, prior to any transfer of this Note, endorsed by the Bank on the schedule attached hereto or any continuation thereof.

This Note is one of the Notes referred to in the Credit Agreement (as modified and supplemented and in effect from time to time, the "Credit

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Agreement") dated as of \_\_\_\_\_, 1994 among the Company, the Guarantors named therein, the Banks named therein (including the Bank) and The Chase Manhattan Bank (National Association), as Agent, and evidences Money Market Loans made by the Bank thereunder. Capitalized terms used in this Note have the respective meanings assigned to them in the Credit Agreement.

The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events conditions specified therein.

Except as permitted by Section 12.06(b), (c) and (d) of the Credit Agreement, this Note may not be assigned by the Bank to any other Person.

This Note shall be governed by, and construed in accordance with, the law of the State of New York.

[NAME OF BORROWER]

By \_\_\_\_\_  
Name:  
Title:

This Note is guaranteed as provided by Section 6 of the Credit Agreement.

[NAME OF GUARANTOR]

By \_\_\_\_\_  
Name:  
Title:

[NAME OF GUARANTOR]

By \_\_\_\_\_  
Name:  
Title:

# SCHEDULE OF LOANS

This Note evidences Syndicated Loans made under the within described Credit Agreement to the Company, on the dates, in the principal amounts, of the types, bearing interest at the rates and maturing on the dates set forth below, subject to the payments and prepayments of principal set forth below:

Principal Date of Principal Loan ----- Made By -----	Amount of Notation Loan -----	Type of Loan -----	Maturity Date of Loan -----	Amount Paid or Prepaid -----	Unpaid  A m o u n t -----
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[Form of Money Market Quote Request]

[Date]

To: The Chase Manhattan Bank, N.A., as Agent

From: [Name of Borrower]

Re: Money Market Quote Request

Pursuant to Section 2.03 of the Credit Agreement (the "Credit Agreement") dated as of \_\_\_\_\_, 1994 among Fund American Enterprises Holdings, Inc., Fund American Enterprises, Inc., and FFOG, Inc., the Banks referred to therein and The Chase Manhattan Bank, N.A., Agent, we hereby give notice that we request Money Market Quotes for the following proposed Money Market Borrowing(s):

Borrowing Date	Quotation Date 1/	Amount 2/	Type 3/	Interest Period 4/
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Terms used herein have the meanings assigned to them in the Credit Agreement.

[Name of Borrower]

By \_\_\_\_\_  
Title:

- 1/ For use if a Money Market Rate in a Set Rate Auction is requested to be submitted before the Borrowing Date.
- 2/ Each amount must be \$10,000,000 or a larger multiple of \$1,000,000.
- 3/ Insert either "Margin" (in the case of LIBOR Market Loans) or "Rate" (in the case of Set Rate Loans).
- 4/ 1, 2, 3 or 6 months, in the case of a LIBOR Market Loan or, in the case of a Set Rate Loan, a period of up to 180 days after the making of such Set Rate Loan and ending on a Business Day.

[Form of Money Market Quote]

The Chase Manhattan Bank, N.A., as Agent  
2 Chase Manhattan Plaza, 4th Floor  
New York, New York 10081  
Attention:

Re: Money Market Quote to [Name of Borrower] (the "Borrower")  
-----

This Money Market Quote is given in accordance with Section 2.03(c) of the Credit Agreement (the "Credit Agreement") dated as of \_\_\_\_\_, \_\_\_\_\_, 1994 among Fund American Enterprises Holdings, Inc., Fund American Enterprises, Inc., and FFOG, Inc., the Banks referred to therein and The Chase Manhattan Bank, N.A., as Agent. Terms defined in the Credit Agreement are used herein as defined therein.

In response to the Borrower's invitation dated \_\_\_\_\_, 19\_\_, we hereby make the following Money Market Quote(s) on the following terms:

- 1. Quoting Bank:
- 2. Person to contact at Quoting Bank:
- 3. We hereby offer to make Money Market Loan(s) in the following principal amounts, for the following Interest Periods and at the following rates:

Borrowing Date	Quotation Date 1/	Amount 2/	Type 3/	Interest Period 4/	Rate 5/
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- 4. The aggregate principal amount of such Money Market Loans for which such offers are being made is \_\_\_\_\_.
- 5. The undersigned is [a U.S. Person] [entitled to submit a [Form 1001] [Form 4224]].

We understand and agree that the offer(s) set forth above, subject to the satisfaction of the applicable conditions set forth in the Credit Agreement, irrevocably obligate(s) us to make the Money Market Loan(s) for which any offer(s) [is] [are] accepted, in whole or in part (subject to the third sentence of Section 2.03(e) of the Credit Agreement).

Very truly yours,  
[Name of Bank]

Dated: By:\_\_\_\_\_

Authorized Officer

- 1/ As specified in the related Money Market Quote Request.
- 2/ The principal amount bid for each Interest Period may not exceed the principal amount requested. Bids must be made for at least \$10,000,000 or a larger multiple of \$1,000,000.
- 3/ Indicate "Margin" (in the case of LIBOR Market Loans) or "Rate" (in the case of Set Rate Loans).
- 4/ 1, 2, 3 or 6 months in the case of a LIBOR Market Loan or, in the case of a Set Rate Loan, a period of up to 180 days after the making of such Set Rate Loan and ending on a Business Day, as specified in the related Money Market Quote Request.
- 5/ For a LIBOR Market Loan, specify margin over or under the London interbank offered rate determined for the applicable Interest Period. Specify percentage (rounded upward to the nearest 1/10,000 of 1%) and specify whether "PLUS" or "MINUS". For a Set Rate Loan, specify rate of interest per annum (rounded upward to the nearest 1/10,000 of 1%).

[Form of Opinion of Counsel to the Company]

June \_\_, 1994

To: the Banks party to the Credit  
Agreement referred to below  
and The Chase Manhattan Bank  
(National Association), as Agent

Gentlemen:

I have acted as counsel to Fund American Enterprises Holdings, Inc. ("Holdings"), Fund American Enterprises, Inc. ("Enterprises") and FFOG, Inc. ("FFOG" and collectively with Holdings and Enterprises the "Borrowers") in connection with the Credit Agreement (the "Credit Agreement" dated as of June \_\_, 1994, between the Borrowers, the banks named therein and The Chase Manhattan Bank (National Association), as Agent, providing for loans to be made by said banks to the Borrowers in an aggregate principal amount not exceeding \$75,000,000. Terms defined in the Credit Agreement are used herein as defined therein.

In rendering the opinions expressed below, I have examined the originals or conformed copies of such corporate records, agreements and instruments of each of the Borrowers, certificates of public officials and of officers of the Borrowers, and such other documents and records, and such matters of law, as I have deemed appropriate as a basis for the opinions hereinafter expressed.

Based upon the foregoing, I am of the opinion that:

1. Each of the Borrowers is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has the necessary corporate power to make and perform each of the Credit Documents to which it is or is intended to be a party, to borrow under the Credit Agreement and to give the guaranty contained in Section 6 of the Credit Agreement. Each Material Subsidiary of the Holdings is a corporation duly incorporated, validly existing and in good standing under the laws of the respective State indicated opposite its name in Schedule II to the Credit Agreement. Holdings is duly qualified to transact business in the State of Vermont and the other Borrowers and Holdings are duly qualified to transact business in such other jurisdictions, and the Subsidiaries of Holdings are duly qualified to transact business in all such jurisdictions, where failure so to qualify would have a material adverse effect on the consolidated financial condition, operations, business or prospects taken as a whole of the Holdings and its Consolidated Subsidiaries.

2. The making and performance by each of the Borrowers of the Credit Documents to which it is or is intended to be a party and the borrowings by the Borrowers under the Credit Agreement and the guaranty contained in Section 6 of the Credit Agreement, have been duly authorized by all necessary corporate action, and do not and will not violate any provision of law or regulation (provided that no opinion is made herein with respect to Regulations G, U and X) or any provision of its charter or by-laws or result in the breach of, or constitute a default or require any consent (other than \_\_\_\_\_ which consent[s] has been duly obtained) under, or result in the creation of any Lien upon any of the Properties, revenues or assets of the Borrowers or any Subsidiary pursuant to, any indenture or other agreement or instrument to which any Borrower or any Subsidiary is a party or by which any Borrower or any Subsidiary or its Properties may be bound.

3. Except for litigation arising out of the issuance of insurance policies and reinsurance contracts in the ordinary course of the insurance business and the adjustment or settlement of claims in respect thereof, to the best of my knowledge, there are no lawsuits or other proceedings pending, or threatened against or affecting, any of the Borrowers or any of their Subsidiaries or any of their respective properties or assets before any court or arbitrator or by or before any governmental commission, bureau or other regulatory authority (including, without limitation, the Securities and Exchange Commission and the insurance commission or other similar regulatory body of any State) which would be likely, individually or in the aggregate, to have a Material Adverse Effect.

4. No authorizations, consents, approvals, licenses, filings or registrations with, any governmental or regulatory authority or agency of the State of [\_\_\_\_\_] or, to the best of my knowledge, of any other governmental or regulatory authority or agency, are required in connection with the execution, delivery or performance by each of the Borrowers of the Credit Documents to which it is or is intended to be a party. All consents and approvals of, and filings and registrations with, and all other actions in respect of, any governmental or regulatory authority or agency of the State of [\_\_\_\_\_] and, to the best of my knowledge, of any other governmental or regulatory authority or agency, required have been obtained, given, filed or taken and are in full force and effect.

5. The Credit Agreement, the Notes, and each document to be delivered pursuant to the Credit Agreement is, or when delivered under the Credit Agreement will be, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

Very truly yours,



## EXHIBIT D

## CALCULATION OF FINANCE ASSET TO DEBT COVERAGE RATIOS AS OF [Date]

-----

Borrower: Fund American Enterprises Holdings, Inc.

## Finance Assets

A	Marketable Equity & Debt Securities (See P. 2, Schedule X)	\$
B	Pledged Securities (See P. 2, Schedule X)	\$
		-----
C(A-B)	Aggregate Value of Finance Assets	
\$0		
Debt		
D	Indebtedness (See P. 2, Schedule X)	\$
E	Cash & Money Market Instruments	\$
		-----
F(D-E)	Total Adjusted Funded Debt	
		\$0
G(C/F)	Finance Asset to Debt Ratio	\$
	-----	

Borrower: FFOG, Inc.

## Finance Assets

A	Marketable Equity & Debt Securities (See P. 3, Schedule X)	\$
B	Pledged Securities, (See P. 3, Schedule X)	\$
C	Stock Purchase Agreement Obligations	\$
		-----
D(A-(B+C))	Aggregate Value of Finance Assets	
\$0		
Debt		
E	Indebtedness (See P. 3, Schedule X)	\$
F	Cash & Money Market Instruments	\$
		-----
G(E-F)	Total Adjusted Funded Debt	
		\$0
H(D/G)	Finance Asset to Debt Ratio	\$
	-----	

Borrower: Fund American Enterprises, Inc.

## Finance Assets

A	Marketable Equity & Debt Securities (See P. 4, Schedule X)	\$
B	Contingent Liabilities or Pledged Securities (See P. 4, Schedule X)	\$
		-----
C(A-B)	Aggregate Value of Finance Assets	\$0
Debt		
D	Indebtedness (See P.4, Schedule X)	\$

E	Cash & Money Market Instruments	\$	-----
F(D-E)	Total Adjusted Funded Debt		\$0
G(C/F)	Finance Asset to Debt Ratio	\$	-----



EXHIBIT D, continued -2

CALCULATION OF FINANCE ASSET TO DEBT COVERAGE RATIOS AS OF [Date]

-----

Borrower: Fund American Enterprises Holdings, Inc.

A. Schedule of Finance Assets as of [date].

[Marketable Securities as defined within sections (i),(ii),(iii),(iv) and (v) of the Finance Assets definition.

Date -----	Security Description -----	Exchange or Rating -----	Quantity -----	Price -----	Value -----
1			\$	\$	
2					
3					
4					
5					
6					
7					
8					

Borrower Total Finance Assets      \$

B. Pledged Securities as of [date].

Date -----	Security Description -----	Exchange or Rating -----	Quantity -----	Price -----	Value -----
1			\$	\$	
2					
3					
4					
5					

Borrower Securities Pledged      \$

D. Schedule of Indebtedness as of [date].

Third Party Indebtedness as of [date]:	\$
Outstandings under the Credit Agreement:	\$
Proposed Outstandings under the Credit Agreement:	\$
Borrower Total Indebtedness	\$

## CALCULATION OF FINANCE ASSET TO DEBT COVERAGE RATIOS AS OF [Date]

Borrower: FFOG, Inc.

## A. Schedule of Finance Assets as of [date].

[Marketable Securities as defined within sections (i),(ii),(iii),(iv) and (v) of the Finance Assets definition.

Date	Security Description	Exchange or Rating	Quantity	Price	Value
-----	-----	-----	-----	-----	-----
1			\$	\$	
2					
3					
4					
5					
6					
7					
8					

Borrower Total Finance Assets \$

## B. Pledged Securities as of [date].

Date	Security Description	Exchange or Rating	Quantity	Price	Value
-----	-----	-----	-----	-----	-----
1			\$	\$	
2					
3					
4					
5					

Borrower Securities Pledged \$

## E. Schedule of Indebtedness as of [date].

Third Party Indebtedness as of [date]:	\$
Outstandings under the Credit Agreement:	\$
Proposed Outstandings under the Credit Agreement:	\$
Borrower Total Indebtedness	\$

## CALCULATION OF FINANCE ASSET TO DEBT COVERAGE RATIOS AS OF [Date]

Borrower: Fund American Enterprises, Inc.

## A. Schedule of Finance Assets as of [date].

[Marketable Securities as defined within sections (i),(ii),(iii),(iv) and (v) of the Finance Assets definition.]

Date	Security Description	Exchange or Rating	Quantity	Price	Value
----	-----	-----	-----	-----	-----
1			\$	\$	
2					
3					
4					
5					
6					
7					
8					
Borrower Total Finance Assets					\$

## B. Pledged Securities as of [date].

Date	Security Description	Exchange or Rating	Quantity	Price	Value
----	-----	-----	-----	-----	-----
1			\$	\$	
2					
3					
4					
5					
Borrower Securities Pledged					\$

## D. Schedule of Indebtedness as of [date].

Third Party Indebtedness as of [date]:	\$
Outstandings under the Credit Agreement:	\$
Proposed Outstandings under the Credit Agreement:	\$
Borrower Total Indebtedness	\$

SOURCE ONE MORTGAGE SERVICES CORPORATION

LONG TERM INCENTIVE PLAN

(effective as of January 1, 1994)

SOURCE ONE MORTGAGE SERVICES CORPORATION  
1994 LONG TERM INCENTIVE PLAN  
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SOURCE ONE MORTGAGE SERVICES CORPORATION  
1994 LONG TERM INCENTIVE PLAN  
-----

I. Purposes and Effective Date of the Plan  
-----

The purposes of the Source One Mortgage Services Corporation 1994 Long Term Incentive Plan (the "Plan") are to provide a means to attract, reward and retain strong management, to encourage teamwork among members of management and excellence in the performance of their individual responsibilities, and to align the interests of key managers participating in the Plan with the interests of shareholders by offering an incentive compensation vehicle that is based upon the growth in shareholders' equity and the value and profitability of Source One Mortgage Services Corporation. The Plan shall be effective as of January 1, 1994.

2. Definitions  
-----

In the Plan, the following terms shall have the meanings set forth below:

(a) "Base Portion" means a portion of the value of a Phantom Share allocated to the Account of a Participant for an Earning Period equal to (i) in the case of a Base Share provisionally allocated to the Participant's Account for the Earning Period, its value as of the time of its provisional allocation provided such Base Share becomes Earned and Vested for the Earning Period and (ii) in the case of an Additional Share or a Supplemental Share allocated to the Participant's Account for the Earning Period, its value as of the end of the Earning Period. The Base Portion of a Phantom Share shall remain constant and shall not include at any time (i) any appreciation in the value of the Phantom Share after its provisional allocation (in the case of a Base Share) or after the end of the Earning Period for which it is allocated (in the case of an Additional Share or Supplemental Share), or (ii) any amounts corresponding to dividends credited to the Phantom Share under Section 6(b).

(b) "Board" means the Board of Directors of the Company.

(c) "Company" means Source One Mortgage Services Corporation, a Delaware corporation, and its successors and assigns.

(d) "FAEH" means Fund American Enterprises Holdings, Inc. (formerly The Fund American Companies, Inc.), a Delaware corporation, the indirect parent of the Company.

(e) "FAEH Share" means a share of the Common Stock, \$1.00 par value, of FAEH, as listed on the New York Stock Exchange.

(f) "Participant" means a person who is employed by the Company or a participating subsidiary of the Company and who is named as an initial Participant in the Plan in Exhibit A hereto or who subsequently is selected by the Committee to participate in the Plan in accordance with Section 4.

(g) "Market Price" of a FAEH Share on any given day means the closing price per FAEH Share listed on the New York Stock Exchange composite tape on such day or, if FAEH Shares are not traded on a particular day, the closing NYSE price per FAEH Share on the closest preceding date on which FAEH Shares were traded.

(h) "Phantom Share" means a fictitious FAEH Share. Phantom Shares shall not be considered outstanding FAEH Shares for accounting purposes. An allocation of Phantom Shares shall confer only such rights as are specified in the Plan. Participants who receive Phantom Share allocations shall not (as a consequence of such allocations) be treated as shareholders under the Articles of Incorporation or By-Laws of the Company or FAEH or under applicable law. The term Phantom Shares includes Base Shares, Additional Shares, if any, and Supplemental Shares, if any. Each Phantom Share shall be divided into a Base Portion and an SAR Portion both as defined in this Section 2.

(i) "SAR Portion" means that portion of the value of a Phantom Share allocated to the Account of any Participant for an Earning Period, including any amounts corresponding to dividends credited to the Phantom Share under Section 6(b), which exceeds the Base Portion of the value of such Phantom Share. The SAR Portion of a Phantom Share shall include at any given time (i) any appreciation in the value of the Phantom Share after its provisional allocation (in the case of a Base Share) or after the end of the Earning Period for which it is allocated (in the case of an Additional Share or Supplemental Share), and (ii) any amounts corresponding to dividends credited to the Phantom Share under Section 6(b).

(j) The following terms are defined elsewhere in the Plan:

	Section
	-----
Account	5
Actual Rate	8(a)(i)
Additional Shares	8(a)(ii)
Adverse Change in Plan	10(d)
Base Rate	8(a)(iii)
Base Shares	8(a)(iv)
Change in Control of the Company	10(b)
Code	11(d)

Committee	3(a)
Constructive Termination	10(c)
Continuing Director	10(e)
Earned	8(c)
Earning Period	8(a)(v)
Economic Value of a Share of the Company's Common Stock	8(a)(vi)
Estimated Number	9(d) and 10(a)
GAAP	8(a)
Plan	1
Subsidiary	4(b)
Supplemental Shares	8(d)
Termination for Cause	9(g)
Vested	8(a)

### 3. Administration of Plan

-----

- (a) The Plan shall be administered by the Human Resources Committee (the "Committee") of the Board, as such Committee is from time to time constituted. No member of the Committee shall participate in any decision or recommendation involving such Committee member's own participation in the Plan. If and when a subsidiary is participating in the Plan, the word Company as used in the Plan shall include such subsidiary unless the context otherwise requires.
- (b) The Committee shall have all the powers vested in it by the terms of the Plan, such powers to include exclusive authority (within the limitations described herein) to prescribe the form of the instruments, if any, embodying allocations of Phantom Shares under the Plan. The Committee shall be authorized to interpret the Plan and any other written instruments issued or adopted pursuant to the Plan, including but not limited to instruments allocating Phantom Shares under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations which it believes necessary or advisable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any written instrument issued or adopted pursuant to the Plan in the manner and to the extent the Committee deems desirable to carry it into effect. Subject to Section 13 relating to claims and disputes and arbitration, any decision of the Committee in the administration of the Plan, as described herein, shall be final and conclusive, unless otherwise determined by the Board. However, no determination by the Committee or the Board shall operate to unreasonably deny a Participant the opportunity to Vest in allocated Phantom Shares in accordance with the terms of the Plan. The Committee may act only by a majority of its members in office, except that the members thereof may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee. No member of the Committee shall be liable for anything done or



omitted to be done by him or by any other member of the Committee in connection with the Plan, except for his own willful misconduct or as expressly provided by statute.

- (c) The Committee may employ or retain agents and may designate one or more employees of the Company, by name or by position, to perform such clerical, accounting, and other services as the Committee may require in carrying out the provisions of the Plan.

#### 4. Participation

-----

- (a) The initial Participants in the Plan shall consist of the key employees of the Company listed in Exhibit A attached hereto. If any position held by any Participant becomes vacant, the Committee may select the key employee who fills such position to be a Participant in the Plan on such terms as the Committee deems advisable. Only employees who hold the position of Senior Vice-President or a higher position shall be eligible to be selected as Participants in the Plan.
- (b) If a subsidiary of the Company wishes to participate in the Plan and its participation shall have been approved by the Board, the board of directors of the subsidiary shall adopt a resolution in form and substance satisfactory to the Committee authorizing participation by the subsidiary in the Plan with respect to its employees. As used in this subsection (b), the term "subsidiary" means any corporation at least one-half of whose outstanding voting stock is owned, directly or indirectly, by the Company.

A subsidiary participating in the Plan may cease to be a participating company at any time by action of the Board or by action of the board of directors of such subsidiary, which latter action shall be effective not earlier than the date of delivery to the Secretary of the Company of a certified copy of a resolution of the subsidiary's board of directors taking such action. If the participation in the Plan of the subsidiary shall terminate, such termination shall not relieve it of any obligations theretofore incurred by it under the Plan except with the approval of the Board.

#### 5. Allocation of Phantom Shares

-----

Phantom Shares awarded under the Plan shall be allocated to Accounts maintained by the Company in the name of each Participant receiving an allocation. Separate Accounts shall be maintained for Phantom Shares allocated for each Earning Period (as defined in Section 8(a)(v)).

The initial aggregate number of Base Shares (as defined in Section 8(a)(iv)) which is provisionally allocated under the Plan is 79,412. The total number of Base Shares provisionally allocated to the Accounts of the initial Participants as of the beginning of

each Earning Period is 19,853. The number of Base Shares provisionally allocated to the Account of each initial Participant as of the beginning of the first Earning Period, and as of the beginning of each of the next three Earning Periods, provided the Participant remains employed by the Company on such date(s) in a position of responsibility substantially equal to or greater than his position with the Company on January 1, 1994, is set forth on Exhibit A.

At any time before the end of an Earning Period the Board in its discretion may provisionally allocate to the Account of any Participant for the Earning Period additional Base Shares over and above the Base Shares provisionally allocated to such account as of the beginning of the Earning Period.

The Board in its discretion may continue the Plan beyond the first four Earning Periods. The provisional allocation of Base Shares to the Account of any Participant for a designated earning period beyond the first four Earning Periods shall be deemed a continuation of the Plan on the same terms and conditions herein set forth.

6. Valuation of Phantom Shares, Accounting Treatment, Dividends, Adjustments  
-----

Accounts shall be valued as follows:

- (a) Each Phantom Share allocated or provisionally allocated to an Account shall have a value on any given date equal to the Market Price of a FAEH Share on such date plus the aggregate of any amounts corresponding to dividends credited to the Phantom Share under Section 6(b).
- (b) Each Phantom Share which has been allocated or provisionally allocated as of the date on which a cash dividend on FAEH Shares is paid, shall be credited with the amount of such per-share cash dividend.
- (c) In addition to the crediting of amounts corresponding to dividends pursuant to Section 6(b), the Committee has the discretion to make appropriate adjustments to the number of Phantom Shares allocated or provisionally allocated to a Participant's Account where a "capital transaction" or "corporate reorganization" has the effect of changing the economic equivalent number of Phantom Shares that have been allocated or provisionally allocated to a Participant's Account under the Plan. The Committee shall make an adjustment, either positive or negative as the case may be, to the number of Phantom Shares allocated to the Participant's Account to ensure that neither unintended economic benefits nor detriments are conferred on a Participant solely by reason of such "capital transaction" or "corporate reorganization." Solely for purposes of this Section 6(c) and Section 8(d), a capital transaction or corporate reorganization shall not be

limited to its ordinary meaning if in fact a Participant would be conferred an economic benefit or detriment by some other corporate transaction which is not literally considered a capital transaction or corporate reorganization under common business usage of said terms.

7. Terms and Conditions of the Allocation of Phantom Shares  
-----

Each Phantom Share allocated or provisionally allocated to an Account in the name of a Participant under this Plan shall be subject to the following terms and conditions:

- (a) Each Phantom Share shall (if it is not forfeited before it becomes Vested under Section 9) continue in effect for an indefinite period from the applicable date it was allocated or provisionally allocated until the date both the Base Portion and the SAR Portion of the Phantom Share is paid to the Participant (or to the Participant's designated beneficiary or legal representative) pursuant to Section 11.
- (b) The Company shall maintain a record of each Account established in the name of a Participant showing the number of Phantom Shares allocated or provisionally allocated to the Account from time to time. The Company also shall maintain a record of the Base Portion of each such Phantom Share and the aggregate of any amounts corresponding to dividends credited to each such Phantom Share under Section 6(b). As of each December 31st the Company shall furnish each Participant who becomes Vested in his Account with a summary of the Account, including the number of Phantom Shares allocated to the Account, the total value of such Phantom Shares, and with respect to each such Phantom Share the aggregate of all amounts corresponding to dividends credited to the Phantom Share under Section 6(b), the Base Portion of the Phantom Share, if any, and the SAR Portion of the Phantom Share.
- (c) Except as provided herein, a Participant's interest in the Account in his name shall not be transferable other than by will or the laws of descent and distribution. During the Participant's lifetime, a Phantom Share shall be exercised only by the Participant, except as otherwise provided herein. Each Participant may designate a beneficiary or beneficiaries, including a trust, to receive any amount payable under the Plan on account of the Participant's death. Such designation shall be in a form authorized by the Committee and may permit the exercise of Phantom Shares, during the Participant's lifetime, by the Participant's guardian or legal representative. In the absence of an effective designation of beneficiary at the time of a Participant's death, any amount payable under the Plan on account of the Participant's death shall be paid to the Participant's estate.

8. Performance Criteria; Earning Periods

(a) For purposes of this Section 8, the following terms shall have the meanings set forth below:

(i) "Actual Rate" for an Earning Period means the average annual rate of return (rounded to the nearest one-hundredth of a percent) on a share of the Company's common stock during the Earning Period calculated in accordance with the following formula:

$$AR = 100 [(EVE + D^{1/N} (1 + AR/100)^N + D^{2/N} (1 + AR/100)^{N-1})^{1/N} - 1]$$

EVE

Where AR = The Actual Rate for the Earning Period.

Where D = A dividend paid on a share of the Company's common stock during the Earning Period, with  $D^{1/N}$  representing the first dividend paid during the Earning Period,  $D^{2/N}$  representing the second dividend paid during the Earning Period, etc., until all dividends paid during the Earning Period are counted.

Where EVB = The Economic Value of a share of the Company's common stock at the beginning of the Earning Period.

Where EVE = The Economic Value of a share of the Company's common stock at the end of the Earning Period.

Where N = The number of years (rounded to the nearest tenth) from the date of payment of a dividend during an Earning Period to the end of the Earning Period.

(ii) "Additional Shares" means any Phantom Shares in addition to Base Shares allocated to the Account of a Participant for an Earning Period under Section 8(c) because the Actual Rate for the Earning Period is more than 700 basis points more than the Base Rate for the Earning Period.

(iii) "Base Rate" for an Earning Period means the average yield on 10 year U.S. Treasury bonds over the last five trading days of the year preceding the Earning Period and the first five trading days of the first year

in the Earning Period (rounded to the nearest one-hundredth of a percent).

(iv) "Base Shares" means the number of Phantom Shares provisionally allocated to the Account of a Participant as of the beginning of an Earning Period and any additional Base Shares provisionally allocated to such Account by the Board for the Earning Period after the initial allocation of Base Shares and before the end of the Earning Period.

(v) "Earning Period" means a period of three consecutive years beginning January 1, 1994, January 1, 1995, January 1, 1996 or January 1, 1997.

(vi) "Economic Value of a share of the Company's common stock" as of any given date shall be calculated in accordance with the following formula:

$$\text{EV} = \frac{\text{A} - \text{B}}{\text{OS}}$$

Where EV = The economic value of a share of the Company's common stock.

Where A = The sum of (i) the common shareholders' equity in the Company determined in accordance with generally accepted accounting principles ("GAAP"), (ii) the economic value of the Company's mortgage servicing and subservicing portfolio, (iii) the economic value of the Company's projected production for the next twelve months, and (iv) the Company's GAAP residential loan loss reserve, all as determined in accordance with Exhibit B.

Where B = The sum of (i) the Company's GAAP capitalized servicing asset and (ii) the Company's GAAP goodwill, both as determined in accordance with Exhibit B.

Where OS = The number of shares of the Company's common stock outstanding on the date as of which the Economic Value of a share of the Company's common stock is determined.

- (b) A Participant who has received a provisional allocation of Base Shares at the beginning of an Earning Period will earn Phantom Shares if certain performance criteria for the Earning Period are met. The performance criteria for the Earning Period will be met if the Company achieves a specified economic return on common equity over the Earning Period. The number of Phantom Shares, if any, which a Participant will

earn for an Earning Period depends on the extent to which the Company meets or exceeds the specified economic return on equity for the Earning Period as described in subsection (c) below.

- (c) The number of Phantom Shares, if any, which will be allocated to a Participant's Account and be earned ("Earned") by the Participant for an Earning Period shall be determined by the application of the following formula:

$$SE = BS \times \frac{(AR - BR)}{7} \times \frac{P}{100}$$

Where SE = The number of Phantom Shares allocated and Earned for the Earning Period (This number may not exceed twice BS).

Where BS = The number of Base Shares provisionally allocated to the Participant for the Earning Period.

Where AR = The Actual Rate for the Earning Period.

Where BR = The Base Rate for the Earning Period

Where P = The applicable percentage determined in accordance with the following schedule:

Number of Basis Points by Which Actual Rate for Earning Period Exceeds Base Rate for Earning Period	Applicable Percentage
0-99	0
100-299	25
300-499	50
500-699	75
700-1400	100

If for an Earning Period the Actual Rate exceeds the Base Rate by more than 1400 basis points, the difference between the two rates for purposes of this subsection (c) shall be deemed to be 1400 basis points.

- (d) In addition to any Phantom Shares allocated to the Account of a Participant for an Earning Period pursuant to subsections (b) and (c) of this Section 8, the Board in its discretion may award and allocate additional Phantom Shares ("Supplemental Shares") to the Account of the Participant for the Earning

Period. Any such allocation shall be made as of the last day of the Earning Period.

- (e) In the event of a change in the number of outstanding shares of common stock of the Company during an Earning Period by reason of a "capital transaction" or "corporate reorganization", the Committee shall make such adjustment in the Economic Value of a share of the Company's common stock for purposes of this Section 8, either positive or negative as the case may be, as of the beginning of the Earning Period or as of any other date during the Earning Period, which in the exercise of its discretion, is equitably required to ensure that neither unintended economic benefits nor detriments are conferred on Participants solely by reason of such "capital transaction" or "corporate reorganization". Solely for purposes of this Section 8(e) and Section 6(c), a capital transaction or corporate reorganization shall not be limited to its ordinary meaning if in fact Participants would be conferred an economic benefit or detriment by some other corporate transaction which is not literally considered a capital transaction under common business usage of said terms.

9. Vesting.

-----

- (a) A Participant's interest in any Phantom Shares allocated to his Account and Earned for an Earning Period under Section 8(c) and 8(d) will become fully vested ("Vested") as of the January 1st immediately following the Earning Period provided that the Participant has been in the continuous employ of the Company through the last day of the Earning Period.
- (b) Any amounts corresponding to dividends credited to a Base Share under Section 6(b) shall be Vested only when and if the Base Share to which the dividend is credited shall Vest. Any amounts corresponding to dividends credited to Additional Shares or Supplemental Shares, or to Base Shares after the Base Shares are Vested, shall be Vested when credited.
- (c) A Participant's interest in Base Shares provisionally allocated to the Account in the name of the Participant and any amounts corresponding to dividends under Section 6(b) credited to such Base Shares during an Earning Period will be forfeited upon that Participant's voluntary termination or involuntary termination for Cause if such interest, including amounts corresponding to dividends, has not Vested at the time of termination.
- (d) Notwithstanding the provisions of Sections (a), (b) and (c) above of this Section 9, upon the Participant's (i) involuntary termination of employment other than for Cause; (ii) death or disability while in the employ of the Company; or (iii) retirement from the Company after attaining age sixty-one (61), if the Board determines that it is likely that a specific number of Phantom Shares (the "Estimated

Number") would under Section 8(c) be allocated to the Participant's Account and be Earned for an Earning Period in which the event described in (i), (ii) or (iii) above occurs if the Participant should continue in the employ of the Company through the end of the Earning Period, then a portion of the Estimated Number of Phantom Shares shall be Vested. The number of Phantom Shares in which the Participant will be Vested is that number which is in the same proportion to the Estimated Number as (x) the number of full months which have elapsed since the first day of the Earning Period to the end of the first month in which occurs one of the events described above in this subsection (d) is to (y) the total number of months in the Earning Period.

- (e) In the event a Participant who is not terminated for Cause or Disability is no longer employed by the Company as a result of the removal of the Participant from an office which the Participant held (i) on January 1, 1994 or (ii) on the later date as of which he is selected as a Participant by the Committee (provided that a promotion or lateral transfer shall not be deemed to constitute such a removal, except for a lateral transfer or promotion to a more senior title but to a job which has less responsibilities and duties), a significant reduction in the nature or scope of the authorities, powers, functions, or duties attached to such Participant's position or a reduction in the compensation (exclusive of bonuses or other incentive compensation) of such Participant which is not remedied within 30 calendar days after receipt by the Company of written notice from such Participant, the Committee in its sole discretion acting in good faith may treat such termination in the same manner as an involuntary termination other than for Cause under subsection (d) above.
- (f) Phantom Shares which have Vested cease to be subject to forfeiture under the Plan. The Base Portion and the SAR Portion of such Vested Phantom Shares shall be paid in accordance with, and subject to the terms and conditions of, Section 11.
- (g) For purposes of the Plan, an involuntary termination other than for Cause occurs with respect to a Participant if the Company terminates the Participant's employment with the Company for any reason other than for Cause (as defined below) or disability (as defined in Section 9(h)). The termination of a Participant's employment with the Company shall be deemed to have been for "Cause" if such termination shall have been the result of the material failure of such person, in the Committee's reasonable judgment, to perform competently the Participant's duties; the Participant's conviction of a crime involving acts of moral turpitude, dishonesty, theft, unethical or unlawful business conduct or conduct which, in the Committee's judgment, impairs the reputation or standing of the Company (provided, that if the Participant is arrested or indicted for such a crime, the Company shall have the right



to suspend the Participant without pay until the matter is judicially resolved); the failure of the Participant to devote his full time and attention exclusively to the business and affairs of the Company as herein provided; or the material violation by the Participant of any term, provision or condition of any employment agreement between the Participant and the Company.

- (h) For purposes of this Section 9 of the Plan, a Participant shall be deemed to be disabled if such Participant has been declared to be permanently and totally disabled after examination by an independent physician satisfactory to the Company and the Committee has reasonably determined that the physical or mental condition of the Participant was such as would entitle the Participant to payment of monthly disability benefits under the Company's Long-Term Disability Plan.

10. Change in Control

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- (a) In the event there occurs a Change in Control of the Company as defined in Section 10(b), the Board shall determine for each Participant, on the basis of the most recent information available, on or before the date of such Change in Control, whether it is likely that a specific number of Phantom Shares (the "Estimated Number") would under Section 8(c) be allocated to the Participant's Account and be Earned for any Earning Period in which the Change in Control of the Company occurs assuming the Participant will continue in the employ of the Company through the end of the Earning Period, and if within 24 months after the Change in Control:

(i) There is an involuntary termination other than for Cause of the employment of the Participant;

(ii) There is a Constructive Termination, as defined in Section 10(c), of the employment of the Participant; or

(iii) There occurs an Adverse Change in the Plan, as defined in Section 10(d), in respect of the Participant;

then, if the determination of the Board, made on or prior to the date of the Change in Control as provided above in this Section 10(a), was that it was likely that an Estimated Number of Phantom Shares would be allocated to the Participant's Account for the Earning Period, the Participant shall be Vested in such Estimated Number of Phantom Shares. However, if the determination of the Board was that it was not likely that any Phantom Shares would under Section 8(c) be allocated to the Participant's Account and be Earned for the Earning Period, the Participant shall be Vested in that number of Base Shares provisionally allocated to the Participant at the start of the Earning Period which is in the same proportion to such

total number of Base Shares as (x) the number of full months which have elapsed since the first day of the Earning Period to the end of the first month in which occurs one of the events described in clauses (i) or (ii) above of this subsection (a) is to (y) the total number of months in the Earning Period.

If the Change of Control occurs only within one Earning Period during which an employee is a Participant, for purposes of this Section 10 the number of Base Shares provisionally allocated to the Participant's Account for the Earning Period shall be deemed to be increased by the number of Base Shares provisionally allocated to his Account for the next Earning Period.

- (b) For purposes of Section 10(a) relating to a change in control of the Company, a "Change in Control of the Company" shall occur if:

(i) Any person or group (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act), other than Fund American Enterprises Holdings, Inc. (formerly The Fund American Companies, Inc.) Fund American Enterprises, Inc. or the Company, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of thirty-five percent (35%) or more of the Company's then outstanding capital stock;

(ii) The Continuing Directors, as defined in Section 10(e), cease for any reason to constitute a majority of the Board of the Company; or

(iii) The business of the Company for which the Participant's services are principally performed is disposed of by the Company pursuant to a sale or other disposition of all or substantially all of the business or business related assets of the Company (including stock of a subsidiary of the Company).

- (c) For purposes of Section 10(a) relating to a Change in Control of the Company, "Constructive Termination" shall mean a termination of employment with the Company or any of its subsidiaries at the initiative of the Participant that the Participant declares by prior written notice delivered to the Secretary of the Company to be a Constructive Termination by the Company and which follows (i) a material decrease in his salary, or (ii) a material diminution in the authority, duties or responsibilities of his position with the result that the Participant makes a determination in good faith that he cannot continue to carry out his job in substantially the same manner as it was intended to be carried out immediately before such diminution. Notwithstanding anything herein to the contrary, Constructive Termination shall not occur within the meaning of this Section 10(c) until and unless 30 days have elapsed from

the date the Company receives such written notice without the Company curing or causing to be cured the circumstance or circumstances described in this Section 10(c) on the basis of which the declaration of Constructive Termination is given.

- (d) For purposes of Section 10(a) relating to a Change in Control of the Company, an "Adverse Change in the Plan" shall mean:

(i) Termination of the Plan pursuant to Section 15;

(ii) Amendment of the Plan pursuant to Section 14 that materially diminishes the value of the Phantom Shares that have been allocated or provisionally allocated under the Plan, either to individual Participants or in the aggregate, unless there is substituted concurrently authority to grant long term incentive awards of comparable value, to individual Participants or in the aggregate, as the case may be; or

(iii) In respect of any Participant a material diminution in his rights in connection with such Phantom Shares (except as may occur under the terms of the Plan applicable to such Phantom Shares as originally allocated or provisionally allocated) unless there is substituted concurrently a long term incentive award with a value at least comparable to the loss in value attributable to such diminution in his rights.

- (e) For purposes of Section 10(b)(ii) of the Plan, "Continuing Directors" shall mean those individuals who, as of January 1, 1994, constituted the Board or, alternatively, those members elected or nominated after January 1, 1994 who were approved for such election or nomination by a vote of at least a majority of the directors then comprising the Continuing Directors. Further, individuals shall be excluded whose initial assumption of office is or was in connection with an actual or threatened election contest relating to the election of the directors of the Company (as used in rule 14a-11 under the Securities Exchange Act of 1934).

11. Payment for Phantom Shares

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Subject to the Company's Voluntary Deferred Compensation Plan:

- (a) Automatic Payment of Base Portion Only. The Base Portion of all Phantom

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Shares allocated to the Account of a Participant for an Earning Period which become Vested at the end of the Earning Period under Section 9(a) shall be paid to the Participant in a single sum as soon as administratively feasible after the Committee has determined the amount of such Base Portion and not later than 90 days after the end of the Earning Period.

(b) Automatic Payment of Full Value. The full value of all Phantom Shares

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allocated to the Account of a Participant for an Earning Period which become Vested before the end of the Earning Period under Section 9(d), 9(e) or 10(a) shall be paid to the Participant (or to the Participant's designated beneficiary or legal representative) in a single sum within 30 days after the Committee determines in accordance with Section 9(d), 9(e) or 10(a) that the Participant is Vested in a specific number of Phantom Shares, provided, however, that:

(i) If the Participant dies before the end of an Earning Period and there is no effective designation of the Participant's beneficiary at the time of his death, any amount payable under the Plan on account of the Participant's death shall be paid to his legal representative by the later of: (A) 30 days after the Committee's determination referred to above in this subsection (b), or (B) 30 days after the qualification of the legal representative.

(ii) If the Participant becomes Vested in any Phantom Shares before the end of an Earning Period on account of a Change in Control of the Company and a subsequent Adverse Change in the Plan and remains employed by the Company, only the Base Portion of such Vested Phantom Shares shall be paid to him pursuant to this subsection (b). The SAR Portion of such Vested Phantom Shares shall be paid in accordance with subsection (c) below.

(iii) The value of any Phantom Shares payable under this subsection (b) shall be determined as of the date on which the Committee determines that a specific number of Phantom Shares are Vested in the Participant.

(c) Exercise and Payment of SAR Portion. A Participant may exercise the SAR

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Portion of all or any Phantom Shares allocated to his Account for an Earning Period and not paid in full pursuant to subsection (b) above, at any time after he becomes Vested in such Phantom Shares and while he is employed by the Company, subject, however, to the following terms and conditions:

(i) If at the time of his termination of employment, or on the last day of the year in which the Participant attains age 65, whichever is earlier, he has not exercised the SAR Portion of all of such Phantom Shares, the unexercised portion will be deemed to be exercised on the day of the termination of his employment or on the last day of the year in which he attains age 65, as the case may be.

(ii) If the Participant dies before he has exercised all of the SAR Portion of such Phantom Shares,

the unexercised portion shall be deemed to be exercised on the day of the Participant's death.

(iii) The SAR portion of such Phantom Shares, or the unexercised portion thereof, may be exercised by the Participant or by his legal representative in the event of the Participant's incapacity, by written request to the Secretary of the Company requesting the exercise of the SAR Portion of a specific number of such Phantom Shares.

(iv) The value of the SAR Portion of any Phantom Shares exercised or deemed to be exercised pursuant to this subsection (c) shall be determined as of the date the SAR Portion of such Phantom Shares is exercised or deemed to be exercised. The amount payable on account of the exercise or deemed exercise of the SAR Portion of any Phantom Shares shall be the value of the SAR Portion on the date of exercise or deemed exercise. Such amount shall be paid to the Participant or to the Participant's designated beneficiary in a single sum within 30 days after the SAR Portion of such Phantom Shares is exercised or deemed to be exercised, provided that if there is no effective designation of the Participant's beneficiary at the time of the Participant's death, any amount payable on account of the Participant's death shall be paid to his legal representative by the later of (A) 60 days after the Participant's death, or (B) 30 days after the qualification of the legal representative. If less than the SAR Portion of all of such Phantom Shares is exercised at any time, unless the Participant designates the SAR Portion of specific Phantom Shares to be exercised, the SAR Portions of the Phantom Shares with the largest SAR Portions shall be deemed exercised first.

- (d) Notwithstanding any provision of the Plan other than this subsection (d), if part of a payment under the Plan resulting from the operation of Section 10 (relating to a Change in Control of the Company) and this Section 11 would be an "excess parachute payment" under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), such payment shall be reduced by the smallest amount required so that no part of the payment is not deductible under Section 280G of the Code. However, prior to making any such reduction the Committee shall request the Company's independent certified public accountants to determine whether it would be in the best interest of the Participant to make the reduction. If such accountants determine that it is not in the best interest of the Participant to make the reduction, the reduction shall not be made.

12. Miscellaneous Provisions

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- (a) Except as otherwise provided in the Plan, no employee or other person shall have any claim or right to be granted any Phantom Shares under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any subsidiary.
  - (b) A Participant's interest under the Plan may not be assigned or transferred in whole or in part either directly or by operation of law or otherwise (except in the event of a Participant's death), including but not limited to, sale, execution, levy, garnishment, attachment, pledge, bankruptcy or any other transfer and no such interest of any Participant in the Plan shall be subject to any obligation or liability of such Participant or any beneficiary of such Participant.
  - (c) The Company shall have the right to deduct from any payment made under the Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment.
  - (d) The Company has only a contractual obligation to make payments under Section 11. Participants have the status of general unsecured creditors of the Company. The satisfaction of Phantom Share Base Portion and SAR Portion obligations is to be made solely out of the general corporate funds of the Company, which shall at all times remain subject to the claims of the Company's creditors. Further, amounts credited to a Participant's Account shall neither be segregated for the purpose of securing the Company's liability nor be held by the Company in trust for the Participant. It is the intention of the Company and the Participants that the amounts payable under the Plan be unfunded for tax purposes and for purposes of the Employee Retirement Income Security Act of 1974, as amended.
  - (e) By accepting an allocation or provisional allocation of Phantom Shares or other benefit under the Plan, each Participant and each person claiming under or through each Participant shall, subject to the Plan, be deemed to have indicated such Participant's or claimant's acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

13. Claims and Disputes; Arbitration

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- (a) Claims for benefits under the Plan shall be made in writing to the Committee. If a claim for benefits is wholly or partially denied, the Committee shall, within a reasonable period of time but not later than ninety (90) days after receipt of the claim, provide the claimant who was denied a benefit written notice setting forth in a manner calculated to be understood by the claimant:

- (i) The specific reason or reasons for denial;
- (ii) Specific reference to the pertinent provisions of the Plan on which the denial is based;
- (iii) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) An explanation of the Plan's claim review procedure.

A person whose claim for benefits under the Plan has been denied, or his duly authorized representative, may request a review upon written application to the Committee, may review pertinent documents, and may submit issues and comments in writing. The claimant's written request for review must be submitted to the Committee within sixty (60) days after receipt by the claimant of written notification of the denial of a claim. A decision by the Committee shall be made promptly, and not later than sixty (60) days after the Committee's receipt of a request for review, unless special circumstances require an extension of time for proceeding, in which cases a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of the request for review. The decision on review shall be in writing and shall include specific reasons for the decision, specific reference to the pertinent provision of the Plan on which the decision is based, and be written in a manner calculated to be understood by the claimant.

- (b) Unless otherwise required by law, any controversy or claim arising out of
  - (i) the denial of a claim for benefits by the Committee under (a) above or any action taken by the Committee under Section 3, or otherwise relating to the Plan or the breach thereof, shall be settled by binding arbitration in the City of Farmington Hills in accordance with the laws of the State of Michigan by three arbitrators, one of whom shall be appointed by the Company, one by the Participant (or in the event of his prior death, his beneficiary(ies) or other distributee), and the third of whom shall be appointed by the first two arbitrators. If the selected (third) arbitrator declines or is unable to serve for any reason, the appointed arbitrators shall select another arbitrator. Upon their failure to agree on another arbitrator, the jurisdiction of the Circuit Court of Oakland County, Michigan shall be invoked to make such selection. The arbitration shall be conducted in accordance with the commercial arbitration rules of the American Arbitration Association except as hereinabove provided in subsection (c) below. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Review by the arbitrators of any decision, action or interpretation of the Board or Committee

shall be limited to a determination of whether it was arbitrary and capricious or constituted an abuse of discretion, within the guidelines of *Firestone Tire & Rubber Co. v. Bruch*, 489 U.S. 101 (1989). In the event the

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Participant or his beneficiary shall retain legal counsel and/or incur other costs and expenses in connection with enforcement of any of the Participant's rights under the Plan, the Participant or beneficiary shall not be entitled to recover from the Company any attorneys fees, costs or expenses in connection with the enforcement of such rights (including enforcement of any arbitration award in court) regardless of the final outcome; except that the arbitrators in their discretion may award reasonable attorneys fees and reasonable costs to the Participant in an arbitration initiated by the Participant following a Company Change in Control, to enforce the Participant's rights under the Plan, provided the Participant is the prevailing party in such arbitration.

(c) Any arbitration shall be conducted as follows:

(i) The arbitrators shall follow the Commercial arbitration Rules of the American Arbitration Association, except as otherwise provided herein. The arbitrators shall substantially comply with the rules of evidence; shall grant essential but limited discovery; shall provide for the exchange of witness lists and exhibit copies; and shall conduct a pretrial and consider dispositive motions. Each party shall have the right to request the arbitrators to make findings of specific factual issues.

(ii) The arbitrators shall complete their proceedings and render their decision within 40 days after submission of the dispute to them, unless both parties agree to an extension. Each party shall cooperate with the arbitrators to comply with procedural time requirements and the failure of either to do so shall entitle the arbitrators to extend the arbitration proceedings accordingly and to impose sanctions on the party responsible for the delay, payable to the other party. In the event the arbitrators do not fulfill their responsibilities on a timely basis, either party shall have the right to require a replacement and the appointment of new arbitrators.

(iii) The decision of the arbitrator shall be final and binding upon the parties and accordingly a judgment by any Circuit Court of the State of Michigan or any other court of competent jurisdiction may be entered in accordance therewith.

(iv) Subject to the provisions of subsection (b) relating to reasonable attorneys fees and costs in an arbitration following a Company Change in Control, the costs of the arbitration shall be borne equally by the parties to such arbitration, except that each party shall bear its own legal and accounting expenses relating to its participation in the arbitration.



14. Amendment

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The Plan may be amended at any time and from time to time by the Board, but no amendment which increases the aggregate number of Phantom Shares which may be allocated pursuant to the Plan shall be effective unless and until the same is approved by a majority vote of the shareholders of the Company. No amendment of the Plan shall adversely affect any right of any Participant with respect to any Phantom Shares theretofore allocated without such Participant's written consent.

15. Termination

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This Plan shall terminate upon the adoption of a resolution of the Board terminating the Plan. No termination of the Plan shall alter or impair any of the rights or obligations of any person, without that person's consent, with respect to any Phantom Shares theretofore allocated under the Plan.

EXHIBIT A

1994 LONG TERM INCENTIVE PLAN PARTICIPANTS  
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[Master List Held by Board of Directors]

EXHIBIT B

[Attach copy of methodology for determining the value of A and B in Section 8(a)(vi) of the Plan.]

## EXHIBIT B

### Source One Mortgage Services Corporation

#### Economic ROE Methodology

##### Economic ROE Overview:

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This write-up serves to document the methodology by which the internal measurement of economic return on equity (ROE) will be computed for Source One Mortgage Services Corporation. This performance measurement will be computed at the end of each quarter and will represent an estimation of the Company's economic return on its common shareholders' equity.

Economic ROE will be the change in the Company's economic value plus common dividends, divided by the beginning period economic value. Economic value at the end of a period will be equal to the following:

- \* The Company's GAAP common shareholders' equity.
- \* Add the economic value of the servicing and sub-servicing portfolios.
- \* Subtract the capitalized servicing GAAP book value.
- \* Add the economic value of the projected production for the next twelve months. This is the assumed economic value of the production network.
- \* Add the GAAP residential loss reserve net of deferred taxes. (Servicing economic value is net of loan losses.)
- \* Subtract the GAAP goodwill and various other intangible assets net of applicable deferred taxes.

Economic value and common dividends will be measured per common share. Economic ROE will be calculated as the sum of the change in economic value per share and dividends per share, divided by the beginning period economic value per share. Dividends will be compounded at the economic ROE for the period.

##### SERVICING AND SUB-SERVICING PORTFOLIO VALUATION OVERVIEW:

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The economic value of servicing and sub-servicing is computed by using the Company's valuation model which employs a discounted cash flow methodology. The economic value of servicing equals the present value of the future after-tax net servicing revenues expected to be received over the life of the servicing portfolio. The cash flows are discounted to their present values using the

Company's after-tax weighted average cost of capital. The net servicing cash flows will equal the following revenue and expense components:

- \* The net servicing fee revenues expected to be received over the life of the portfolio.
- \* Add the float benefit of T&I and P&I escrow balances which earn an interest credit at the escrow funding credit rate.
- \* Add the ancillary fee revenues such as late charges which are computed as a percentage of the outstanding principal balance over the life of portfolio.
- \* Add the insurance fee revenues which are computed on a dollar per loan basis over the life of the portfolio.
- \* Subtract the annual loan servicing expense which increases annually based on the servicing cost growth rate.
- \* Subtract the cost of foreclosure losses which is applied to the future projected number of foreclosures that Source One should experience over the life of the portfolio.
- \* Subtract the interest expense paid to mortgagors for escrow balances in certain states.

The economic value of sub-servicing equals the present value of the future after-tax sub-servicing revenues expected to be received over the life of the sub-servicing contract. The sub-servicing cash flows will equal the following revenue components:

- \* The sub-servicing profit margin per loan that Source One receives over and above the actual cost of servicing.
- \* Add the ancillary fee revenues such as late charges that Source One retains per the sub-servicing contract.
- \* Add the insurance fee revenues that Source One retains per the sub-servicing contract.

The servicing portfolio will be valued at each period-end and will be segregated into the major product divisions: GNMA pool loans, Conventional loans, Insured Private loans and Commercial loans. The basic six pieces of mortgage loan information (principal balance, loan count, weighted average net servicing fee, weighted average note rate, weighted average remaining life, and average escrow balance) will be extracted from the Company's mortgage database using the Data Analyzer query system.

SERVICING VARIABLE DEFINITIONS:  
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- 1) **PREPAYMENT RATE:** This rate is the annual percentage of the servicing portfolio that is expected to prepay each year in the future. This rate will be based on the period-end Knight Ridder PSA prepayment forecasts that are developed by the six Wall Street investment banking firms with whom Source One does business. For each note rate the stated Knight Ridder median prepayment speed forecast of the six firms will be used. The GNMA 30 year tables and the Conventional 30 day tables are the two Knight Ridder tables used for the respective product types. The Company's servicing portfolio will be stratified into 50 basis point increments so that each segment is paid off at the appropriate prepayment speed for that note rate at each period-end.
- 2) **SERVICING COST:** This cost represents the average annual expense incurred for each mortgage loan serviced or sub-serviced by Source One. The annual servicing cost per loan will be based on a 12 month average derived from the Company's Cost Accounting System. The costs used for the servicing valuation are 100% fully loaded and include all direct fixed and variable costs along with all overhead costs attributed to the Servicing Division.
- 3) **AFTER-TAX DISCOUNT RATE:** This rate represents the Company's weighted average cost of capital which will be used to discount the net servicing and sub-servicing cash flows. This discount rate will be computed by weighting together the various components of the Company's capital base at the end of each period. The capital mix is based on a four quarter average while the capital costs are based on the average of the most recent month. The escrow funding credit value is excluded from this calculation since it is already taken into consideration in the present value of the servicing cash flows. All other components of debt and equity are included in this rate. The cost of debt and preferred equity is the after-tax actual cost and the after-tax cost of common equity is assumed to be 700 basis points over the average 10 day period-end 10 year treasury constant maturity yield from the prior year-end.
- 4) **ESCROW FUNDING CREDIT RATE:** This rate represents the annual rate that Source One effectively earns on its T&I and P&I escrow balances. While interest is not paid directly to Source One by the custodian banks on the escrow balances, the interest costs of borrowing lines are reduced to compensate for the value of these escrow funds. This rate will be based on a 12 month average of the Federal Reserve published rate for 30 day commercial paper. To this gross earning rate will be added the cost of a back-up line of credit and dealer costs for commercial paper since these will not be incurred. From this gross rate will be subtracted the actual interest cost of escrow available lines of credit.

- 5) **SERVICING COST GROWTH RATE:** This rate represents the annual estimated percentage by which the servicing cost per loan should increase each year over the life of the servicing portfolio. This growth rate will equal the MBA's forecast of the Consumer Price Index (CPI) increase for the next one year and will remain constant over the life of the servicing portfolio.
- 6) **ESCROW GROWTH RATE:** This rate represents the annual estimated percentage by which the average escrow balance per loan should increase each year over the life of the servicing portfolio. This growth rate will be equal to the MBA's estimation of the national existing home price increase of the past year and will remain constant over the life of the servicing portfolio.
- 7) **AVERAGE ESCROW BALANCE:** This balance relates to the T&I payments which are collected each month from mortgagors in anticipation of coming tax and insurance payments. The average escrow balance is based on the latest 12 monthly escrow balances relating to each loan in the Company's servicing portfolio. The average escrow balance per loan is then applied to the ending loan count for the total servicing portfolio as of the end of the period in order to derive the beginning total escrow balance for the valuation calculation.
- 8) **CORPORATE INCOME TAX RATE:** This rate is the effective current tax rate in effect by law or the expected rate if corporate taxes are scheduled to change in the near future.
- 9) **RESERVE REQUIREMENT RATE:** This rate represents the reserves that the banks are required by law to maintain on Source One's escrow accounts. To the extent that reserves must be maintained, escrow funds cannot be profitably invested by the banks. Consequently, no escrow funding credit is available on this portion of our Company's escrow balances. This reserve requirement is the actual rate that Source One is currently experiencing.
- 10) **P&I FLOAT USAGE RATE:** This rate is the percentage of the days of each month that Source One has on average to use the P&I payments that have been collected before they must be remitted to the mortgage investors. This usage rate will be based on the various actual remittance cycles of the mortgage pools that Source One currently services. This gross usage rate is reduced for the servicing valuation due to the required fund advances that the Company must make to security holders of certain agency pools that contain delinquent loans.
- 11) **ESCROW INTEREST COST RATE:** This rate is the annual interest expense that Source One as the servicer must pay to mortgagors in certain states on funds held in escrow for property taxes and insurance. There are currently about 12 states that require the payment of interest on escrow funds. The rates of

interest range from 1% to 5%. Currently, the average overall rate of interest that Source One pays on all T&I escrow balances is less than 1%.

- 12) MISCELLANEOUS FEE INCOME RATE: This rate represents the expected fee income to be received from five miscellaneous servicing fee accounts over the life of the servicing portfolio. These miscellaneous accounts are as follows: late charges, NSF fees, assumption fees, application fees, and other servicing income. This annual rate will be developed based on the Company's actual experience over the preceding 12 months.
- 13) PAYOFF FLOAT INCOME RATE: This rate is the float earning rate that Source One earns on payoff funds that the Company holds in escrow prior to remitting them to the security holders. The period of time during which mortgage prepayment funds are available for Source One's use depends on the remittance cycle of the pools or loans involved. This rate is a weighted average of the various remittance cycles that are currently in the servicing portfolio. Again, this gross float rate will be reduced to offset the interest expense that must be advanced by Source One to the security holders through the end of the month on certain agency pool loans that prepay before the end of the month.
- 14) INSURANCE INCOME: This value relates to the annual expected dollar amount of insurance commission revenue per loan that Source One should receive over the life of the servicing portfolio. This revenue variable will be based on the Company's actual experience over the preceding 12 months.
- 15) BI-WEEKLY FLOAT INCOME: This revenue item represents the float that Source One should earn on bi-weekly payment mortgage loans over the life of the servicing portfolio. For loans in the Company's bi-weekly program, one-half of the monthly mortgage payment is automatically withdrawn from the mortgagor's checking account twice each month. These funds earn float for the Company until they must be passed on to the Cashier department on the first of the next month. This income variable is based on the Company's actual average experience over the past 12 months.
- 16) FORECLOSURE LOSSES: This loss variable represents the future dollar loss per foreclosed loan that is expected to be incurred over the life of the servicing portfolio. This information is based on the loan loss reserve schedule in the Board Report. Separate loss figures are used for GNMA pool loans and conventional recourse pool loans. The GNMA savings program will reduce the GNMA loss per foreclosure.
- 17) NUMBER OF FUTURE MORTGAGE FORECLOSURES: This figure refers to the number of expected future mortgages which will go into



foreclosure over the life of the servicing portfolio. The foreclosure loss per loan is applied to each of the expected mortgage foreclosures. This estimate is based on the most recent FHA Survivorship & Decrement tables for GNMA loans. The estimate for conventional loans is based on using LTV information to adjust the FHA statistics for the conventional loans.

- 18) SETUP COST ON INTERIM LOANS: This item refers to the expected expense per loan of setting up newly purchased loans on our servicing system that currently are being serviced by the seller prior to transfer. This expense often ranges from \$15 to \$20 per loan and is part of the capitalized purchase price for the new portfolio.
- 19) PV OF TAX BENEFIT OF AMORTIZATION: This additional component of value for the servicing portfolio is due to the tax benefit that the scheduled amortization of the capitalized book value will produce over the life of the servicing portfolio. The tax benefit of amortization is discounted at the after-tax weighted average cost of capital.

PRODUCTION CAPABILITY VALUATION OVERVIEW:

-----

The production capability value represents the estimated economic value of Source One's projected production for the next twelve months. The following summarizes the valuation of the projected production:

- \* The present value of the servicing rights created over the estimated life of the loans (calculated in the same manner as the servicing portfolio valuation).
- \* Add the net marketing gains.
- \* Add the net interest breakage.
- \* Subtract the net cost of production.
- \* Subtract the capitalized purchased servicing related to the production (Whole Loan SRPs and Brokerage capitalizations).
- \* Subtract all overhead expenses applicable to the production areas.

The production projection for the next twelve months will be based on the Company's actual experience for the most recent twelve months. The Company's retail, broker, and whole loan production of the last 12 months will be adjusted proportionally based on the Mortgage Bankers' Association's (MBA) forecast of total industry production for the next 12 months compared to the latest 12 months actual. The Company's refinance production will be adjusted based on the MBA's forecast of refinance activity for the next 12 months.

Both calculations assume that Source One's market share for the next 12 months will remain the same as that of the past 12 months.

PRODUCTION VALUATION VARIABLE DEFINITIONS:

- 
- 1) VALUE OF PRODUCTION SERVICING RIGHTS: This component equals the present value of the projected production mortgage servicing rights over the expected life of the loans. This value will be based on the actual average loan characteristics of the production for the last twelve months for each production source. The assumptions and methodology used to value the production servicing rights will be consistent with the valuation of the Company's servicing portfolio. However, only variable servicing costs will be used in valuing this incremental servicing production.
  - 2) NET MARKETING GAINS: This component represents the gain or loss on the sale of mortgage loans into the secondary market. Marketing gains vary by source of loan production and depend on the note rate, pricing, and mortgage product under consideration. The average marketing gains for the last twelve months will be the basis for the projected marketing gains of the next twelve months.
  - 3) NET INTEREST BREAKAGE: This production revenue represents the difference between the mortgage note rate and the Company's funding cost during the time the loan is in inventory. From the time the loan is banked to the time it is sold into the secondary market, Source One earns the interest spread on the mortgage loan. The period of time during which the loan is earning interest breakage varies between 30 and 60 days on average. The average net interest breakage for the last twelve months will be the basis for determining the interest breakage for the next twelve months.
  - 4) NET COST OF PRODUCTION: This expense component represents the overall net expense that is incurred for each mortgage produced through the Company's production network. The net expense is comprised of total operating expenses per loan less any operating revenues collected in the production process. This net cost of production varies by production source and depends on the process employed in generating the mortgage loan. The average net cost of production for the twelve months preceding the valuation date will serve as the basis for the valuation of the next twelve months of production.
  - 5) PRODUCTION RELATED CAPITALIZED SERVICING: This component represents the fees paid for the purchase of whole loans and the capitalized value of the brokerage production. These two components are capitalized on the balance sheet as an asset and then amortized in proportion to and over the life of the mortgage servicing cash flows. The average SRP paid during the last twelve months for whole loans and the average

percentage of brokerage production that was capitalized for the past twelve months will be used to estimate the future capitalized balances during the next twelve months.

- 6) PRODUCTION RELATED OVERHEAD: This expense item relates to the various production support areas which are not included in the Net Cost of Production shown above. This expense component includes portions of areas such as Underwriting, Appraisal, Banking, Shipping, Human Resources, Financial, etc. The Company's Cost Accounting System will be utilized in order to allocate the applicable costs to the production areas. Cost data for the past 12 months will be used.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

	Year Ended December 31,		
	1994	1993	1992
<hr/>			
Primary earnings per share:			
Per share numerator (in millions):			
After tax earnings	\$ 21.1	\$ 70.4	\$ 54.2
Dividends to preferred stockholders	(9.9)	(12.2)	(19.9)
	<hr/>		
After tax earnings applicable to common stock	11.2	58.2	34.3
Gain from sale of discontinued operations, after tax	--	--	.7
Cumulative effect of accounting change - purchased mortgage servicing, after tax	(44.3)	--	--
Cumulative effect of accounting change - postretirement benefits, after tax	--	--	(1.9)
Cumulative effect of accounting change - income taxes	--	--	(23.8)
	<hr/>		
Net income (loss) for per share computation	\$ (33.1)	\$ 58.2	\$ 9.3
	<hr/>		
Per share denominator (in thousands):			
Average common shares outstanding	8,874	9,593	11,556
Dilutive options, warrants and performance shares	531	655	1,141
	<hr/>		
Shares for per share computation	9,405	10,248	12,697
	<hr/>		
Per share earnings (in dollars):			
After tax earnings	\$ 1.20	\$ 5.68	\$ 2.71
Net income (loss)	(3.51)	5.68	.74
<hr/>			
Fully Diluted earnings per share:			
Per share numerator (in millions):			
After tax earnings	\$ 21.1	\$ 70.4	\$ 54.2
Dividends to preferred stockholders	(9.9)	(12.2)	(19.9)
	<hr/>		
After tax earnings applicable to common stock	11.2	58.2	34.3
Gain from sale of discontinued operations, after tax	--	--	.7
Cumulative effect of accounting change - purchased mortgage servicing, after tax	(44.3)	--	--
Cumulative effect of accounting change - postretirement benefits, after tax	--	--	(1.9)
Cumulative effect of accounting change - income taxes	--	--	(23.8)
	<hr/>		
Net income (loss) for per share computation	\$ (33.1)	\$ 58.2	\$ 9.3
	<hr/>		
Per share denominator (in thousands):			
Average common shares outstanding	8,874	9,593	11,556
Dilutive options, warrants and performance shares	534	655	1,169
	<hr/>		
Shares for per share computation	9,408	10,248	12,725
	<hr/>		
Per share earnings (in dollars):			
After tax earnings	\$ 1.20	\$ 5.68	\$ 2.70
Net income (loss)	(3.51)	5.68	.73
	<hr/>		

FUND AMERICAN  
1994 ANNUAL REPORT

Fund American Enterprises Holdings, Inc. (the "Company" and, together with its subsidiaries, "Fund American") is a Vermont-based financial services holding company. The Company's principal operating activities are conducted through its wholly-owned subsidiary Source One Mortgage Services Corporation and its subsidiaries ("Source One"). Source One is one of the nation's largest mortgage banking companies. Fund American also owns a passive investment portfolio, consisting mainly of common equity securities and other investments.

Operating affiliates added to the Fund American family during 1994 include: (i) a 23% voting interest in Financial Security Assurance Holdings Ltd. ("FSA"), a leading Aaa/AAA writer of financial guarantee insurance, and (ii) a 33% stake in Main Street America Holdings, Inc., a unit of National Grange Mutual Insurance Company, a New Hampshire-based property and casualty insurer.

In March 1995 the Company received its license from the Insurance Commissioner of the State of New Hampshire to engage its newly formed subsidiary, White Mountains Insurance Company ("White Mountains"), in the sale of property-casualty insurance. White Mountains is expected to expand its operations to other states as additional approvals are obtained.

Prospectively, Fund American intends to further develop or pursue investments in or acquisitions of one or more operating businesses, primarily in the insurance or other financial services industries in which management has knowledge and experience.

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BOOK VALUE PER SHARE

[graph appears here]

LETTER FROM JACK BYRNE, CHAIRMAN

Dear Shareholder,

Our 1994 reported financial results for your enterprise were terrible, primarily due to a poor year from our investment portfolio and an accounting write-down at Source One. We ended the year weighing \$68.95 in GAAP book value per share, 11% less than a year ago. This is not a diet we wish to repeat.

Our principal operating affiliates, Financial Security Assurance (FSA) and Source One Mortgage Services Corporation, also encountered tough markets in 1994. Despite pretty good operating results, FSA's adjusted book value increased by only 1% this year, and Source One had its third lackluster year in a row. Moreover, we changed our method of determining the accounting value of Source One's \$40 billion servicing portfolio, which resulted in a \$68 million write-down of that asset. Finally, at the parent company level, the market gods frowned on our investment holdings in 1994. Our common stocks declined 8% for the year. Markets come and markets go; this is a year when markets went, particularly for our holdings. However, we repositioned the portfolio for liquidity and in fact liquidated over \$200 million.

[PHOTO 1 APPEARS HERE]

The future of our enterprise is in our success on that front. Last year I told you Fund American's patient search for compatible operating opportunities was like Cinderella waiting for the proper prince. I am pleased to tell you that 1994 was the year we finally tried on some glass slippers that fit.

In April, we joined with US West and Financial Security Assurance, the New York City-based financial guaranty insurer, to participate in FSA's successful public offering. We currently have a 25% economic interest in FSA. I serve as the non-executive Chairman of the Board along with two of my Fund American colleagues. We have found FSA to be an innovative organization, in a dynamic business, with a strong reservoir of talented executives.

In December, we concluded a transaction with the National Grange Mutual in Keene, New Hampshire, to become a 33% owner of their downstream stock company, Main Street America. Main Street has a strong local presence and is devoted to delivering personal service and value to its insurance customers. Once again, we found managers with a focus on underwriting who add strength to our entire enterprise. We are pleased to be associated with Phil Koerner and his management team.

Speaking of management strength, we were fortunate to attract Morgan Davis, formerly President of Fireman's Fund Commercial Insurance, to direct the formation of White Mountains Insurance Company, our property and casualty start-up also headquartered in new Hampshire. Morgan brings more than twenty years of major company property-casualty insurance experience.

While some of the glass slippers fit, we also endured rejection by more than one ugly step-sister; our midyear auction for Source One collided with a meltdown in the mortgage banking environment. We also pursued a couple of large public acquisitions in 1994 which failed to materialize. This is not the first time we have concluded a long, tortuous climb to the summit of a large transaction, only to slide back down without planting a banner. On the other hand, we didn't step off any cliffs. We will continue to search for one more special relationship where we can bring more than money to the table. Before long, I expect our patience and prudence will be rewarded with more potential winners like FSA, White Mountains, and Main Street America. If we do not find such opportunities within a reasonable period, we will continue to make our excess capital available to shareholders, as we did in 1994 and early 1995.

We strengthened our Board this year with the addition of Bob Cochran, CEO of FSA, and Tom Kemp, Executive Vice President of Fund American and a valued colleague for more than two decades. Bob Cochran brings prudent judgement, a broad background in structured finance, and a distinguished legal career. Tom Kemp's thirty years of insurance and reinsurance expertise is an invaluable asset to both Fund American and White Mountains, where he will be Chairman. In the pages which follow, you will find commentary by each of our General Managers on the growing promise of our operating businesses.

We planted some of our seed corn in 1994, but the harvest will be many years off. Meantime, the corn in the silo lost value in 1994. On to 1995.

Respectfully submitted,

/s/John J. Byrne  
John J. Byrne  
Chairman  
March 15, 1995

[FSA LOGO APPEARS HERE]

In 1994 municipal bond issuances declined sharply from the record levels of the last two years, when large numbers were refinanced to take advantage of lower interest rates.

The decline in volume led some of our competitors to cut premiums to a level that would not produce an adequate return. We refused to join in a self-defeating price war. As a result, we deployed less capital in this market than we would have liked, but the capital we did deploy in 1994 will provide solid returns for years to come.

For 1995 we expect municipal bond volume to approximate the \$160 billion issued in 1994. However, we do expect the number of insured issues to increase, in part because the bankruptcy of Orange County, California has reminded the market of the value of insurance.

In the last two years, other municipal bond insurers have followed us into the asset-backed bond market. While their participation increases competition, it also will help us broaden the market for this type of credit enhancement.

Our challenge for 1995 is to expand our business prudently and to deploy our capital wisely. We are well-positioned to do so, with a solid foundation in the large municipal market, a leadership position in the growing asset-backed market, and an established track record in the rapidly expanding international markets.

/s/ Robert P. Cochran  
Robert P. Cochran, President and CEO  
Financial Security Assurance

[SOURCE ONE LOGO APPEARS HERE]

During 1994 we were in a rising interest rate environment. Total industry volume of mortgage loans plummeted from approximately \$1 trillion in 1993 to about \$700 billion. Forecasts call for a further drop to around \$600 billion in 1995.

This environment has had a significant, but differing, impact on the two principal segments of our business, loan production and loan servicing.

The lower loan volume resulted in severe overcapacity throughout the industry, causing predatory pricing as lenders stretched to maintain market share. We chose not to chase volume this way and downsized our origination network by more than half. We also centralized most of the sales support activities to reduce costs and better position ourselves for the next cycle of originations.

The same business conditions that made for a difficult origination environment created a favorable climate for servicing. As interest rates increased and mortgage prepayments slowed, the value of our servicing portfolio increased significantly during 1994. We opted to take advantage of this increase in value through the sale of approximately \$10 billion of servicing, which should close by the end of the first quarter 1995. The sale will create a better balance between our restructured origination capabilities and the anticipated run-off of our remaining \$30 billion servicing portfolio.

We expect 1995 to have many of the characteristics of 1994: reduced originations, industry overcapacity, predatory pricing and downsizing. In this difficult environment, we believe the actions we took in 1994 will prove to be beneficial in achieving our 1995 goals.

/s/James A. Conrad  
James A. Conrad, President and CEO  
Source One Mortgage Services Corp.



## THE FUND AMERICAN FAMILY

Source One Mortgage Services Corporation has been part of the Fund American family since 1986. Several other companies joined our small circle just this year: Financial Security Assurance in April, and Main Street America and White Mountains at year-end. Below, each management team discusses their enterprise.

### SOURCE ONE MORTGAGE SERVICES CORPORATION

Jim Conrad, President and CEO  
Bob Richards, Chairman

The company that was to become Source One was founded in 1946. Source One originates, sells and services residential mortgages. Built around the American dream of home ownership, our company grew from a single office with four employees to one of the nation's leading mortgage bankers. Headquartered in Farmington Hills, Michigan, Source One finished 1994 with a \$40 billion servicing portfolio. Nineteen hundred Source One employees serve more than 550,000 customers through 161 branches around the country.

[PHOTO 2 APPEARS HERE]

We create value by (1) producing loans through a large, multi-channelled production franchise with significant retail origination capabilities, (2) building and administering a large, high-quality servicing portfolio, and (3) employing technology to drive down servicing and production costs. We strive to be the low cost operator on both sides of the business.

### PRODUCTION

Source One's retail network is one of the most geographically diverse in the industry, spanning 28 states. We have located our 161 branches to focus on demographically attractive growth areas. Wholesale originations are coordinated through the company's Whole Loan, Broker, and Correspondent sales channels and come from a network of banks, thrift institutions, and mortgage brokers. Source One's multiple origination channels make it possible to shift production as market conditions warrant, emphasizing the mode which is most economically advantageous at the time.

### SERVICING

Our servicing operation has achieved cost, quality and productivity standards significantly better than the industry. This efficiency is the result of economies of scale, sophisticated collection and loss-mitigation techniques, and a flexible customized in-house computer system designed to deliver superior customer service and reduce the per-unit labor content. The exceptional productivity of our employees is recognized throughout the industry.

## FAIR LENDING

Since the beginning, we have been committed to providing equal credit opportunity to all of our customers. We followed fair lending principles long before current legislation was proposed, and we continue to provide on-going training in this important area for all employees.

In addition, we initiated an affordable housing plan designed to help low and moderate income people achieve their dream of home ownership. Our counselors educate affordable housing candidates at every step of the mortgage application process, and provide financial counseling prior to loan application and throughout the life of the loan.

[PHOTO 3 APPEARS HERE]

As an example of our commitment, we were instrumental in organizing a major homebuying fair in Detroit which drew more than 3,000 potential low and moderate income first time homebuyers. As we told you last year, we are proud to say that for nearly fifty years we have been financing the future for America's homeowners.

FINANCIAL SECURITY ASSURANCE  
Bob Cochran, President and CEO  
Roger Taylor, Managing Director and Chief Operating Officer

A little over ten years ago, a group of us who had participated in the early development of municipal bond insurance got together to create a new company that would apply the same concept to the asset-backed bond market. We had seen first-hand how financial guarantees added efficiency and liquidity to the municipal bond market, and we believed that insurance could do the same in the then-emerging asset-backed bond market. We established FSA in July 1985 with about \$200 million of capital. FSA was the first Triple-A rated monoline bond insurer to promote the use of financial guaranty insurance in the taxable domestic and international debt markets.

[PHOTO 4 APPEARS HERE]

FSA guarantees scheduled principal and interest payments on securities. Issuers use our guaranty to lower their cost of funds and broaden the distribution of their securities. Investors rely on the guaranty not only for default protection but also to enhance liquidity, mitigate the risk of issuer downgrades and simplify the investment decision concerning complex securities.

Source One mortgage lenders explain our products to participants in the Detroit Homebuying Fair. Source One's service was rated the best in the country by Dalbar, Inc., an Independent, Boston-based customer satisfaction survey firm.

Bob Cochran, right and Roger Taylor head FSA's management team.

Today we are the fourth largest financial guaranty insurer, with over half a billion dollars in shareholders' equity. We are the recognized leader in the asset-backed market and have developed a substantial and growing position in the municipal bond insurance market. FSA-guaranteed securities are originated and distributed in markets around the world.

One of the fundamental strengths of the financial guaranty insurance business is that transactions we have already insured provide an annuity of future earnings, because premiums are earned over the life of each insured bond. This gives us a stable and predictable base of earnings each year going forward, regardless of year-to-year variations in new business originations.

#### MUNICIPAL BOND MARKET

With Federal support for schools, hospitals, highways and other municipal facilities in decline, municipal bonds are the primary financing tools of state and local governments. Every year, more than 35% of newly issued long-term municipal bonds are insured by FSA or one of the other Aaa/AAA bond insurers, and we expect this percentage to grow. While the total market has more than tripled in size since 1980, the amount insured has grown more than forty times larger.

#### ASSET-BACKED MARKET

The asset-backed market is still in a high-growth phase and presents increasing opportunities for financial guarantors. FSA virtually invented financial guaranty insurance for asset-backed securities and, for a decade, has led the market in terms of expertise, technology and the breadth of our involvement.

A large portion of this market consists of issues backed by "commodity" assets, such as single-family mortgages, auto loans and credit card receivables. We have succeeded in this part of the market by helping to create customized securitization programs for issuers that come to market regularly. These programs, which may be modified to meet issuers changing needs, are a continuing source of reliable relationship business.

#### INTERNATIONAL MARKET

FSA was the first monoline guarantor to operate outside the United States, providing a guaranty for the first U.K. residential mortgage-backed transaction in 1987. We participated in many other "firsts" since then, including the first Eurobonds backed by Australian and New Zealand home mortgages, and the first securitizations of senior loans by French banks. Through our London-based U.K. subsidiary, we have a "passport" to all the member countries of the European Union. Our representative office in Sydney has helped FSA become the leading private guarantor in Australia and has been a base of operations throughout the Pacific Rim. And through our joint marketing agreement with the Tokio Marine and Fire Insurance Company, Limited, Japan's oldest and largest property & casualty insurer, we are supporting Tokio Marine in developing the market for financial guarantees in Japan.

[PHOTO 5 APPEARS HERE]

Jeff Kramer, left vice president of FSA's Asset Finance Group, on-site at Chicago's largest authorized Harley-Davidson Motorcycle dealership, with Steven Dell, CEO of Eaglemark Financial Services, Inc., which provides loans to purchasers of Harley-Davidson motorcycles. During 1994, FSA guaranteed three transactions backed by Harley-Davidson motorcycle contracts totaling approximately \$86 million.

As we enter 1995, FSA is in a strong capital position. We have the lowest ratio of insured risk to capital of the top four bond insurers and the highest S&P margin of safety. We believe that with our superior capital strength and the financial expertise of our extraordinary people, FSA will continue its success in its core markets and find new ways to build the company's value.

WHITE MOUNTAINS INSURANCE COMPANY

Tom Kemp, Chairman  
Morgan Davis, President and CEO

[PHOTO # 6  
APPEARS HERE]

We formed our property & casualty start-up at the end of the year, and received our license from the State of New Hampshire on March 3, 1995. Our intention is to build a book of medium to large commercial business from the ground up, "brick by brick."

White Mountains' objective is to fill the market gaps that are developing as many old, large, national, multiline companies restructure. The industry has endured extended market pressures from pricing competition, economic pressure from contracting bond portfolios and swelling long-tail claims, and political pressures from regulators and ratings agencies. In this environment, companies are restricting their writings by line, by geographic distribution, and by class and risk.

As these insurers restructure and attempt to specialize, they are abandoning profitable market areas they deem too difficult or expensive to administer from afar. As a result, local agents are left with fewer choices to satisfy their customer's needs. Quite often, with the dramatic contraction of suppliers, agents and their customers have to "take what they can get."

We plan to expand the agent's options.

White Mountains will offer larger business customers the coverages and services they need in a professional, quality manner, from a local provider who has a better understanding of the risks involved. The agents we have shared our concept with are enthusiastic. White Mountains will have its executive offices in Hanover, New Hampshire, and initially a field office in Manchester, New Hampshire. We expect to outsource much of our back office support from a third party to keep expenses low.

We are excited to be building a company with an entrepreneurial culture that is not encumbered by past underwriting mistakes or bureaucratic baggage.

MAIN STREET AMERICA  
Phil Koerner, President and CEO  
Tom Van Berkel, Senior Vice President

Over 70 years ago, National Grange Mutual Insurance Company (NGM) was founded to provide members of the National Grange affordable auto insurance without the cost of

Tom Kemp, left, Chairman of White Mountains Insurance Company and Morgan Davis, CEO, show off their newly issued New Hampshire license.

"reckless city driver's smash-ups." Clearly our industry, technologies, and the world around us have metamorphosed dramatically. However, a common purpose and philosophy connect our seven decades of insurance protection, providing us with a sense of tradition and stability as we move into the next century.

We were founded to provide affordable insurance for a specific group of people to whom we could provide value. Today, our mission is much the same: we offer an array of insurance products and services to people whose needs we understand and to whom we can provide outstanding service. We have built our organization around our Mission and our customers.

[PHOTO 7 APPEARS HERE]

Primarily, we sell personal and commercial lines products to Main Street Americans. This phrase does not describe the location of our customers, but rather the nature of the risks and the types of insureds we seek out -- customers who are proud of what they own and take measures to protect their possessions. Our products are geared toward these customers. We offer homeowners, automobile, contractors and business owners insurance with broad-based applicability. Often, we say that we have vanilla products with sizzle endorsements; the products themselves are straightforward in serving the people of our niche, while the sizzle endorsements contain unique coverages. Together with our relationships and the service we provide, they help differentiate us.

We are also involved in other areas of the insurance business. Our subsidiary Information Systems & Services Corporation (ISS) helps us to profit from the excellent insurance processing systems we developed for NGM. Currently, ISS provides processing and other insurance services to companies across the nation. Guiderland Reinsurance Company is a subsidiary offering reinsurance products and services to other insurance companies. With shared resources and one organizational body of expertise, these companies work synergistically with NGM to provide a multitude of insurance services.

As an organization, we have an expression that we extend to all our insurance publics: "We take you personally." What started as a service slogan has become a description of how we behave toward our customers and co-workers. We know that the way we treat one another and meet the needs of our co-workers sets the tone for how our customers are treated on a daily basis, so we honor the importance of taking one another personally.

These core beliefs are affirmed by the fact that we have had consistently successful results for a decade. This pattern of success enabled us to enter a mutually rewarding relationship with Fund American. This pattern of success, and our new relationship, is something for which all of us at NGM take considerable pride.

[PHOTO # 8  
APPEARS HERE]

#7

Phil Koemer, right. President and CEO of National Grange Mutual, and Torn Van Berkel, Senior Vice President.

#8

National Grange Mutual/Main Street America home office in Keene, N.H.

FUND AMERICAN  
SELECTED CONSOLIDATED FINANCIAL DATA

Millions, except per share amounts	Year Ended December 31,				
	1994	1993	1992	1991	1990
<b>INCOME STATEMENT DATA:</b>					
Revenues	\$ 229	\$ 251	\$ 214	\$ 234	\$ 275
Expenses	226	234	191	162 g	232
Pretax operating earnings	3	17	23	72	43
Net investment gains	39	124	65	112	158
Pretax earnings	42	141	88	184	201
Income tax provision	21	71	34	64	72
After tax earnings	21	70	54	120	129
Income from discontinued operations, after tax	-	-	-	-	24
Gain from sale of discontinued operations, after tax	-	-	1	1,306 h	-
Loss on early extinguishment of debt, after tax	-	-	-	(29) g	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax	(44) a	-	-	-	-
Cumulative effect of accounting change - postretirement benefits, after tax	-	-	(2) e	-	-
Cumulative effect of accounting change - income taxes	-	-	(24) f	-	-
Cumulative effect of transition adjustment for prior period net unrealized investment losses, after tax	-	-	-	(84) i	-
Net income (loss)	\$ (23)	\$ 70	\$ 29	\$ 1,313	\$ 153
<b>Primary earnings per share:</b>					
After tax earnings	\$ 1.20	\$ 5.68	\$ 2.71	\$ 4.87	\$ 2.49
Net income (loss)	(3.51) a	5.68	.74	67.14 h	3.08
<b>Fully diluted earnings per share:</b>					
After tax earnings	1.20	5.68	2.70	4.85	2.55
Net income (loss)	(3.51) a	5.68	.73	53.14 h	3.03
Cash dividends per share of common stock	-	-	-	.68	.68
<b>ENDING BALANCE SHEET DATA:</b>					
Assets of continuing operations	\$1,807	\$ 3,305	\$ 3,129	\$ 2,964	\$ 3,220
Total assets	1,807	3,305	3,129	2,964 h	12,432
Short-term debt	254	1,537	1,513	1,013 g	2,372
Long-term debt	547	601	423	324 g	688
Minority interest - preferred stock of subsidiary	100 b	-	-	-	-
Shareholders' equity	661 c	905 d	988 c	1,496	1,592
Book value per common and equivalent share	68.95 a	77.27 d	80.65	75.49 h	30.65

- (a) Reflects the prior years' cumulative effect of a change in Source One's methodology used to measure impairment of its purchased mortgage servicing rights asset. See Note 5 of the Notes to Consolidated Financial Statements.
- (b) Reflects the issuance by Source One in the first quarter of 1994 of perpetual preferred stock. See Note 11 of the Notes to Consolidated Financial Statements.
- (c) Reflects redemptions of the Company's Voting Preferred Stock Series D, par value \$1.00 per share (the "Series D Preferred Stock") and repurchases of shares of the Company's Common Stock, par value \$1.00 per share ("Shares"). See Note 12 of the Notes to Consolidated Financial Statements.
- (d) Reflects the distribution of approximately 74% of the outstanding shares of Common Stock of White River Corporation ("White River") to shareholders on December 22, 1993 (the "Distribution").
- (e) Reflects the prior years' cumulative effect of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." See Note 1 of the Notes to Consolidated Financial Statements.
- (f) Reflects the prior years' cumulative effect of the adoption of SFAS No. 109, "Accounting for Income Taxes." See Note 1 of the Notes to Consolidated Financial Statements.
- (g) Reflects the repayment during the first quarter of 1991 of all the parent company's debt outstanding at December 31, 1990, and the corresponding reduction in interest expense.
- (h) Reflects the sale of Fireman's Fund Insurance Company ("Fireman's Fund"). See Note 2 of the Notes to Consolidated Financial Statements.
- (i) Prior to 1991, such net unrealized investment losses were recorded as a direct adjustment to shareholders' equity, with no corresponding charge to net income.

FUND AMERICAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED RESULTS

RESULTS OF  
OPERATIONS  
YEARS ENDED  
DECEMBER 31,  
1994, 1993  
AND 1992

The Company reported a consolidated net loss of \$23.2 million for the year ended December 31, 1994, which compares to net income of \$70.4 million for 1993 and \$29.2 million for 1992. The 1994 reported loss includes a \$68.1 million pretax charge related to the prior years' cumulative effect of an accounting change in the manner by which Source One measures impairment of its purchased mortgage servicing rights asset. The 1992 net income amount includes \$25.7 million of charges related to the prior years' cumulative effect of adopting two accounting pronouncements and \$47.9 million of pretax writedowns related to Source One's capitalized mortgage servicing asset.

Book value per common and common equivalent share was \$68.95 at December 31, 1994, which compares to \$77.27 at December 31, 1993. The 1994 accounting change and unrealized investment portfolio losses combined to produce the net decline in book value per share from 1993 to 1994.

After tax earnings for 1994 were \$21.1 million versus \$70.4 million and \$54.2 million for 1993 and 1992, respectively. The decrease from 1993 to 1994 is primarily due to \$73.4 million of pretax unrealized gains recorded in earnings for 1993. Under an accounting rule adopted as of December 31, 1993, Fund American now records changes in unrealized gains and losses as a direct adjustment to shareholders' equity with no credit or charge to net income. The increase in after tax earnings from 1992 to 1993 reflects higher net investment gains included in the income statement.

MORTGAGE ORIGINATION AND SERVICING  
OPERATIONS

Effective January 1, 1994, Source One changed the methodology used to measure impairment of its purchased mortgage servicing rights asset. Previously, Source One measured the asset's impairment on a disaggregated basis and used a cost of capital charge to measure the value of future servicing cash flows. The new accounting methodology measures the asset's impairment on a disaggregated basis and discounts the asset's estimated future cash flows using current market rates. Source One's management believes that the use of current market rates to discount cash flows versus the use of a cost of capital charge is a preferable accounting method because it represents a more conservative and informative financial statement presentation of the purchased mortgage servicing rights asset. The adoption of the new accounting methodology, recorded as a cumulative adjustment as of January 1, 1994, resulted in a \$68.1 million pretax, \$44.3 million after tax charge to income for 1994. The prospective effect of the accounting change was a \$2.5 million net pretax charge to income for 1994.

Source One did not change the methodology used to measure impairment of its capitalized excess servicing asset.

Source One continues to measure impairment using the original discount rate to discount estimated future excess servicing cash flows.

During 1993 and 1992 the entire mortgage banking industry experienced substantial prepayments in mortgage servicing portfolios due to refinancings caused by declines in market interest rates for mortgage loans. Considering the substantial amount of refinancing during 1992, Source One decided to prospectively measure the recoverability of its purchased mortgage servicing rights asset on a disaggregated basis using a cost of capital charge to measure the value of future servicing cash flows.



Application of this accounting methodology resulted in a \$38.2 million pretax reduction in net mortgage servicing revenue for 1992. In addition, during 1992 Source One recorded unscheduled amortization totalling \$9.7 million to reflect the effect of high prepayments on the capitalized mortgage servicing asset. The high level of prepayments continued in 1993 due to further declines in market interest rates for mortgage loans, resulting in additional pretax writedowns of the capitalized mortgage servicing asset totalling \$32.0 million during 1993.

Net servicing revenue was \$82.4 million for the year ended December 31, 1994. Excluding the effects of the \$32.0 million and \$38.2 million writedowns of the capitalized mortgage servicing asset in 1993 and 1992, respectively, net servicing revenue would have been \$85.5 million for 1993 and \$86.6 million for 1992. The decrease in net servicing revenue for 1994 compared to 1993 reflects lower weighted average net servicing fee rates on newly originated loans partially offset by slower amortization of the capitalized mortgage servicing asset. The decrease in 1993 was primarily due to a lower average servicing portfolio compared to 1992. A summary of the mortgage loan servicing portfolio activity follows:

Billions	Year Ended December 31,		
	1994	1993	1992
Beginning balance	\$ 38.4	\$ 37.3	\$ 41.0
Mortgage loan production	4.6	11.5	7.6
Servicing acquisitions	3.7	6.4	2.3
Payoffs	(4.7)	(13.6)	(11.5)
Servicing released, principal amortization and foreclosures	(2.4)	(3.2)	(2.1)
Ending balance	\$ 39.6	\$ 38.4	\$ 37.3

The increase in market interest rates for mortgage loans resulted in a sharp decrease in loan prepayments from the mortgage loan servicing portfolio during 1994. Source One's prepayment rates for the years ended December 31, 1994, 1993 and 1992 were 13%, 39% and 30%, respectively.

The payoff rate used to estimate future servicing cash flows for measuring impairment is based on current median prepayment estimates by interest rate and origination date, as compiled by several large brokerage firms. During 1994 the discount rate used to discount the future cash flows of the purchased mortgage servicing rights asset was based on current market interest rates used for mortgage servicing sales as quoted by industry brokers. The discount rate ranged from 8.59% to 12.55% for the year ended December 31, 1994. In 1993 and 1992 the interest component used to measure the value of the future cash flows of the purchased mortgage servicing rights asset was developed based on the most recent twelve-month average cost of capital including the actual cost of debt and dividends paid on Source One's equity capital. These rates were 2.72% and 3.00% for the years ended December 31, 1993 and 1992, respectively.

In June 1994 the Financial Accounting Standards Board issued an exposure draft entitled "Accounting for Mortgage Servicing Rights and Excess Servicing Receivables and for Securitization of Mortgage Loans." The exposure draft, in its current form, would require entities to (i) capitalize originated servicing rights and (ii) measure impairment of all capitalized servicing on a disaggregated

basis by stratifying the capitalized mortgage servicing asset based on the risk characteristics of the underlying loans. Impairment would be recognized through a valuation allowance for an individual stratum with a

corresponding charge to expense. The proposed statement would be applied prospectively in years beginning after December 15, 1995 to transactions involving the capitalization of originated servicing rights and to impairment evaluations to all capitalized servicing rights. Retroactive application would be prohibited. The proposed statement, if adopted in its current form, could have a substantial impact on Source One's financial condition and results of operations in the future. However, since no final pronouncement has been issued, management is not able to predict with any reliability whether such pronouncement may ultimately be adopted and what impact, if any, it would have on Source One's financial condition and results of operations.

During the second quarter of 1994 Source One sold the rights to service \$3.9 billion of mortgage loans to a third party for cash proceeds of \$70.2 million. Source One has continued to service these loans pursuant to a subservicing agreement. Accordingly, the related \$19.9 million gain from the sale was deferred and is being recognized in income over the five-year life of the subservicing agreement. For the year ended December 31, 1994, Source One recognized \$2.7 million of the deferred gain which is included in net servicing revenue. The mortgage servicing portfolio at December 31, 1994 includes loans subserviced for others having a principal balance totalling \$4.3 billion.

In February 1995 Source One reached a definitive agreement to sell \$9.8 billion of its mortgage servicing portfolio to a third party for estimated proceeds of \$190.0 million. The transaction is expected to result in a pretax gain in the first quarter of 1995 of approximately \$28.2 million. The portion of Source One's mortgage servicing portfolio that will be sold consists of approximately 115,000 loans with a weighted average interest rate of 7.72% and is representative of the entire mortgage servicing portfolio. The sale of mortgage servicing was undertaken by Source One to take advantage of the substantial increase in the value of servicing rights that has been created by the rise in interest rates during 1994.

The decreases in mortgage loan production and payoffs in 1994 reflect an increase in market interest rates and a corresponding reduction in refinancing activity from prior year levels. Production related to refinance activity represented approximately 50%, 67% and 60% of total mortgage loan production for the years ended December 31, 1994, 1993 and 1992, respectively.

The net gain on sales of mortgages decreased to \$29.5 million for the year ended December 31, 1994 from \$34.8 million in 1993. The net gain on sales of mortgages totalled \$17.1 million for the year ended December 31, 1992. The decrease in the net gain from 1993 to 1994 reflects lower mortgage loan sales volume due to the reduction in mortgage loan production and increased pricing subsidies on newly originated loans during the second half of 1994. The increase in the net gain from 1992 to 1993 was attributable to larger mortgage loan sales volume due to increased mortgage loan production and a more favorable secondary market environment.

Other mortgage operations revenue decreased to \$23.9 million for the year ended December 31, 1994 from \$29.2 million in 1993. Other mortgage operations revenue was \$21.0 million for the year ended December 31, 1992. Loan processing fees, which generally represent approximately 80% of other mortgage operations revenue, tend to decrease or increase as mortgage loan production decreases or increases,

respectively.

# INVESTMENT OPERATIONS

The total return from Fund American's investment activities is shown below:

Millions	Year Ended December 31,		
	1994	1993	1992
Net investment income and other revenue:			
Source One	\$ 71.5	\$117.0	\$103.6
Other	18.7	16.5	24.0
Total net investment income and other revenue	90.2	133.5	127.6
Net realized investment gains	38.8	50.6	11.0
Change in net unrealized investment gains and losses:			
Included in net income	-	73.4	54.3
Recorded directly to shareholders' equity	(84.3)	69.9	17.9
Total net investment gains (losses), before tax	(45.5)	193.9	83.2
Total net investment return, before tax	\$ 44.7	\$327.4	\$210.8

Fund American's net investment income is comprised primarily of interest income earned on mortgage loans originated by Source One. The decrease in Source One's net investment income from 1993 to 1994 is mainly attributable to decreased interest income from mortgage loans held for sale related to the lower mortgage loan production experienced during 1994. The increase in other net investment income from 1993 to 1994 resulted from a second quarter 1994 transfer of \$112.0 million of common equity securities from Source One to its parent, Fund American Enterprises, Inc. ("FAE", a subsidiary of the Company), in exchange for shares of Source One's common stock held by FAE. Prior to such transfer, the net investment income relating to the securities transferred was included in net investment income of Source One. The decrease in other net investment income from 1992 to 1993 resulted from net sales of investment securities. Cash basis sales and maturities of common equity securities and other investments, net of purchases, totalled \$151.9 million, \$115.0 million and \$263.4 million for the years ended December 31, 1994, 1993 and 1992, respectively.

Net realized investment gains during 1994, before tax, included \$22.6 million of gains from the sale of The Louisiana Land and Exploration Company common stock and \$21.7 million of gains from the sale of American Express Company common stock. Net realized gains during 1993, before tax, included \$14.0 million of gains from the sale of A. H. Belo common stock and \$13.2 million of gains from the sale of San Juan Basin Royalty Trust units. Net realized investment gains during 1992, before tax, included \$46.6 million of gains from the sale of MBIA Inc. common stock.

Total investment gains and losses during the three years ended December 31, 1994 have been substantially affected by changes in market prices for crude oil and natural gas. At December 31, 1994, 62% of Fund American's portfolio of common equity securities was invested in the energy, natural resources and related industries sector. Fund American believes that the oil and natural gas industries are highly cyclical and, therefore, anticipates continued volatility in the value of its investment portfolio in the future.

Prior to December 31, 1993 Source One carried its portfolio of common equity securities at the lower of its aggregate cost or market value as of the balance sheet date. Changes in Source One's market valuation allowance for this portfolio were recorded as a direct adjustment to shareholders' equity (net of tax) with no credit or charge to net income. Additionally, prior to December 31, 1993, common equity securities and other investments held by Fund American, other than securities held by Source One, were carried at fair value as of the balance sheet date with related unrealized gains and losses included in net income.

As of December 31, 1993 Fund American adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under the provisions of SFAS No. 115, substantially all of Fund American's portfolio of common equity securities and other investments were classified as securities available for sale. The statement requires that investments classified as securities available for sale be reported at fair value as of the balance sheet date, with related unrealized gains and losses excluded from earnings and reported as a net amount in a separate component of shareholders' equity. Therefore, for periods beginning after December 31, 1993, all of Fund American's net unrealized gains and losses are reported as a direct adjustment to shareholders' equity with no credit or charge to net income.

A review of certain significant holdings in Fund American's portfolio of common equity securities at December 31, 1994 follows. Dollar amounts refer to the aggregate market value at December 31, 1994 of Fund American's holdings of each security discussed.

#### Energy, Natural Resources and Related Industries.

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The energy and natural resources industries, particularly the crude oil and natural gas industries, are highly competitive, require significant capital expenditures and are subject to extensive regulation at both the national and local levels. Fund American believes that the values of securities of companies engaged in those businesses are relatively volatile due to fluctuations in the prices of crude oil, natural gas and other natural resources. Fund American's holdings within the energy, natural resources and related industries sector consist in great part of large blocks of securities of a small number of issuers. This concentration may make the value of Fund American's portfolio more volatile than the value of a more diversified portfolio.

The Louisiana Land & Exploration Company ("LLX"; \$106.5 million). LLX is one of the largest independent exploration and production companies in the nation. LLX explores for, produces and markets crude oil and natural gas in the United States and certain foreign countries. Fund American believes that LLX's operations are affected by, among other things, changes in the prices of crude oil and natural gas, general economic conditions and LLX's ability to successfully produce and replace crude oil and natural gas reserves.

San Juan Basin Royalty Trust ("San Juan"; \$70.1 million). San Juan units receive a 75% net overriding royalty interest from certain of Southland Royalty Company's leasehold and royalty interests in the San Juan Basin of Northwestern New Mexico. Fund American believes that changes in crude oil and natural gas prices and in the level of development and production expenditures by the operator of San Juan may affect the distributions to unitholders of San Juan and, therefore, the market prices of the units of San Juan. In addition, Fund American believes that the tax and accounting issues involved in owning units in San Juan may make such units unappealing to many investors.

Other Significant Holdings.

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American Express Company ("AXP"; \$70.9 million).

AXP is a financial services, travel and information services company which is actively traded on the New York Stock Exchange. Fund American believes that its investment in the common stock of AXP is highly liquid.

EXPENSES

Interest expense decreased to \$78.8 million in 1994 which compares to \$103.1 million for 1993 and \$77.5 million for 1992. The decrease in interest expense from 1993 to 1994 relates primarily to a decrease in short-term borrowings. Source One's inventory of mortgage loans held for sale, which decreased during 1994 as a result of lower mortgage loan production, is funded mainly with short-term debt. The increase in interest expense from 1992 to 1993 relates primarily to the issuance by the parent company of \$150.0 million in principal amount of medium-term notes in the first quarter of 1993 and an increase in the average balance of total debt outstanding at Source One. The increase in the average balance of Source One's debt from 1992 to 1993 reflects a higher average balance of mortgage loans held for sale related to increased mortgage loan production.

Compensation and benefits expense increased to \$69.2 million in 1994 from \$63.5 million in 1993 and \$61.1 million in 1992. Source One nets mortgage loan origination fees, less certain direct costs, against compensation and benefits expense. The high amount of originations experienced by Source One during 1993 resulted in significantly more origination fees offsetting compensation and benefits for 1993 than in 1994. Excluding the effects of such loan origination fees, compensation and benefits expense decreased \$39.0 million from 1993 to 1994, reflecting significant reductions in production-related personnel at Source One during 1994.

General expenses of \$77.7 million for 1994 compare to 1993 and 1992 amounts of \$67.5 million and \$53.0 million, respectively. The increase in general expenses from 1993 to 1994 is due to the expansion of Source One's mortgage loan production network throughout 1993 and early 1994. Efforts to reduce Source One's operating expenses in response to the contraction in mortgage originations began to take effect in the third quarter of 1994.

Source One's provision for mortgage loan losses, included in general expenses, was \$8.2 million in 1994 which compares to \$3.7 million for 1993 and \$4.9 million for 1992. The increase from 1993 to 1994 is primarily due to charge-offs of certain commercial real estate owned properties and higher average loss volumes relating to certain California residential mortgage loans.

Fund American adopted during 1992 the provisions of SFAS No. 106 which relates to employee postretirement benefits other than pensions. The prior years' cumulative effect of SFAS No. 106, recorded as of January 1, 1992, was \$1.9 million and was net of a \$1.0 million income tax benefit.

## INCOME TAXES

The income tax provision related to pretax earnings for 1994, 1993 and 1992 represents an effective tax rate of 49.3%, 50.1% and 38.2%, respectively. The income tax provision for 1994, 1993 and 1992 reflects \$4.6 million, \$2.4 million and \$4.5 million of expense, respectively, related to certain tax reserve adjustments. The tax provision for 1993 also includes \$13.0 million of current income tax relating to taxable capital gains triggered by the Distribution of approximately 74% of the shares of Common Stock of White River to shareholders on December 22, 1993. Such gains were not recognized for financial reporting purposes pursuant to generally accepted accounting principles ("GAAP"). The 1993 provision also includes \$4.7 million of deferred income tax reflecting a tax reserve established on White River's books of record as of December 22, 1993, the date of the Distribution. The reserve offsets White River's deferred tax asset calculated on a stand-alone basis as of that date.

Fund American has recorded a net deferred Federal income tax asset of \$21.4 million as of December 31, 1994. The deferred tax asset includes a \$23.9 million net benefit related to various operating items partially offset by a \$2.5 million net liability related to unrealized gains on investment securities.

Fund American adopted during 1992 the provisions of SFAS No. 109 which established new accounting rules for income taxes. The catch-up charge to net income for SFAS No. 109 was \$23.8 million, or \$1.88 per share for the full year 1992. The SFAS No. 109 adjustments relate principally to deferred tax liabilities on intangible assets arising from Fund American's acquisition of Source One in 1986. SFAS No. 109 requires the recording of deferred tax liabilities as if these assets were to be sold.

## OTHER

On December 22, 1993 the Company distributed approximately 74% of the outstanding shares of Common Stock of White River to its shareholders. White River commenced operations on September 24, 1993, concurrent with the purchase and other transfer of selected assets and the assumption of certain liabilities from Fund American. The assets sold or otherwise transferred by Fund American to White River included primarily \$84.0 million of common equity securities, \$147.1 million of securities classified as other investments and \$25.8 million of short-term investments. White River's initial capitalization consisted of a \$50.0 million demand note payable to Fund American, \$7.0 million of redeemable preferred stock and \$200.0 million of common shareholder's equity. Of the shares of Common Stock of White River retained by Fund American, 980,507, or approximately 15% of the total shares of Common Stock of White River outstanding as of September 24, 1993, were reserved by Fund American for delivery upon exercise of existing employee stock options and warrants.

On January 2, 1991, pursuant to an agreement originally announced on August 2, 1990, the Company sold its principal operating business, Fireman's Fund, to Allianz of America, Inc. for \$2,908.7 million in cash. Fireman's Fund included substantially all Fund American's property-casualty insurance operations. The reported gain from the sale, calculated in accordance with GAAP, was \$1,305.7 million after tax for the year ended December 31, 1991. An additional \$.7 million gain was recorded during 1992 as a result of adjustments to the net proceeds of the sale related to certain employee benefit plans. The 1991 gain includes a \$75.0 million tax benefit related to the Company's estimated tax loss on the sale. The amount of tax benefit from the sale ultimately realized by the Company may be significantly more or less than the Company's current estimate due to possible changes in or new interpretations of tax



rules, possible amendments to Fund American's 1990 or prior years' Federal income tax returns, the results of Internal Revenue Service audits and other matters affecting the amount of the deductible tax loss. The Company has included in other liabilities an estimated reserve related to such matters affecting the amount of the deductible tax loss and other tax matters. Such reserve totalled \$78.6 million as of December 31, 1994.

#### LIQUIDITY AND CAPITAL RESOURCES

##### PARENT COMPANY

The primary sources of cash inflows for the Company are investment income, sales of investment securities and dividends received from its operating subsidiaries. Since the sale of Fireman's Fund, the Company has been gradually liquidating its portfolio of passive investment securities. Management's primary strategic goal is to reinvest the Company's passive investments (or proceeds from sales thereof), together with other resources available to the Company, into operating businesses in which management has knowledge and experience. Management believes that this strategy will, over time, further enhance shareholder value if appropriate opportunities can be found. Management currently intends to develop or pursue investments in or acquisitions of one or more businesses, primarily in the mortgage origination and servicing, insurance or other financial services industries. Such acquisitions could be made by means of purchases of securities for cash or in exchange for certain of Fund American's investment holdings. In connection with any acquisitions, Fund American may sell or otherwise dispose of a portion of its assets.

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., as 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. The Company's initial stake represented a 7.6% ownership of FSA. 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 additional rights and securities whereby it substantially increased its holdings and voting control in FSA. Such additional rights and securities include (i) various fixed price options and shares of convertible preferred stock which, in total, give the Company the right to acquire over the next five to ten years up to 4,560,607 additional shares of FSA common stock for aggregate consideration of \$125.7 million, and (ii) a "call right" which, in general, gives the Company the right through November 13, 1995, to acquire up to 9,000,000 additional shares of FSA common stock for per share consideration equal to the higher of (a) market price or (b) a fixed price ranging from \$29.00 to \$30.50. The Company also has a right of first offer through November 13, 1995, relating to the same 9,000,000 shares of common stock. All shares of 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.

The Company purchased an additional 460,200 shares of FSA Common Stock on the open market in the first quarter of 1995 for \$8.8 million which raised its voting control of FSA to approximately 23%.

In December 1994 the Company purchased a 33% interest of property-casualty insurer Main Street America Holdings, Inc. ("MSA"), a unit of National Grange Mutual Insurance Company ("NGM"), for \$25.0 million in cash. MSA shares in 40% of NGM's business through a reinsurance agreement.

On February 7, 1995 the Company capitalized its newly formed subsidiary, White Mountains, with \$25.0 million in cash. In March 1995 White Mountains received its license from the Insurance Commissioner of the State of New Hampshire to engage in the sale of property casualty insurance. White Mountains is expected to expand its operations to other states as additional approvals are obtained.

In June 1994 the Company entered into a revolving credit agreement with a syndicate of banks. Under the agreement, through June 1, 1995, the Company and certain of its subsidiaries may borrow at market interest rates up to \$75.0 million. The credit agreement contains certain customary covenants, including a \$525.0 million minimum tangible net worth requirement and a minimum asset coverage requirement. At December 31, 1994 the Company had no borrowings outstanding under this agreement.

During January and February 1993 the Company issued \$150.0 million in principal amount of medium-term notes for net cash proceeds of \$148.0 million after related costs. Proceeds from the issuance of the notes were used to repay an existing \$100.0 million revolving credit facility and for general corporate purposes. In June 1994 the Company repurchased \$25.0 million in principal amount of the notes. At December 31, 1994 the remaining outstanding notes had an average maturity of 8.38 years and an average yield to maturity of 7.82%.

On July 13, 1992 the Company redeemed 51,389 shares of the Series D Preferred Stock for \$185.0 million. In August 1994 the Company redeemed an additional 22,778 shares of the Series D Preferred Stock for \$82.0 million. The redemption price for the shares of Series D Preferred Stock redeemed was equal to the stock's liquidation preference. In accordance with the terms of the Series D Preferred Stock, the redemption date for the remaining 20,833 shares of the Series D Preferred Stock outstanding was extended from July 31, 1994 to July 31, 1995 and the annual dividend rate was increased from 7.75% to 8.75% on August 1, 1994. The Company may, at its option, extend the redemption date for the Series D Preferred Stock for one more year, to July 31, 1996, which would require a further increase in the dividend rate to 9.75%.

During 1994, 1993 and 1992 the Company repurchased 1,128,057 Shares, 536,247 Shares and 5,314,518 Shares, respectively, for \$78.8 million, \$41.8 million and \$371.7 million, respectively. The bulk of the Shares repurchased during 1992 were acquired pursuant to a Plan of Complete Liquidation which was terminated in June 1992. The Shares repurchased during 1993 and 1994 represent a return of excess capital to the Company's shareholders.

On February 21, 1995 the Company commenced a self-tender offer for 750,000 Shares for \$75.00 per Share in cash, or an aggregate purchase price of \$56.4 million including related costs. The tender offer expires on March 20, 1995 and, if fully subscribed, would exhaust the Company's remaining Share repurchase authorization.

The Company currently does not pay regular cash dividends to holders of Shares, and the Company's Board of Directors (the "Board") currently does not intend to reinstate regular periodic dividends on Shares. However, the Board currently intends to reconsider from time to time the declaration of regular periodic dividends on Shares with due consideration given to the financial characteristics of Fund American's remaining invested assets and operations and the amount and regularity of its cash flows at the time. There can be no assurance, therefore, as to whether or when the Board will declare additional dividends on Shares.

#### SOURCE ONE

Source One's investments, mortgage loans held for sale and mortgage loan servicing portfolio provide a liquidity reserve since they may be sold to meet liquidity needs.

Source One's working capital requirements have historically been funded through its revolving credit and commercial paper programs. These borrowings are used to fund mortgage loan production until the sale of such mortgage loans in the secondary market. Declines in mortgage loan production have led to a reduction in the balance of mortgage loans held for sale during 1994, resulting in a corresponding decrease in Source One's short-term borrowings.

In August 1994 Source One replaced its then existing credit agreements with three new credit facilities totalling \$900.0 million. At Source One's request, such facilities were reduced to an aggregate amount of \$800.0 million in November 1994. The new facilities, together with \$325.0 million aggregate principal amount of publicly issued debt securities, are secured primarily by Source One's mortgage loans held for sale and mortgage loan servicing portfolio. One facility in the amount of \$250.0 million matures on July 31, 1995 and the remaining two facilities in the amounts of \$150.0 million and \$400.0 million mature on June 30, 1997 and July 31, 1997, respectively. At December 31, 1994 there was \$195.0 million outstanding under these secured credit facilities.

Source One's secured credit facilities currently contain covenants which limit its ability to pay dividends or make distributions on its capital in excess of \$9.0 million of cash dividends on preferred stock each year. Source One is in the process of re-negotiating this covenant to increase the dividend/distribution capacity thereunder. The covenants also require Source One to maintain a certain level of total tangible net worth and a certain ratio of debt to total tangible net worth. Source One is currently in compliance with all such covenants.

Under the credit agreements described above, Source One receives interest expense credits as a result of holding escrow and custodial funds in trust accounts at non-affiliated banks.

Source One also has a revolving credit agreement under which it can borrow up to \$10.0 million. At December 31, 1994 and 1993, there was \$3.8 million and \$2.5 million outstanding under this agreement, respectively.

Prior to August 1994 Source One could borrow at floating rates up to \$725.0 million under revolving credit agreements. Source One also had bid loan facilities to augment those credit agreements which allowed Source One to borrow additional amounts in a bid process. At December 31, 1993 Source One had \$725.0 million outstanding under the revolving credit agreements and \$236.9 million outstanding in bid loans.

Source One has a \$650.0 million domestic and Euro commercial paper program. The weighted average number of days to maturity of commercial paper outstanding at December 31, 1994 was 10 days. At December 31, 1994 and 1993 there was \$26.1 million and \$574.0 million of commercial paper outstanding, respectively.

In June 1992 Source One issued \$100.0 million principal amount of 9% debentures due in June 2012 under terms of a \$250.0 million shelf registration statement filed in April 1992. The proceeds from issuance were used for general corporate purposes.

In October 1991 Source One issued \$160.0 million of medium-term notes under terms of a \$200.0 million shelf registration statement filed in November 1988. The notes are due in October 2001 and bear interest at a rate of 8.875%.

In 1989 Source One issued \$40.0 million of medium-term notes having a weighted average interest rate of 9.65% and due in 1996.

In 1986 Source One issued \$125.0 million of 8.25% debentures due November 1, 1996.

In March 1994 Source One issued 4,000,000 shares of 8.42% perpetual Cumulative Preferred Stock, Series A, having an aggregate liquidation preference of \$25.00 per Share, for net cash proceeds of \$96.9 million. The Source One preferred stock is not redeemable prior to May 1, 1999.

#### INFLATION

Inflation affects Source One most significantly in the area of loan originations. Interest rates normally increase during periods of high inflation and decrease during periods of low inflation. Historically, Source One's loan originations have increased in response to falling interest rates and have decreased during periods of rising interest rates. However, higher interest rate environments typically enhance the value of Source One's mortgage loan servicing portfolio due to related declines in refinancing activity. Lower interest rates generally result in higher payoffs and, therefore, typically reduce the value of the mortgage loan servicing portfolio.

FUND AMERICAN  
CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31, 1994	1993
<b>ASSETS</b>		
Common equity securities, at market value (cost \$294.2 and \$464.3)	\$ 332.4	\$ 585.5
Other investments (cost \$163.6 and \$120.3)	157.3	113.4
Short-term investments, at amortized cost (which approximated market value)	119.2	252.5
	-----	-----
Total investments	608.9	951.4
Cash	1.5	10.7
Capitalized mortgage servicing, net of accumulated amortization	530.5	666.7
Mortgage loans held for sale	210.5	1,298.5
Pool loan purchases	163.9	155.5
Mortgage claims receivable and real estate acquired, less allowance for mortgage loan losses of \$13.4 and \$16.0	49.8	46.4
Investments in unconsolidated affiliates	69.7	-
Goodwill	28.0	30.4
Other assets	144.5	145.4
	-----	-----
Total assets	\$ 1,807.3	\$ 3,305.0
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<b>LIABILITIES</b>		
Short-term debt	\$ 254.1	\$ 1,536.8
Long-term debt	547.0	601.3
Accounts payable and other liabilities	245.1	261.9
	-----	-----
Total liabilities	1,046.2	2,400.0
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MINORITY INTEREST - PREFERRED STOCK OF SUBSIDIARY	100.0	-
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<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock - authorized 10,000,000 shares, Series D voting preferred stock, issued 20,833 and 43,611 shares	75.0	157.0
Common stock - authorized 125,000,000 shares, issued 33,597,147 and 34,725,204 shares	33.6	34.7
Common paid-in surplus	338.1	349.5
Retained earnings	1,098.2	1,198.6
Common stock in treasury, at cost: 25,187,210 and 25,317,210 shares	(878.5)	(884.9)
Net unrealized investment gains	19.7	74.5
Loan for common stock issued	(25.0)	(24.4)
	-----	-----
Total shareholders' equity	661.1	905.0
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Total liabilities, minority interest and shareholders' equity	\$ 1,807.3	\$ 3,305.0
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See Notes to Consolidated Financial Statements.

FUND AMERICAN  
CONSOLIDATED INCOME STATEMENTS

Millions, except per share amounts	Year Ended December 31,		
	1994	1993	1992
REVENUES:			
Mortgage servicing revenue	\$169.3	\$187.1	\$195.8
Amortization of capitalized mortgage servicing	86.9	133.6	147.4
Net mortgage servicing revenue	82.4	53.5	48.4
Net gain on sales of mortgages	29.5	34.8	17.1
Other mortgage operations revenue	23.9	29.2	21.0
Equity in earnings of unconsolidated affiliates	2.5	-	-
Net investment income and other revenue	90.2	133.5	127.6
Total revenues	228.5	251.0	214.1
EXPENSES:			
Interest expense	78.8	103.1	77.5
Compensation and benefits	69.2	63.5	61.1
General expenses	77.7	67.5	53.0
Total expenses	225.7	234.1	191.6
Pretax operating earnings	2.8	16.9	22.5
Net realized investment gains	38.8	50.6	11.0
Change in net unrealized investment gains and losses	-	73.4	54.3
NET INVESTMENT GAINS	38.8	124.0	65.3
Pretax earnings	41.6	140.9	87.8
Income tax provision	20.5	70.5	33.6
AFTER TAX EARNINGS	21.1	70.4	54.2
Gain from sale of discontinued operations, after tax	-	-	.7
Cumulative effect of accounting change - purchased mortgage servicing, after tax	(44.3)	-	-
Cumulative effect of accounting change - postretirement benefits, after tax	-	-	(1.9)
Cumulative effect of accounting change - income taxes	-	-	(23.8)
NET INCOME (LOSS)	(23.2)	70.4	29.2
Less dividends on preferred stock	9.9	12.2	19.9
Net income (loss) applicable to common stock	\$(33.1)	\$ 58.2	\$ 9.3
PRIMARY EARNINGS PER SHARE:			
After tax earnings	\$ 1.20	\$ 5.68	\$ 2.71
Gain from sale of discontinued operations, after tax	-	-	.06
Cumulative effect of accounting changes	(4.71)	-	(2.03)
Net income (loss)	\$ (3.51)	\$ 5.68	\$ .74
FULLY DILUTED EARNINGS PER SHARE:			
After tax earnings	\$ 1.20	\$ 5.68	\$ 2.70
Gain from sale of discontinued operations, after tax	-	-	.06
Cumulative effect of accounting changes	(4.71)	-	(2.03)
Net income (loss)	\$ (3.51)	\$ 5.68	\$ .73

See Notes to Consolidated Financial Statements.

FUND AMERICAN  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Millions	Total	Preferred stock	Common stock and paid-in surplus	Retained earnings	Common stock in treasury	Net unrealized investment gains (losses)	Loan for common stock issued
Balances at December 31, 1991	\$1,496.5	\$ 342.0	\$450.0	\$1,687.2	\$(946.9)	\$(35.8)	\$ -
Net income	29.2	-	-	29.2	-	-	-
Dividends to preferred stockholders	(18.7)	-	-	(18.7)	-	-	-
Redemption of preferred stock	(185.0)	(185.0)	-	-	-	-	-
Purchases of common stock retired	(371.7)	-	(58.8)	(312.9)	-	-	-
Stock options and warrants exercised and performance shares awarded	50.0	-	(1.1)	(9.6)	60.7	-	-
Loan for common stock issued	(23.8)	-	-	-	-	-	(23.8)
Change in net unrealized investment gains and losses, after tax	11.8	-	-	-	-	11.8	-
Balances at December 31, 1992	988.3	157.0	390.1	1,375.2	(886.2)	(24.0)	(23.8)
Net income	70.4	-	-	70.4	-	-	-
Dividends to preferred stockholders	(12.2)	-	-	(12.2)	-	-	-
Distribution of subsidiary to common stockholders	(146.9)	-	-	(146.9)	-	-	-
Purchases of common stock retired	(41.8)	-	(5.9)	(35.9)	-	-	-
Stock options exercised and performance shares awarded	2.0	-	-	.7	1.3	-	-
Change in net unrealized investment gains and losses, after tax	23.7	-	-	-	-	23.7	-
Cumulative effect of change in accounting for investment securities, after tax	22.1	-	-	(52.7)	-	74.8	-
Other	(.6)	-	-	-	-	-	(.6)
Balances at December 31, 1993	905.0	157.0	384.2	1,198.6	(884.9)	74.5	(24.4)
Net loss	(23.2)	-	-	(23.2)	-	-	-
Dividends to preferred stockholders	(9.4)	-	-	(9.4)	-	-	-
Redemption of preferred stock	(82.0)	(82.0)	-	-	-	-	-
Purchases of common stock retired	(78.8)	-	(12.5)	(66.3)	-	-	-
Stock warrants exercised	4.9	-	-	(1.5)	6.4	-	-
Change in net unrealized investment gains and losses, after tax	(54.8)	-	-	-	-	(54.8)	-
Other	(.6)	-	-	-	-	-	(.6)
BALANCES AT DECEMBER 31, 1994	\$ 661.1	\$ 75.0	\$371.7	\$1,098.2	\$(878.5)	\$ 19.7	\$(25.0)

See Notes to Consolidated Financial Statements.

FUND AMERICAN  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31,		
	1994	1993	1992
Net income (loss)	\$ (23.2)	\$ 70.4	\$ 29.2
Charges (credits) to reconcile net income (loss) to cash flows from operations:			
Net realized investment gains	(38.8)	(50.6)	(11.0)
Change in net unrealized investment gains and losses	-	(73.4)	(54.3)
Gain from sale of discontinued operations, after tax	-	-	(.7)
Cumulative effect of accounting change - purchased mortgage servicing, after tax	44.3	-	-
Cumulative effect of accounting change - postretirement benefits, after tax	-	-	1.9
Cumulative effect of accounting change - income taxes	-	-	23.8
Decrease (increase) in mortgage loans held for sale	1,088.0	(182.4)	(318.8)
Depreciation and amortization of mortgage origination and servicing assets and goodwill	99.2	142.3	155.1
Capitalized excess mortgage servicing income	(16.7)	(58.1)	(47.1)
Change in current income taxes receivable and payable	22.6	21.2	101.5
Deferred income tax provision (benefit)	(1.4)	37.2	14.4
Change in other assets	24.8	(26.9)	(7.0)
Change in accounts payable and other liabilities	(7.3)	(26.1)	9.3
Other, net	2.4	9.7	5.5
Net cash flows provided from (used for) operating activities	1,193.9	(136.7)	(98.2)
Cash flows from investing activities:			
Net decrease (increase) in short-term investments	133.3	(10.2)	(2.4)
Sales and maturities of common equity securities and other investments	338.2	360.4	282.1
Purchases of common equity securities and other investments	(186.3)	(245.4)	(18.7)
Investments in unconsolidated affiliates	(44.0)	-	-
Collections on mortgage origination and servicing assets	232.3	213.3	179.5
Additions to capitalized mortgage servicing	(90.1)	(72.2)	(119.6)
Proceeds from sales of mortgage servicing	70.2	-	-
Additions to other mortgage origination and servicing assets	(242.8)	(255.9)	(247.0)
Purchases of fixed assets, net	(3.6)	(11.2)	(7.4)
Sale of discontinued operations	-	-	(7.9)
Net cash provided from (used for) investing activities	207.2	(21.2)	58.6
Cash flows from financing activities:			
Net (decrease) increase in short-term debt	(1,314.5)	21.5	498.5
Proceeds from issuances of long-term debt	-	178.0	98.4
Repayments of long-term debt	(23.9)	-	-
Proceeds from issuances of preferred stock by subsidiary	96.9	-	-
Redemption of preferred stock	(82.0)	-	(185.0)
Proceeds from issuances of common stock from treasury	2.8	2.1	29.4
Purchases of common stock retired	(78.8)	(41.8)	(371.7)
Cash dividends paid to preferred shareholders	(10.8)	(12.7)	(22.2)
Net cash (used for) provided from financing activities	(1,410.3)	147.1	47.4
Net (decrease) increase in cash during year	(9.2)	(10.8)	7.8
Cash balance at beginning of year	10.7	21.5	13.7
Cash balance at end of year	\$ 1.5	\$ 10.7	\$ 21.5

See Notes to Consolidated Financial Statements.



FUND AMERICAN  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF  
SIGNIFICANT  
ACCOUNTING  
POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Fund American Enterprises Holdings, Inc. (the "Company") and its subsidiaries (collectively, "Fund American"). Fund American's principal business is conducted through Source One Mortgage Services Corporation and its subsidiaries ("Source One"). The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). All significant intercompany transactions have been eliminated in consolidation. The financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of Fund American. Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

ACCOUNTING STANDARDS RECENTLY ADOPTED

As of December 31, 1994 Fund American adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments," which requires the disclosure of the amount, nature, terms, purpose and fair value of derivative financial instruments. The adoption of SFAS No. 119 resulted only in additional disclosure requirements and had no effect on Fund American's financial position or results of operations.

Prior to December 31, 1993 Source One carried its portfolio of common equity securities at the lower of its aggregate cost or market value as of the balance sheet date. Changes in Source One's market valuation allowance for this portfolio were recorded as a direct adjustment to shareholders' equity (net of tax) with no credit or charge to net income. Common equity securities held by the Company and its subsidiaries other than Source One were carried at market value, with related unrealized gains and losses included in net income. As of December 31, 1993 Fund American adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under the provisions of SFAS No. 115, substantially all of Fund American's portfolio of common equity securities and other investments were classified as securities available for sale. The statement requires that investments classified as securities available for sale be reported at fair value as of the balance sheet date, with related unrealized gains and losses excluded from earnings and instead reported as a net amount in a separate component of shareholders' equity (net of tax).

During 1992 Fund American adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the cost of such benefits to be charged to expense during the years that employees render services.

Also during 1992 Fund American adopted SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 established new accounting rules for income taxes. It requires an asset and liability approach for financial accounting and reporting for income taxes.

## INVESTMENT SECURITIES

Other investments include: fixed income investments carried at amortized cost which approximated fair value as of December 31, 1994 and 1993; investment partnership interests accounted for using the equity method and carried at internally appraised fair value if such value differs significantly from the equity basis; certain preferred and common equity securities having no established public market value and carried at internally appraised fair value; certain securities which, due to restrictions regarding resale, are carried at a discount to the quoted market value for similar unrestricted securities; mortgage loans held for investment; and residual interests in real estate mortgage investment conduits ("REMICs"). Mortgage loans held for investment are stated at the lower of cost or market value, determined on an individual loan basis at the time the permanent investment decisions were made. Related discounts, if any, are amortized to income over the anticipated life of the investment. REMICs are classified as held to maturity and are carried at amortized cost using a method which approximates the effective yield method of amortization.

Short-term investments are carried at amortized cost which approximated market value as of December 31, 1994 and 1993. Short-term mortgage-backed securities are classified as trading securities and are stated at fair value with unrealized gains and losses, if any, reported in income.

Realized gains and losses resulting from sales of investment securities or from other than temporary impairments of value are accounted for using the specific identification method.

## MORTGAGE ORIGINATION AND SERVICING

Fund American acquired Source One in 1986. The purchase price in excess of historical book value allocated to goodwill is being amortized over 20 years.

Mortgage loans held for sale are stated at the lower of aggregate cost or market value.

Conventional residential mortgage loans are placed on a non-accrual basis when delinquent 90 days or more as to interest or principal. Interest on delinquent Federal Housing Administration ("FHA") insured loans is accrued at the insured rate beginning on the sixty-first day of delinquency. Interest on delinquent Veterans Administration ("VA") guaranteed loans is accrued at the loan rate during the period of delinquency.

Gains and losses from sales of mortgage loans are recognized when the proceeds are received. Loan origination fees, net of certain direct costs, have been deferred and are recognized as income when the related mortgage loans are sold. Discounts from the origination of mortgage loans held for sale are deferred and recognized as adjustments to gains or losses on sales.

Capitalized mortgage servicing includes certain costs incurred in the acquisition of mortgage servicing contracts (purchased servicing rights) which are deferred and amortized using a method that relates the anticipated net servicing revenue to total projected net servicing revenue to be received over the expected life of the loan. The initial amount of capitalized servicing recorded does not exceed the present value of estimated future net servicing income. Capitalized servicing also includes the present value of future servicing revenue in excess of normal servicing revenue on originated loans sold with servicing retained (excess servicing) which is deferred and amortized under a method similar to that which is used for purchased mortgage servicing rights.

Effective January 1, 1994 Source One changed the methodology used to measure impairment of its purchased mortgage servicing rights asset. Previously, Source One measured the asset's impairment on a disaggregated basis and used a cost of capital charge to measure the value of future servicing cash flows. The new accounting methodology measures the asset's impairment on a disaggregated basis and discounts the asset's estimated future cash flows using current market rates. Source One did not change the methodology used to measure impairment of its excess servicing asset. Source One continues to measure impairment using the original discount rate to discount excess servicing cash flows.

Pool loan purchases, which are carried at cost, represent FHA insured, VA guaranteed and conventional loans which were either delinquent or in the process of foreclosure at the time they were purchased from Government National Mortgage Association ("GNMA") or Federal National Mortgage Association ("FNMA") mortgage-backed security pools which Source One services or, to a lesser degree, from private investors. Interest is accrued on these purchased loans at a rate based on expected recoveries.

Mortgage claims receivable represent claims filed primarily with FHA and VA. These receivables are carried at cost less an estimated allowance for amounts which are not fully recoverable from the claims filed.

Real estate acquired is stated at the lower of net realizable value or the recorded balance satisfied at the date of acquisition, as determined on an individual property basis. Costs related to holding the properties are charged to expense as incurred.

The allowance for mortgage loan losses is based on an analysis of the mortgage loan servicing portfolio and, in management's judgment, is adequate to provide for estimated losses.

Mortgage servicing revenue represents fees earned for servicing real estate mortgage loans owned by investors and late charge income. The servicing fees are calculated based on the outstanding principal balances of the loans serviced and are recognized together with late charge income when received.

#### EARNINGS PER SHARE

For purposes of earnings per share, common stock equivalents include stock options, warrants and non-cash performance shares. The Voting Preferred Stock Series D, par value \$1.00 per share (the "Series D Preferred Stock") is not a common stock equivalent.

Primary earnings per share amounts are based on the weighted average number of common shares and dilutive common stock equivalents outstanding. In the calculation, income is adjusted for preferred stock dividends. The weighted average shares used in the primary computation were 9,405,093; 10,247,746 and 12,697,012 for the years ended December 31, 1994, 1993 and 1992, respectively.

Fully diluted earnings per share amounts are based on the weighted average number of common shares outstanding, assuming full dilution. Income is adjusted for preferred stock dividends when the preferred shares are anti-dilutive. The weighted average shares used in the fully diluted computation were 9,408,785; 10,247,746 and 12,725,024 for the years ended December 31, 1994, 1993 and 1992, respectively.

# FUTURE APPLICATION OF ACCOUNTING STANDARD

In June 1994 the Financial Accounting Board issued an exposure draft entitled "Accounting for Mortgage Servicing Rights and Excess Servicing Receivables and for Securitization of Mortgage Loans." The exposure draft, in its current form, would require entities to measure impairment on a disaggregated basis by stratifying the capitalized mortgage servicing asset based on the risk characteristics of the underlying loans. Impairment would be recognized through a valuation allowance for an individual stratum with a corresponding charge to expense. The proposed statement would be applied prospectively in years beginning after December 15, 1995 to transactions involving the capitalization of originated servicing rights and to impairment evaluations of all capitalized servicing rights. Retroactive application would be prohibited, although early adoption of the standard would be allowed. The proposed statement, if adopted in its current form, could have a substantial impact on Source One's financial condition and results of operations in the future. However, since no final pronouncement has been issued, management is not able to predict with any reliability whether such pronouncement may ultimately be adopted and what impact, if any, it would have on Source One's financial condition and results of operations.

## 2. SALE OF SUBSIDIARY

On January 2, 1991, pursuant to an agreement originally announced on August 2, 1990, the Company sold its principal operating business, Fireman's Fund Insurance Company (together with its insurance subsidiaries, "Fireman's Fund"), to Allianz of America, Inc. The 1991 gain from the sale includes a \$75.0 million tax benefit related to the Company's estimated tax loss on the sale. The amount of tax benefit from the sale ultimately realized by the Company may be significantly more or less than the Company's current estimate due to possible changes in or new interpretations of tax rules, possible amendments to Fund American's 1990 or prior years' Federal income tax returns, the results of Internal Revenue Service audits and other matters affecting the amount of the deductible tax loss. The Company has included in other liabilities an estimated reserve related to such matters affecting the amount of the deductible tax loss and other tax matters. Such reserve totalled \$78.6 million at December 31, 1994.

## 3. INVESTMENT SECURITIES

Net investment income and other revenue consisted of the following:

-----			
Year Ended December 31,			
Millions	1994	1993	1992
-----			
Interest income			
Mortgage loans held for sale	\$ 66.6	\$ 88.0	\$ 75.6
Short-term investments	7.8	6.4	14.8
Other	5.3	24.3	17.4
	-----		
Total interest income	79.7	118.7	107.8
Dividend and royalty trust income	11.1	15.2	16.6
Other investment revenue	.1	2.3	4.9
Less investment expenses	(.7)	(2.7)	(1.7)
	-----		
Net investment income and other revenue, before tax	\$ 90.2	\$133.5	\$127.6
=====			

Net realized investment gains and changes in net  
unrealized investment gains and losses were as follows:

Millions	Year Ended December 31,		
	1994	1993	1992
Net realized investment gains	\$ 38.8	\$ 50.6	\$ 11.0
Net unrealized investment gains (losses):			
Included in net income	--	73.4	54.3
Recorded directly to shareholders' equity	(84.3)	69.9	17.9
Total net investment gains (losses), before tax	\$(45.5)	\$193.9	\$ 83.2

The components of ending net unrealized gains and losses  
on common equity securities and other investments were  
as follows:

Millions	December 31,		
	1994	1993	1992
Unrealized gains	\$ 47.3	\$145.8	\$ 75.8
Unrealized losses	(17.0)	(31.2)	(96.6)
Total net investment gains (losses), before tax	\$ 30.3	\$114.6	\$(20.6)

Non-cash exchanges of investment securities totalling  
\$.3 million and \$39.8 during 1993 and 1992,  
respectively, are not reflected in the Consolidated  
Statements of Cash Flows.

4. Mortgage Origination and Servicing Source One services loans throughout the United States. Source One's portfolio of mortgages serviced, including loans subserviced, interim servicing contracts and those under contract to acquire, totalled \$39.6 billion and \$38.4 billion as of December 31, 1994 and 1993, respectively, including GNMA guaranteed mortgage-backed securities of \$11.9 billion and \$11.4 billion, respectively. The following table summarizes the mortgage loan servicing portfolio:

	Outstanding principal balance (millions)	Weighted average			Remaining contractual life (months)
		Loan balance (thousands)	Interest rate	Net servicing fee rate	
Loan Type:					
Residential:					
Conventional	\$25,279	\$ 85	7.96%	.397%	257
FHA	8,127	51	8.59	.440	287
VA	4,420	51	8.37	.431	275
Commercial	91	618	7.60	.177	176
	37,917	70	8.14	.410	265
Interim servicing	1,651				
Total servicing portfolio	\$39,568				

The servicing fee rates in the preceding table are shown after deducting applicable guarantee fees and before the effect of amortization of capitalized servicing. Guarantee fees range from six basis points for governmental loans to approximately 30 basis points for certain conventional loans. Certain loans sold to private investors have no guarantee fees.

The following tables summarize Source One's mortgage loan servicing portfolio by interest rate range and by location of property:

Interest rate range	December 31, 1994			December 31, 1993		
	Number of loans	Aggregate principal balance (millions)	Weighted average interest rate	Number of loans	Aggregate principal balance (millions)	Weighted average interest rate
5.99% and lower	6,597	\$ 318	5.37%	9,685	\$ 422	5.25%
6.00%-6.49%	11,887	800	6.21	10,680	639	6.17
6.50%-6.99%	37,415	3,339	6.71	24,124	2,107	6.70
7.00%-7.49%	89,649	7,316	7.16	56,399	4,187	7.15
7.50%-7.99%	93,328	7,748	7.61	66,450	5,380	7.62
8.00%-8.49%	57,323	4,220	8.09	53,227	3,889	8.10
8.50%-8.99%	78,998	4,465	8.60	81,721	4,553	8.61
9.00%-9.49%	36,115	2,168	9.08	39,272	2,382	9.08
9.50%-9.99%	59,174	3,383	9.60	75,228	4,531	9.60
10% and above	72,942	4,160	10.52	102,186	6,123	10.52
Total	543,428	\$37,917	8.14%	518,972	\$34,213	8.53%

State	December 31, 1994			December 31, 1993		
	Number of loans	Aggregate principal balance (millions)	Percentage of principal balance of servicing portfolio	Number of loans	Aggregate principal balance (millions)	Percentage of principal balance of servicing portfolio
California	79,621	\$ 7,195	19.0%	82,694	\$ 7,209	21.1%
Washington	42,584	3,502	9.2	37,938	2,950	8.6
New York	35,214	2,611	6.9	36,157	2,728	8.0
Michigan	33,174	1,865	4.9	28,667	1,356	4.0
Texas	26,411	1,863	4.9	17,065	1,058	3.1
Florida	29,955	1,642	4.9	25,576	1,452	4.2
Illinois	20,984	1,580	4.2	19,972	1,369	4.0
New Jersey	18,075	1,331	3.5	18,757	1,328	3.9
Virginia	20,429	1,256	3.3	21,132	1,206	3.5
Arizona	17,570	1,104	2.9	16,631	9.63	2.8
Other	219,411	13,768	36.3	214,383	12,594	36.8
Total	543,428	\$37,917	100.0%	518,972	\$34,213	100.0%

The tables include \$4,294 million outstanding principal balance of loans subserviced for others at December 31, 1994. The tables exclude \$1,651 million and \$4,190 million outstanding principal balance of interim servicing as of December 31, 1994 and 1993, respectively.

Escrow funds of approximately \$277.9 million and \$281.7 million as of December 31, 1994 and 1993, respectively, relating to mortgages serviced and subserviced, were held in non-interest bearing accounts at non-affiliated banks and are not included in the consolidated financial statements.

Source One has in force an errors and omissions policy in the amount of \$20.0 million. Primary fidelity coverage up to a limit of \$45.0 million is provided under a Fund American master policy, for which Source One pays a portion of the premium.

5. CAPITALIZED  
SERVICING

Effective January 1, 1994 Source One changed the methodology used to measure impairment of its purchased mortgage servicing rights asset. Previously, Source One measured the asset's impairment on a disaggregated basis and used a cost of capital charge to measure the value of future servicing cash flows. The new accounting methodology measures the asset's impairments on a disaggregated basis and discounts the asset's estimated future cash flows using current market rates. Source One's management believes that the use of current market rates to discount cash flows versus the use of a cost of capital charge is a preferable accounting method because it represents a more conservative and informative financial statement presentation of the purchased mortgage servicing rights asset. The adoption of the new accounting methodology, recorded as a cumulative adjustment as of January 1, 1994, resulted in a \$68.1 million pretax charge to income for 1994. The prospective effect of the accounting change was a \$2.5 million net pretax charge to income for 1994.

If this accounting change had been applied retroactively, the pro format effect would have decreased after tax earnings by approximately \$4.7 million, or \$.46 per share, for the year ended December 31, 1993. Pro forma amounts for 1992 cannot be reasonably determined since Source One does not have the necessary data available to stratify the mortgage servicing portfolio on a consistent basis. The following table summarizes changes in Source One's capitalized mortgage servicing asset:

Millions	Year Ended December 31,		
	1994	1993	1992
-----			
Purchases Servicing:			
Balance at beginning of year	\$ 570.2	\$ 551.3	\$ 560.0
Servicing acquisitions	69.7	117.5	119.6
Scheduled amortization	(61.7)	(90.1)	(89.4)
Impairment and unscheduled amortization	(12.8)	(8.5)	(38.9)
Sales of servicing	(21.7)	--	--
Cumulative effect of accounting change	(68.1)	--	--
	-----		
Balance at end of year	475.6	570.2	551.3
-----			
Excess Servicing:			
Balance at beginning of year	96.5	73.4	45.3
Additions	16.7	58.1	47.1
Scheduled amortization	(12.1)	(11.5)	(10.0)
Impairment and unscheduled amortization	(.4)	(23.5)	(9.0)
Sales of servicing	(28.6)	--	--
	-----		
Balance at end of year	72.1	96.5	73.4
Deferred gain on sales of servicing	(17.2)	--	--
	-----		
Total capitalized mortgage servicing	\$ 530.5	\$ 666.7	\$ 624.7
=====			

During 1993 and 1992 the entire mortgage banking industry experienced substantial prepayments in mortgage servicing portfolios due to refinancings caused by declines in market interest rates for mortgage loans. Considering these substantial refinancings, in December 1992 Source One decided to prospectively measure the recoverability of its capitalized mortgage servicing asset on a disaggregated basis, resulting in a \$38.2 million pretax reduction in net mortgage servicing revenue for the year ended December 31, 1992. In addition, during 1992 Source One recorded unscheduled amortization totalling \$9.7 million to reflect the effects of high prepayments on the capitalized servicing asset. The high level of prepayments continued in 1993 due to further declines in market interest rates for mortgage loans, resulting in additional pretax writedowns of the capitalized mortgage servicing asset totalling \$32.0 million during 1993.

Source One estimates the fair value of its capitalized excess servicing asset by discounting the anticipated cash flows to be received over the estimated life of the related loans. Source One uses interest only ("I/O") strip interest rates as quoted by market participants to determine the appropriate discount rate and prepayment speed assumption rates that are based on interest rates, loan types and maturity dates. The discount rates used to capitalize excess servicing ranged from 8.00% to 10.00% for the year ended December 31, 1994 and were 8.00% and 10.00% for the years ended 1993 and 1992, respectively. For the years ended December 31, 1994, 1993 and 1992, the weighted average discount rates inherent in the carrying amount of the capitalized excess servicing asset were 9.12%, 9.03% and 10.82%, respectively.

The following tables summarize the remaining unamortized purchased servicing asset by year of origination:

-----				
December 31, 1994				
-----				
Year of origination	Unamortized purchased servicing asset (millions)	Remaining portfolio balance (millions)	Weighted average interest rate	Weighted average maturity (years)
-----				
1989 and prior	\$ 88.1	\$ 4,636	9.06%	15.7
1987	43.9	2,084	8.67	19.9
1988	22.0	1,918	8.95	20.6
1989	30.5	1,432	9.03	22.7
1990	28.3	1,322	9.01	23.7
1991	40.2	1,905	8.46	23.9
1992	90.2	3,595	8.10	20.5
1993	106.9	9,997	7.21	22.1
1994	25.5	1,781	7.74	25.2
-----				
Total	\$475.6	\$28,670	8.13%	21.0
=====				



----- December 31, 1993 -----				
Year of origination	Unamortized purchased servicing asset (millions)	Remaining portfolio balance (millions)	Weighted average interest rate	Weighted average maturity (years)
-----				
1986 and prior	\$121.9	\$ 5,790	9.55%	17.0
1987	68.6	2,628	9.29	20.9
1988	28.4	1,278	10.13	23.1
1989	38.6	1,799	10.03	24.4
1990	39.2	1,557	9.98	25.2
1991	58.5	2,134	9.06	25.0
1992	109.9	5,062	8.14	22.5
1993	105.1	12,045	7.28	23.7
-----				
Total	\$570.2	\$32,293	8.50%	22.2
=====				

During the second quarter of 1994 Source One sold the rights to service \$3,868 million of mortgage loans to a third party for cash proceeds of \$70.2 million. Source One has continued to service these loans pursuant to a subservicing agreement. Accordingly, the related \$19.9 million gain from the sale was deferred and is being recognized in income over the five-year life of the subservicing agreement. For the year ended December 31, 1994 Source One recognized \$2.7 million of the deferred gain which is included in net servicing revenue. At December 31, 1994 the remaining deferred gain on the sale of servicing was \$17.2 million and is excluded from the above table. The mortgage loan servicing portfolio at December 31, 1994 includes loans subserviced for others having a principal balance totalling \$4,294 million.

The remaining unamortized purchased servicing asset related to the acquisition of Source One in 1986 was \$40.7 million and \$52.9 million at December 31, 1994 and 1993, respectively, and is included in "1986 & prior" on the above table. The related remaining portfolio balance was \$2.0 billion and \$2.7 billion, the weighted average interest rate was 9.28% and 9.36%, and the weighted average remaining maturity was 13.55 years and 14.58 years as of December 31, 1994 and 1993, respectively.

6. Mortgage Loans Held For Sale and Pool Loan Purchases
- The following tables summarize Source One's mortgage loans held for sale and pool loan purchases:

----- December 31, -----		
Millions	1994	1993
-----		
Adjustable rate mortgage loans, weighted average interest rates of 7.86% and 5.22%	\$ 46.4	\$ 61.4
Fixed rate 7 year through 25 year mortgage loans, weighted average interest rates of 8.81% and 6.82%	34.0	450.7
Fixed rate 30 year mortgage loans, weighted average interest rates of 9.27% and 7.39%	131.3	786.5
-----		
Total principal amount	211.7	1,298.6
Less discounts	(1.2)	(.1)
-----		
Total mortgage loans held for sale	\$ 210.5	\$1,298.5
=====		

	Principal balance (millions)		Number of loans	
December 31,	1994	1993	1994	1993
Loan type: FHA	\$102.8	\$ 92.9	1,850	1,679
VA	41.9	40.7	719	658
Conventional	19.2	21.9	224	247
Total pool loan purchases	\$163.9	\$155.5	2,793	2,582

## 7. DEBT

### SHORT-TERM DEBT

Short-term debt outstanding consisted of the following:

	December 31,	
Millions	1994	1993
Parent Company:		
Loan guarantee	\$ 30.0	\$ -
Source One:		
Commercial paper	26.1	574.0
Credit agreement borrowings	198.8	727.5
Bid loan borrowings	-	236.9
Less net premiums and discounts	(.8)	(1.6)
Total Source One	224.1	1,536.8
Total short-term debt	\$254.1	\$ 1,536.8

The weighted average interest rates of short-term debt outstanding during 1994 and 1993 were as follows:

	Year Ended December 31,	
	1994	1993
Parent Company:		
Revolving credit facility	5.11%	4.15%
Loan guarantee	5.36%	5.36%
Source One:		
Commercial paper	3.92%	3.36%
Credit agreements and bid loans	5.03%	4.03%

In June 1994 the Company entered into a revolving credit agreement with a syndicate of banks. Under the agreement, through June 1, 1995 the Company and certain of its subsidiaries may borrow at market interest rates up to \$75.0 million. The credit agreement contains certain customary covenants, including a \$525.0 million minimum tangible net worth requirement and a minimum asset coverage requirement. At December 31, 1994 the Company had no borrowings outstanding under the agreement.

In August 1993 the Company sold a \$30.0 million principal amount secured loan receivable from the Company's Chairman to a third party. The Company has guaranteed repayment of the loan and, therefore, in accordance with GAAP, has reflected the sale of the loan as indebtedness on the balance sheet. The loan matures on October 23, 1995. As of December 31, 1993 the loan guarantee was classified as long-term debt.

Source One has a \$650.0 million domestic and Euro commercial paper program. The weighted average number of days to maturity of commercial paper outstanding at December 31, 1994 was 10 days. In August 1994 Source One replaced its then existing credit agreements with three new credit facilities totalling \$900.0 million. At the request of Source One, such facilities were reduced to an aggregate amount of \$800.0 million in November 1994. The new facilities, together with \$325.0 million aggregate principal amount of publicly issued long-term debt securities, are secured primarily by Source One's mortgage loans receivable and the mortgage loan servicing portfolio. One facility in the amount of \$250.0 million matures on July 31, 1995 and the remaining two facilities in the amounts of \$150.0 million mature on June 30, 1997 and July 31, 1997, respectively.

Source One's secured credit agreement currently contain covenants which limit its ability to pay dividends or make distributions on its capital in excess of \$9.0 million of cash dividends on preferred stock each year. Source One is in the process of renegotiating this covenant to increase the dividend/distribution capacity thereunder. These covenants also require Source One to maintain a certain level of total tangible net worth and a certain ratio of debt to total tangible net worth. Source One is currently in compliance with all such covenants.

Under the credit agreements described above, Source One receives interest expense credits as a result of holding escrow and custodial funds in trust accounts at non-affiliated banks.

Source One also has a revolving credit agreement under which it can borrow up to \$10.0 million. As of December 31, 1994 and 1993, there was \$3.8 million and \$2.5 million outstanding under this agreement, respectively.

Prior to August 1994 Source One could borrow at floating rates up to \$725.0 million under various revolving credit agreements. Source One also had bid loan facilities to augment these credit agreements which allowed Source One to borrow additional amounts in a bid process.

#### LONG-TERM DEBT

Long-term debt outstanding consisted of the following:

Millions	December 31,	
	1994	1993
Parent Company:		
Medium-term notes	\$125.0	\$150.0
Loan guarantee	-	30.0
Less net premiums and discounts on notes	(1.2)	(1.5)
Total Parent Company	123.8	178.5
Source One:		
Debentures, 8.25% due in 1996	125.0	125.0
Medium-term notes, due in 1996	40.0	40.0
Medium-term notes, 8.75% due in 2001	160.0	160.0
Debentures, 9% due in 2012	100.0	100.0
Less net premiums and discounts on notes and debentures	(1.8)	(2.2)
Total Source One	423.2	422.8
Total long-term debt	\$547.0	\$601.3

During January and February 1993 the Company issued \$150.0 million in principal amount of medium-term notes for net cash proceeds of \$148.0 million after related costs. Proceeds from the issuance of the notes were used to repay an existing \$100.0 million revolving credit facility and for general corporate purposes. In June 1994 the Company repurchased \$25.0 million in principal amount of its medium-term notes due February 2003. At December 31, 1994 the remaining outstanding notes had an average maturity of 8.38 years and an average yield to maturity of 7.82%.

In 1986 Source One issued \$125.0 million of 8.25% debentures due November 1, 1996.

In 1989 Source One issued \$40.0 million of medium-term notes having a weighted average interest rate of 9.65% and due in 1996.

In October 1991 Source One issued \$160.0 million of medium-term notes under terms of a \$200.0 million shelf registration statement filed in November 1988. The notes are due in October 2001 and bear interest at a rate of 8.875%.

In June 1992 Source One issued \$100.0 million in principal amount of 9% debentures due in June 2012 under terms of a \$250.0 million shelf registration statement. The proceeds from issuance were used for general corporate purposes.

Total interest paid by Fund American for both short-term and long-term debt was \$80.1 million, \$98.1 million and \$75.4 million in 1994, 1993 and 1992, respectively.

#### 8. INCOME TAXES

The Company and its qualifying subsidiaries file a consolidated Federal Income tax return. The Federal Income tax provision is computed on the consolidated taxable income of the Company and those subsidiaries.

The total income tax provision (benefit) consisted of the following:

Millions	Year Ended December 31,		
	1994	1993	1992
Tax on income before accounting changes:			
Federal	\$ 20.2	\$ 67.8	\$ 29.7
State and local	.3	2.7	3.9
Income tax provision	20.5	70.5	33.6
Tax on cumulative effect of accounting change - purchased mortgage servicing	(23.8)	-	-
Tax on cumulative effect of accounting change - postretirement benefits	-	-	(1.0)
Cumulative effect of accounting change - income taxes	-	-	23.6
Total income tax provision (benefit)	\$ (3.3)	\$ 70.5	\$ 56.4
Net income tax payments (recoveries)	\$ (.7)	\$ 12.0	\$ (108.7)
Tax provision (benefit) recorded directly to shareholders' equity related to:			
Exercises of employee stock options and warrants	\$ (2.0)	\$ (4.7)	\$ (19.0)
Changes in net unrealized investment gains and losses	\$ (29.5)	\$ 24.1	\$ 6.1

The components of the income tax provision follow:

Millions	Year Ended December 31,		
	1994	1993	1992
Current provision	\$ 21.9	\$ 33.3	\$ 19.2
Deferred provision (benefit)	(1.4)	37.2	14.4
Income tax provision	\$ 20.5	\$ 70.5	\$ 33.6

Pursuant to the liability method of accounting for income taxes, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax return purposes. Significant components of Fund American's net deferred Federal income tax liability and asset follow:

Millions	December 31,	
	1994	1993
Deferred tax assets related to:		
Capitalized mortgage servicing	\$ 18.7	\$ -
Employee compensation and benefit accruals	12.2	10.7
Allowance for mortgage loan losses	4.7	5.5
Other items	6.1	3.8
Total deferred tax assets	41.7	20.0
Deferred tax liabilities related to:		
Purchase accounting adjustments	11.2	12.8
Net unrealized investment gains	2.5	22.8
Capitalized mortgage servicing	-	12.7
Other items	6.6	5.2
Total deferred tax liabilities	20.3	53.5
Net deferred Federal income tax liability (asset)	\$(21.4)	\$ 33.5

A reconciliation of taxes calculated using Federal statutory rates to the income tax provision follows:

Millions	Year Ended December 31,		
	1994	1993	1992
Federal statutory rate	35%	35%	34%
Tax provision at Federal statutory rate	\$ 14.6	\$ 49.3	\$ 29.9
Differences in taxes resulting from:			
Minority interest dividends	2.3	-	-
Purchase accounting adjustments	.7	.8	.7
State and local income taxes	.2	1.8	2.6
White River Distribution	-	17.7	-
Dividends received deduction	(2.2)	(2.7)	(2.2)
Equity income	-	(.6)	(1.7)
Tax reserve adjustments	4.6	2.4	4.5
Other	.3	1.8	(.2)
Income tax provision	\$ 20.5	\$ 70.5	\$ 33.6

In December 1993 the Company distributed to its shareholders (the "Distribution") approximately 74% of the outstanding shares of Common Stock of White River Corporation ("White River"). The \$17.7 million tax provision resulting from the Distribution includes \$13.0 million of current tax related to taxable capital gains triggered by the Distribution which were not recognized for financial reporting purposes pursuant to GAAP. The provision also includes a \$4.7 million tax reserve established on White River's books of record as of December 22, 1993, the date of the Distribution. The reserve offsets White River's deferred tax asset calculated on a stand-alone basis as of that date.

Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "IRC"), impose limitations on the use of certain tax benefits by a corporation that undergoes a more than 50% ownership change. The tax benefits which may be limited include loss carryforwards and built-in losses and deductions existing on the date of ownership change. The annual limitation for the utilization of such benefits during a five-year post-change period is generally calculated by multiplying the value of the corporation (as defined by the IRC) at the time of the ownership change by an interest rate (a long-term tax-exempt bond rate defined by the IRC). We regulatory guidance on the subject is not complete, the Company believes that it had an ownership change during 1992 so as to make the Section 382 and 383 limitations applicable to Fund American. Fund American believes that the imposition of such limitations will not have a material adverse effect on its financial position or results of operations. However, such limitations could serve to constrain the timing and structure of gain or loss recognition transactions, including assets sales, in the future.

9. Retirement and Post-Retirement Plans

On December 31, 1992 the Company terminated its defined benefit plan, supplemental pension plan, incentive savings plan and retiree medical plan. In 1993 the Plans Company established the Fund American Deferred Benefit Plan (the "Deferred Benefit Plan"), a nonqualified defined contribution plan for a select group of management employees for the purpose of providing retirement and postretirement benefits. The amount of annual contributions to the new plan are determined using actuarial assumptions and benefit levels similar to those of the previous plans; however, participants in the new plan may choose between two investment options for their plan balances. During 1993 accrued benefits under all the Company's terminated retirement plans were either (i) distributed to or for the benefit of employees or (ii) transferred to the Deferred Benefit Plan. At December 31, 1994 the Company's liability to participants pursuant to the Deferred Benefit Plan was \$1.4 million.

In 1993 the Company also established the Fund American Voluntary Deferred Compensation Plan (the "Deferred Compensation Plan"), a nonqualified plan for a select group of management employees for the purpose of deferring current compensation. Pursuant to the Deferred Compensation Plan, participants may defer all or a portion of qualifying remuneration payable by Fund American. Participants in the Deferred Compensation Plan may choose between two investment options for their plan balances. At December 31, 1994 the Company's liability to participants pursuant to the Deferred Compensation Plan was \$15.5 million.

Source One established its defined benefit pension plan as of July 1, 1986 for the benefit of its employees. Benefits under the Source One are based on years of service and each employee's highest average aligble compensation over five consecutive years in his last ten years of employment. Funding of retirement costs complies with the minimum funding requirements specified by the Employee Retirement Income Security Act. Cash contributions received by the Source One plan for the years ended December 31, 1994, 1993 and 1992, totalled \$1.1 million, \$1.9 million and \$1.0 million, respectively.

Source One also has a supplemental pension plan which is a nonqualified, unfunded benefit plan designed to provide supplementary retirement benefits for employees whose pensionable compensation exceeds statutory limits.

The following table sets forth the pension cost and actuarial assumptions used in determing the funded status of Fund American's qualified defined benefit pension plans:

Dollars in millions	Year Ended December 31,		
	1994	1993	1992
-----			
PENSION COST FOR PERIOD:			
Service cost for period	\$ 1.6	\$ 1.4	\$ .9
Interest cost on projected benefit obligation	1.3	1.2	.9
Actual return on plan assets	1.0	(1.3)	(.9)
Net amortization and deferral	(1.5)	.9	.4
	-----		
Total pension cost	\$ 2.4	\$ 2.2	\$ 1.3
=====			
FUNDED STATUS AT END OF PERIOD:			
Actuarial present value of benefit obligation:			
Accumulated benefit obligation, including vested benefits of \$11.0, \$11.3 and \$9.9	\$ 12.6	\$ 13.0	\$ 10.3
Effect of future projected salary increases	5.1	5.3	4.3
	-----		
Total projected benefit obligation	17.7	18.3	14.6
Plan assets at fair value	13.1	13.3	11.1
	-----		
Projected benefit obligation in excess of plan assets	4.6	5.0	3.5
Aggregate of items not yet recognized in earnings	(2.7)	(4.4)	(2.9)
	-----		
Pension cost accrued at end of period	\$ 1.9	\$ .6	\$ .6
=====			
ACTUARIAL ASSUMPTIONS:			
Discount Rate	8.0%	7.0%	7.5-8.5%
Rate of increase in future compensation levels	6.0%	6.0%	8.0%
Expected long-term rate of return on plan assets	8.0%	8.0%	8.0%
=====			

Total accrued postretirement benefit costs included in accounts payable and other liabilities was \$3.2 million and \$3.0 million at December 31, 1994 and 1993, respectively.

10. EMPLOYEE  
STOCK PLAN

The 1985 Long-Term Incentive Plan (the "Incentive Plan") provides for granting to officers and key employees of the Company and its participating subsidiaries various types of stock-based incentive awards including stock options and performance shares. At December 31, 1994, 404,762 Shares of the Company's Common Stock, par value \$1.00 per share ("Shares"), remained available for grants under the Incentive Plan.

Stock options are rights to purchase a specified number of Shares at or above the fair market value of Shares at the time an option is granted. Stock options generally vest over a four-year period and expire no later than ten years after the date on which they are granted.

Performance shares are conditional grants of a specified maximum number of Shares or an equivalent amount of cash. The grants are generally payable, subject to the attainment of a specified return on equity, at the end of three- to five-year periods or as otherwise determined by the Human Resources Committee (the Committee) of the Company's Board of Directors (the "Board"). The Committee consists solely of non-management directors.

The following table details the transactions applicable to non-qualified stock options to acquire Shares:

	Number	Exercise price
Balance at December 31, 1991	1,236,386	\$25.75-\$52.83
Exercised during 1992	1,122,111	\$25.75-\$39.69
Expired or cancelled during 1992	150	\$32.56
Balance at December 31, 1992	114,125	\$25.75-\$56.41
Exercised during 1993	107,000	\$25.75-\$59.87
BALANCE AT DECEMBER 31, 1993 AND 1994	7,125	\$24.82-\$32.60

Stock options exercised during 1992 included 272,111 stock options exercised by employees of Fireman's Fund. The cost of stock options exercised by employees of Fireman's Fund subsequent to consummation of the sale of Fireman's Fund has been deducted from the Company's gain from sale of discontinued operations. All the 7,125 Fund American stock options outstanding at December 31, 1994 and 1993 were held by employees of Fund American and were fully vested and exercisable.

Pursuant to the Incentive Plan 56,000 and 191,500 performance shares were granted in 1993 and 1992, respectively. During 1993 and 1992, respectively, 75,375 and 4,925 performance shares were cancelled. In 1993 and 1992, respectively, 205,375 and 1,150 performance shares were paid, of which 27,672 and 650 were paid in the form of Shares and the remainder in cash. No performance shares were granted, cancelled or paid in 1994. At December 31, 1994, 124,250 performance shares were outstanding all of which were held by employees of Fund American. On the performance shares outstanding at December 31, 1994, 68,250, which were outstanding prior to the Distribution are subject to anti-dilution adjustments and are thereby valued as being equivalent to one Fund American Share plus one-half share of Common Stock of White River. The remaining 56,000 performance shares outstanding at December 31, 1994 are valued as being equivalent to one Fund American Share. The financial goal for full payment of the performance shares is the achievement of a 13% to 15% annual return on equity measured over the applicable periods.





In 1985 the Company's Chairman purchased warrants from American Express Company ("American Express") entitling him to buy 1,700,000 Shares for \$25.75 per Share through January 2, 1996. Warrants to purchase 420,000 Shares and 130,000 Shares were exercised by the Chairman during 1992 and 1994, respectively, leaving warrants to purchase 1,150,000 Shares outstanding at December 31, 1994. Pursuant to certain anti-dilution adjustments related to the Distribution, the Chairman received in 1993 warrants entitling him to purchase 640,000 White River Shares for \$8.18 per share and the exercise price for the Chairman's warrants to purchase Fund American Shares was reduced to \$21.66 per Share. The Chairman exercised the White River warrants on November 19, 1993.

Source One has various long-term incentive plans which provide for the granting to key senior management employees of Source One, stock-based and cash incentive awards. Awards made pursuant to the plans are payable upon the achievement of specified financial goals over multi-year periods.

Source One also established a qualified employee stock plan as of July 1, 1986. Contributions to this plan are determined at the discretion of Source One's Board of Directors

11. Minority Interest-Preferred Stock of Subsidiary  
In March 1994 Source One issued 4,000,000 shares of 8.42% perpetual Cumulative Preferred Stock, Series A (the "Source One Preferred Stock"), for net cash proceeds of \$96.9 million. The Source One Preferred Stock has an aggregate liquidation preference of \$25.00 per share and is not redeemable prior to May 1, 1999.
12. Shareholders' Equity  

**SERIES D AND E PREFERRED STOCK**

The Series D Preferred Stock had a cumulative annual dividend rate of 7.75% and was initially redeemable for cash or, at the Company's option, for Shares (based on the then current market value of Shares) on July 31, 1994. On August 1, 1994, the Company redeemed 22,778 shares of the Series D Preferred Stock for \$82.0 million, an amount equal to the stock's liquidation preference. In accordance with the terms of the Series D Preferred Stock, the annual dividend rate for the remaining 20,833 shares of the Series D Preferred Stock outstanding was increased to 8.75% and the stock's term was extended to July 31, 1995. The Company may extend the redemption date of the Series D Preferred Stock by one additional year to July 31, 1996, which would require an increase in the dividend rate to 9.75%. Under certain circumstances, the dividend rate could be increased if the corporate dividends received deduction, currently provided for in Section 2439(a)(1) of the IRC, is reduced below 70%. The Series D Preferred Stock carries 100 votes per share and votes as a single class with Shares.

The Company has given certain registration rights to American Express which beneficially owns all of the outstanding Series D Preferred Stock. American Express must exchange the Series D Preferred Stock into Voting Preferred Stock Series E, par value \$1.00 per share (the "Series E Preferred Stock"), prior to selling such stock publicly. The terms of the Series E Preferred Stock would be generally similar to those of the Series D Preferred Stock, but the Series E Preferred Stock would carry one-half the aggregate voting rights of the Series D Preferred Stock.

#### COMMON SHARE REPURCHASES

During 1994, 1993 and 1992 the Company repurchased 1,128,057 Shares, 536,247 Shares and 5,314,518 Shares, respectively, for \$78.8 million, \$41.8 million and \$371.7 million, respectively. The bulk of the Shares repurchased during 1992 were acquired pursuant to a Plan of Complete Liquidation which was terminated in June 1992. All Shares repurchased during 1991, 1992 and 1993 have been retired. At December 31, 1994 the Company had outstanding authorization to purchase an additional 756,092 Shares.

#### LOAN FOR COMMON STOCK ISSUED

On December 30, 1992 pursuant to a request from the Board, the Company's Chairman agreed to an early exercise of stock options and warrants to purchase 1,000,000 Shares. The Board's request reflected concerns regarding proposed tax legislation which could have limited or eliminated the Company's tax benefits from certain employee stock options and warrants exercised in 1993 and thereafter. To encourage exercise of the stock options and warrants, the Company provided a \$30.0 million secured loan to the Chairman. The non-recourse loan bears interest at 4% and matures on October 23, 1995. In accordance with GAAP, the loan has been reported on the December 31, 1994 and 1993, balance sheets in other assets (\$4.3 million and \$4.2 million, respectively) and shareholders' equity (\$25.0 million and \$24.4 million, respectively). The \$2.1 million difference between the face value and the initial estimated fair value of the loan has been reported as compensation and benefits expense in the income statement for the year ended December 31, 1992.

#### 13. SHAREHOLDERS' 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 (the "Rights"). Each Right entitles the holder to purchase one one-thousandth of a share of the Company's Series A Cumulative Participating Preferred Stock ("Series A Preferred").

The Rights enable the holders to acquire additional equity in either the Company or an "Acquiring Person," and are exercisable if an unrelated person or group (other than American Express 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 Series A Preferred are such that each 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-thousandth of a share of Series A Preferred 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.

In 1987 the Company reserved 600,000 of its authorized preferred shares as Series A Preferred for issuance pursuant to the Shareholders' Rights Plan.

14. INDUSTRY SEGMENTS

Revenues, pretax earnings and ending identifiable assets for Fund American's industry segments are shown below:

Millions	Year Ended December 31,		
	1994	1993	1992
REVENUES:			
Source One	\$ 207.2	\$ 234.5	\$ 190.1
Other	21.3	16.5	24.0
Total	\$ 228.5	\$ 251.0	\$ 214.1
PRETAX EARNINGS:			
Source One	\$ 5.3	\$ 62.2	\$ 17.3
Other	36.3	78.7	70.5
Total	\$ 41.6	\$ 140.9	\$ 87.8
ENDING ASSETS:			
Source One	\$1,210.0	\$2,647.2	\$2,456.9
Other	597.3	657.8	671.9
Total	\$1,807.3	\$3,305.0	\$3,128.8

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Fund American has only limited involvement with derivative financial instruments and does not use derivative financial instruments for trading purposes. Fund American's use of derivative financial instruments is primarily limited to (i) commitments to extend credit, (ii) mandatory forward commitments and (iii) to achieve a fixed interest rate on existing variable rate obligations.

Source One is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and reduce its exposure to fluctuations in interest rates. These financial instruments primarily include commitments to extend credit and mandatory forward commitments. Those instruments involve, to varying degrees, elements of credit and market interest rate risk excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of risk Source one has related to the instruments.

Source One's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit (mortgage loan pipeline) is represented by the contractual notional amount of those instruments. Source One's mortgage loan pipeline for locked commitments which are expected to close totalled \$147.5 million and \$967.7 million at December 31, 1994 and 1993, respectively. Fixed rate commitments result in Source One having market interest rate risk as well as credit risk. Variable rate commitments result in only credit risk. The amount of collateral required upon extension of credit is based on management's credit evaluation of the mortgagor and consists of the mortgagor's residential property.

Source One obtains mandatory forward commitments of up to 120 days to sell mortgage-backed securities to hedge the market interest rate risk associated with the portion of the mortgage loan pipeline that is expected to close and all mortgage loans receivable. At December 31, 1994 and 1993, Source One had approximately \$351.2 million and \$2,055.3 million, respectively, of mandatory forward commitments outstanding. If secondary market interest rates decline after Source One commits to an interest rate for a loan, the loan may not close and Source One may incur a loss from the cost of covering its obligations under a related mandatory forward commitment. If secondary market interest rates increase after Source One commits to an interest rate for a loan and Source One has not obtained a forward commitment, Source One may incur a loss when the loan is subsequently sold.

Source One's risk management function closely monitors the mortgage loan pipeline and mortgage loans receivable balance to determine appropriate forward commitment coverage on a daily basis in order to manage the risk inherent in these off-balance-sheet financial instruments. In addition, the risk management area seeks to reduce counterparty risk by committing to sell mortgage loans only to approved dealers with no dealer having in excess of 20% of current commitments. Source One currently transacts business with seven approved dealers.

Source One sells loans through mortgage-backed securities issued pursuant to programs of GNMA, FNMA, the Federal Home Loan Mortgage Corporation ("FHLMC") or through institutional investors. Most loans are aggregated in pools of \$1.0 million or more and are purchased by institutional investors after having been guaranteed by GNMA, FNMA or FHLMC. Substantially all GNMA securities are sold by Source One without recourse for loss of principal in the event of a subsequent default by the mortgagor due to the FHA and VA insurance underlying such securities.

Servicing agreements relating to mortgage-backed securities issued pursuant to programs of GNMA, FNMA or FHLMC require Source One to advance funds to make the required payments in the event of a delinquency by the borrower. Source One expects that it would recover most funds advanced upon cure of default by the borrower or foreclosure. However, funds advanced in connection with VA partially guaranteed loans and certain conventional loans (which are at most partially insured by private mortgage insurers) may not be fully recovered due to potential declines in collateral value. In addition, most of Source One's servicing agreements for mortgage-backed securities typically require the payment to investors of a full month's interest on each loan although the loan may be paid off (by optional prepayment or foreclosure) other than on a month-end basis. In this instance, Source One is obligated to pay the investor interest at the note rate from the date of loan payoff through the end of the calendar month without reimbursement.

As of December 31, 1994, 1993, and 1992, Source One serviced approximately \$11.9 billion, \$11.4 billion and \$14.0 billion of GNMA loans (without substantial recourse), respectively, and \$3.7 billion, \$4.8 billion and \$9.1 billion of conventional loans (with recourse), respectively.

Source One occasionally enters into a variety of interest rate contracts including interest rate swaps, interest rate collars and put options. These agreements give rise to credit risk due to the potential that counterparties may fail to meet the terms of the agreements. Market interest rate risk may also arise due to unmatched asset, and liability positions.

To cover loan losses that may result from these servicing arrangements and other losses, Source One has provided an allowance for loan losses of \$13.4 million and \$16.0 million on the consolidated balance sheets at December 31, 1994 and 1993, respectively. Source One's management believes the allowance for loan losses is adequate to cover reimbursed foreclosure advances and principal losses.

16. Fair Value  
of Financial  
Instruments

Carrying value approximates fair value for common equity securities, short-term investments, cash, other financial assets, short-term debt and other financial liabilities. For each other class of financial instrument for which it is practicable to estimate fair value, the following methods and assumptions were used to estimate such value:

Other Investments. The fair values of I/O strips are estimated based on quoted market prices for those or similar investments. For REMICS, fair values are estimated using discounted cash flow analyses reflecting I/O strip and LIBOR interest rates, and Prepayment Speed Assumption ("PSA") rates, taking into consideration the characteristics of the related collateral. Fair values of mortgage loans held for investment are estimated using quoted market prices for securities backed by similar loans, adjusting for differences in loan characteristics. For other long-term investments held by Source One, fair value is estimated based on quoted market prices for those or similar investments and by discounting future cash flows using market interest rates for similar types of investments. For other investments held by the Company and its affiliates other than Source One, fair values have been determined using quoted market values or internal appraisal techniques.

Capitalized Excess Mortgage Servicing. Fair value is estimated by discounting the annual anticipated net revenue to be received over the life of the related loans, discounted using quoted I/O strip interest rates and PSA rates.

Mortgage Loans Held for Sale. Fair values are estimated using quoted market prices for securities backed by similar loans and adjusting for differences in loan characteristics.

Pool Loan Purchases. Fair values are estimated using (i) discounted cash flow analyses using Source One's short-term incremental borrowing rate or (ii) quoted market prices for securities backed by similar loans.

Mortgage Claims Receivable. Fair values are estimated by discounting anticipated future cash flows using Source One's short-term incremental borrowing rate.

Employee Loan Receivable. Fair value is estimated by discounting future cash flows using market interest rates for similar types of borrowing arrangements.

Long-Term Debt. Fair value is estimated by discounting future cash flows using incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance-Sheet Financial Instruments. Fair value for commitments to sell mortgage loans is based on current settlement values for those commitments. Fair value for commitments to extend credit is based on current quoted market prices for securities backed by similar loans, adjusting for loan characteristics.

The estimated fair values of Fund American's financial instruments were as follows:

Millions	December 31, 1994 Carrying amount	Fair value	December 31, 1993 Carrying amount	Fair value
FINANCIAL ASSETS:				
Common equity securities	\$332.4	\$332.4	\$ 585.5	\$ 585.5
Other investments	157.3	155.2	113.4	115.1
Short-term investments	119.2	119.2	252.5	252.5
Cash	1.5	1.5	10.7	10.7
Capitalized excess mortgage servicing	72.1	98.3	96.5	107.2
Mortgage loans held for sale (a)	210.5	211.4	1,298.5	1,290.1
Pool loan purchases	163.9	164.9	155.5	159.2
Mortgage claims receivable	33.3	32.4	37.9	37.6
Employee loan receivable	29.3	28.9	28.6	29.0
Other	27.5	27.5	30.0	30.0
FINANCIAL LIABILITIES:				
Short-term debt	254.1	254.1	1,536.8	1,536.8
Long-term debt	547.0	528.8	601.3	639.4
Other	38.4	38.4	15.0	15.0
OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS:				
Mandatory forward commitments	-	349.0	-	2,067.0
Commitments to extend credit expected to close	-	148.2	-	978.6

(a) For purposes of this disclosure, fair value has been computed separately for mortgage loans held for sale, mortgage loan pipeline and mandatory forward commitments. When mortgage loans held for sale and pipeline are matched to commitments, fair value is greater than the carrying amount as of December 31, 1994 and 1993.

Other financial assets includes investment income receivable and accounts receivable from securities sales. Other financial liabilities includes accrued interest payable, accounts payable on securities purchases and dividends payable to shareholders.

The estimated fair value amounts for Fund American's financial instruments have been determined using available market information and valuation methodologies. Such estimates provided herein are not necessarily indicative of the amounts that could be potentially realized in a current market exchange.

It is not practicable to estimate the fair value of conventional loans sold with recourse, which is an off-balance-sheet financial instrument representing Source One's obligation to repurchase loans sold which subsequently default, without incurring excessive costs.

17. RELATED PARTY  
TRANSACTIONS

American Express and its affiliates have, from time to time, provided various services to Fund American including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services. In addition, Source One has from time to time sold certain mortgage loans to subsidiaries of American Express. American Express beneficially owns all outstanding shares of the Series D Preferred Stock.

In December 1993 BYRNE & sons, l.p. ("BYRNE & sons"), a partnership in which the Company's Chairman, John J. Byrne, is the sole general partner, made its initial investment in the Merastar Partners Limited Partnership and the Southern Heritage Limited Partnership (the "Partnerships"). The Partnerships are involved in various property-casualty insurance ventures. Shortly after making its initial investment, BYRNE & sons offered one-third of its interest in the Partnerships to Fund American on equal terms and conditions. In May 1994 Fund American accepted the offer and paid BYRNE & sons an amount equal to one-third of BYRNE & sons' cost for the Partnerships plus interest at a 6.0% annual rate.



Fund American from time to time uses aircraft for corporate travel purposes owned by Haverford Transportation Inc. ("HTI"). Fund American reimburses HTI for its operating costs associated with Fund American's use of HTI aircraft. Mr. Byrne and K. Thomas Kemp, Executive Vice President of the Company, are the sole shareholders of HTI. Fund American believes that its arrangement with HTI is on terms that are more favorable to Fund American than would generally be available if secured through an arrangement with a third party.

White River and its affiliates have in the past provided various services to Fund American including investment advisory and accounting services. In addition, Fund American has provided to White River a \$50.0 million term loan and a revolving credit facility of up to \$40.0 million. Pursuant to the terms of the credit agreement between White River and the Company, White River has the right to use certain of its investment portfolio securities to repay borrowings under the term loan and revolving credit facility. Gordon S. Macklin, a director of the Company, is the non-executive Chairman of White River.

George J. Gillespie, III, a director of the Company, is a General Partner of Cravath, Swaine & Moore, which has been retained by Fund American from time to time to perform legal services.

Arthur Zankel, a director of the Company, is a General Partner of First Manhattan Co., which has been retained by Fund American from time to time to perform non-discretionary investment advisory services and brokerage services.

Fund American believes that all the above transactions were on terms that were reasonable and competitive. Additional transactions of this nature may be expected to take place in the ordinary course of business in the future.

Fund American  
REPORT ON MANAGEMENT RESPONSIBILITIES

The financial information included in this annual report, including the audited consolidated financial statements, has been prepared by the management of Fund American. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and, where necessary, include amounts based on informed estimates and judgments. In those instances where there is no single specified accounting principle or standard, management makes a choice from reasonable, accepted alternatives which are believed to be most appropriate under the circumstances. Financial information presented elsewhere in this annual report is consistent with that shown in the financial statements.

Fund American maintains internal financial and accounting controls "internal controls" designed to provide reasonable and cost effective assurance that assets are safeguarded from loss or unauthorized use, that transactions are recorded in accordance with management's policies and that financial records are reliable for preparing financial statements. The internal controls structure is documented by written policies and procedures which are communicated to all appropriate personnel and is updated as necessary. Fund American's business ethics policies require adherence to the highest ethical standards in the conduct of its business. Compliance with these controls, policies and procedures is continuously maintained and monitored by management.

Fund American's internal audit staff evaluates and reports on the adequacy of and adherence to these internal controls, policies and procedures. In addition, Ernst & Young LLP provides an and objective, independent review and evaluation of the structure of internal controls to the extent they consider necessary in their audit of Fund American's consolidated financial statements. Management reviews all recommendations of the internal auditors and independent auditors concerning the structure of internal controls and responds to such recommendations with corrective actions, as appropriate.

The Audit Committee of the Board is comprised of all non-management directors and has general responsibility for the oversight and surveillance of the accounting, reporting and financial control practices of Fund American. The Audit Committee, which reports to the full Board, annually reviews the effectiveness of the independent auditors, Fund American's internal auditors and management, with respect to the financial reporting process and the adequacy of internal controls. Both the internal auditors and the independent auditors have, at all times, free access to the Audit Committee, without members of management present, to discuss the results of their audits, the adequacy of internal controls and any other matter that they believe should be brought to the attention of the Audit Committee.

/s/ John J. Byrne	/s/ A. L. Waters	/s/ M. S. Paquette
John J. Byrne	Allan L. Waters	Michael S. Paquette
Chairman of the Board,	Senior Vice President	Vice President and
President and Chief	and Chief Financial	Controller
Executive Officer	Officer	

Fund American  
REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders  
Fund American Enterprises Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Fund American Enterprises Holdings, Inc., as of December 31, 1994 and 1993, and the related consolidated income statements and statements of shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fund American Enterprises Holdings, Inc. at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

In 1994 the Company changed its method of accounting for purchased mortgage servicing rights, in 1993 the Company changed its method of accounting for certain investment securities, and in 1992 the Company changed certain accounting methods as discussed in Note 1.

Ernst & Young LLP

New York, New York  
January 27, 1995

Fund American  
SELECTED QUARTERLY FINANCIAL DATA  
(Unaudited)

Selected quarterly financial data for 1994 and 1993 is shown in the following table. The quarterly financial data includes in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods.

Millions, except per share amounts	1994 Three Months Ended				1993 Three Months Ended			
	Dec.31	Sept.30	June 30	Mar.31	Dec. 31	Sept.30	June 30	Mar.31
Revenues	\$ 41.4	\$ 44.4	\$71.7	\$ 71.0	\$ 64.2	\$64.4	\$63.7	\$58.7
Expenses	52.0	56.4	59.7	57.6	74.9	59.7	54.2	45.3
Pretax operating earnings (loss)	(10.6)	(12.0)	12.0	13.4	(10.7)	4.7	9.5	13.4
Net investment gains (losses)	(4.2)	20.6	20.9	1.5	(68.0)	52.5	53.9	85.6
Pretax earnings (loss)	(14.8)	8.6	32.9	14.9	(78.7)	57.2	63.4	99.0
Income tax provision (benefit)	(2.7)	4.3	13.0	5.9	(7.8)	21.7	21.6	34.8
After tax earnings (loss)	(12.1)	4.3	19.9	9.0	(70.9)	35.5	41.6	64.2
Cumulative effect of accounting change- purchased mortgage servicing, after tax	-	-	-	(44.3)	-	-	-	-
Net Income (loss)	\$(12.1)	\$ 4.3	\$19.9	\$(35.3)	\$(70.9)	\$35.5	\$41.6	\$64.2
Primary earnings per share:								
After tax earnings (loss)	\$(1.64)	\$ .24	\$1.72	\$ .60	\$(7.78)	\$3.18	\$3.76	\$5.89
Net income (loss)	(1.64)	.24	1.72	(3.86)	(7.78)	3.18	3.78	5.89
Fully diluted earnings per share:								
After tax earnings (loss)	(1.64)	.24	1.62	.60	(7.78)	2.95	3.42	5.13
Net income (loss)	(1.64)	.24	1.62	(3.86)	(7.78)	2.95	3.42	5.13

The quarterly trading range for shares of common stock during 1994 and 1993 is presented below:

	1994		1993	
	High	Low	High	Low
Quarter ended:				
December 31	\$79 1/4	\$70 1/2	\$92 3/8	\$73 1/2
September 30	78 3/8	69 3/4	90 1/4	82
June 30	70 3/8	60 1/2	86 1/2	79 3/4
March 31	77	64 3/4	80 1/2	71 5/8

Fund American  
COMMON EQUITY SECURITIES AND OTHER INVESTMENTS  
(Unaudited)

Common Equity Securities

December 31, 1994				
Shares and units in thousands, dollars in millions	Shares or units	Cost	Market value	Percent of total market value
Energy, natural resources and related industries:				
The Louisiana Land and Exploration Company	2,928	\$ 97.9	\$106.5	32.0%
San Juan Basin Royalty Trust	10,995	59.9	70.1	21.1
Sabine Royalty Trust	962	3.6	9.6	2.9
Lone Star Technologies, Inc.	988	9.0	6.9	2.1
Cross Timbers Royalty Trust	683	5.4	6.9	2.1
Digicon, Inc.	2,775	6.0	3.8	1.1
Aggregate of holdings less than \$5.0 million		1.3	1.6	.5
Total energy, natural resources and related industries		183.1	205.4	61.8
All other:				
American Express Company	2,401	52.8	70.9	21.3
Lehman Brothers Holdings, Inc.	1,019	14.6	15.0	4.5
Home Holdings, Inc.	755	7.7	7.1	2.1
Frequency Electronics, Inc.	593	5.0	2.6	.8
Aggregate of holdings less than \$5.0 million		31.0	31.2	9.5
Total common equity securities		\$294.2	\$332.4	100.0%

Other Investments

December 31, 1994		
Millions	Cost or amortized cost	Carrying value
Source One:		
Mortgage loans held for investment	\$ 19.8	\$ 19.8
REMICs	4.9	4.9
Aggregate of holdings less than \$5.0 million	1.2	1.2
Parent Company and other subsidiaries:		
White River Corporation note	50.0	50.0
US West, Inc. preferred shares	48.6	48.6
White River Corporation restricted common shares	19.8	17.1
Zurich Reinsurance Centre Holdings, Inc. restricted common shares	10.0	7.5
Southern Heritage/Merastar partnerships	5.0	5.0
Aggregate of holdings less than \$5.0 million	4.3	3.2
Total other investments	\$163.6	\$157.3

FUND AMERICAN  
DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Class I (terms ending in 1995):

HOWARD L. CLARK	Former Chairman - American Express Company
K. THOMAS KEMP	Executive Vice President
GORDON S. MACKLIN	Chairman - White River Corporation

Class II (terms ending in 1996):

GEORGE J. GILLESPIE, III	Partner - Cravath, Swaine & Moore
JOHN J. BYRNE	Chairman, President and CEO

Class III (terms ending in 1997):

HOWARD L. CLARK, JR.	Vice Chairman - Lehman Brothers
ROBERT P. COCHRAN	President and CEO - Financial Security Assurance Holdings Ltd.
ARTHUR ZANKEL	Co-Managing Partner - First Manhattan Co.

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COMMITTEES

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee, consisting of all non-management directors, has general responsibility for the oversight and surveillance of the accounting, reporting and financial control practices of Fund American. The Audit Committee annually reviews the qualifications of the independent auditors, makes recommendations to the Board as to their selection, and reviews the plan, fees and results of their audit.

Howard L. Clark, Jr., Chairman

HUMAN RESOURCES COMMITTEE OF THE BOARD OF DIRECTORS

The Human Resources Committee, consisting of all non-management directors, oversees Fund American's compensation and benefit policies and programs, including administration of the Incentive Plan, the Deferred Compensation Plan and the Deferred Benefit Plan. The Human Resources Committee also sets the annual salaries and bonuses for elected officers and certain other key employees.

Gordon S. Macklin, Chairman

Fund American  
OFFICERS

FUND AMERICA ENTERPRISES HOLDINGS,  
INC.:

John J. Byrne/**/	Chairman, President and Chief Executive Officer/1,2/
Dennis P. Beaulieu	Corporate Secretary
K. Thomas Kemp/**/	Executive Vice President/1,2,3,/
Michael S. Paquette	Vice President and Controller
Allan L. Waters	Senior Vice President and Chief Financial Officer/1,2/

FUND AMERICAN ENTERPRISES, INC.:

John J. Byrne/**/	Chairman
Terry L. Baxter/**/	President and Secretary/1,3/

SOURCE ONE MORTGAGE SERVICES  
CORPORATION:

Robert W. Richards/**/	Chairman
Michael C. Allemang/**/	Executive Vice President and Chief Financial Officer
James A. Conrad/**/	President and Chief Executive Officer
Robert R. Densmore/**/	Executive Vice President and Secretary

WHITE MOUNTAINS INSURANCE HOLDINGS, INC.:

John J. Byrne/**/	Chairman
Dennis P. Beaulieu/**/	Vice President and Secretary
Morgan W. Davis/**/	Senior Vice President and Chief Operating Officer
K. Thomas Kemp/**/	President and Chief Executive Officer
Michael S. Paquette/**/	Vice President and Controller
Allan L. Waters/**/	Senior Vice President and Chief Financial Officer

WHITE MOUNTAINS INSURANCE COMPANY:

K. Thomas Kemp/**/	Chairman
Dennis P. Beaulieu/**/	Secretary and Chief Financial Officer
Morgan W. Davis/**/	President and Chief Executive Officer
Michael S. Paquette/**/	Vice President and Controller

- 
- \* Individual is also a director of the company listed  
/1/ Also a director of Source One Mortgage Services Corporation  
/2/ Also a director of Financial Security Assurance Holdings Ltd.  
/3/ Also a director of Main Street America Holdings, Inc.

FUND AMERICAN  
CORPORATE INFORMATION

PRINCIPAL OFFICE

Fund American Enterprises Holdings, Inc  
The 1820 House  
Norwich, Vermont 05055-0850  
(802)649-3633

STOCK EXCHANGE INFORMATION

The Company's Common Stock (symbol  
FCC) is listed on the New York  
Stock Exchange.

FORM 10-K

The financial statements  
contained in this  
report, in the opinion of management,  
substantially conform with or exceed the  
financial statement information required  
in the "Form 10-K, Annual Report" to be filed  
with the Securities and Exchange Commission  
near the end of March 1995. Certain  
supplemental information appears in the  
Form 10-K which is not disclosed within  
this document. COPIES OF THE FORM 10-K ARE  
AVAILABLE WITHOUT CHARGE UPON WRITTEN REQUEST  
TO THE CORPORATE SECRETARY'S OFFICE AT THE  
NORWICH, VERMONT ADDRESS.

ANNUAL MEETING

The 1995 Annual Meeting of  
shareholders will be held on  
Wednesday, May 24, 1995, at the  
Norwich Inn, Norwich, Vermont,  
at 9:00 a.m.

INDEPENDENT AUDITORS

Ernst & Young LLP  
787 Seventh Avenue  
New York, New York 10019-6018

SHAREHOLDER INQUIRIES

Written shareholder inquiries should  
be sent to the Corporate Secretary at  
the Norwich, Vermont address. Written  
inquiries from the investment community  
should be directed to the Investor  
Relations Department at the same address.

TRANSFER AGENT AND REGISTRAR FOR COMMON STOCK

First Chicago Trust Company of New York  
P.O. Box 2532  
Jersey City, New Jersey 07303-2532

Shareholders may obtain information about  
transfer requirements, replacement dividend  
checks, duplicate 1099 forms and changes  
of address by calling the Transfer Agent's  
Telephone Response Center at (201) 324-0498.  
Please be prepared to provide your tax  
identification or social security number,  
description of securities and address of  
record. Other inquiries concerning your  
shareholder account should be addressed in  
writing to the Transfer Agent and Registrar.



SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 1994

FULL NAME OF SUBSIDIARY -----	PLACE OF INCORPORATION -----
FFOG, INC.	DELAWARE, USA
FUND AMERICAN CASUALTY REINSURANCE, LTD.	ISLANDS OF BERMUDA
FUND AMERICAN ENTERPRISES, INC.	DELAWARE, USA
FUND AMERICAN INVESTMENT SUBSIDIARY I, INC.	DELAWARE, USA
SOURCE ONE MORTGAGE SERVICES CORPORATION and subsidiaries	DELAWARE, USA
WHITE MOUNTAINS INSURANCE HOLDINGS, INC.	DELAWARE, USA

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Fund American Enterprises Holdings, Inc., of our report dated January 27, 1995, included in the 1994 Annual Report to Shareholders of Fund American Enterprises Holdings, Inc.

Our audits also included the financial statement schedules of Fund American Enterprises Holdings, Inc. listed in Item 14(a). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We further consent to the incorporation by reference in the Registration Statements (Form S-8, No. 33-5297, Form S-3, No. 33-54006, and Form S-3, No. 33-54749) pertaining to the 1985 Long-Term Incentive Plan, Medium-Term Notes Series A and Common Stock Warrants of Fund American Enterprises Holdings, Inc. of our report dated January 27, 1995, with respect to the consolidated financial statements and financial statement schedules of Fund American Enterprises Holdings, Inc. included or incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 1994.

ERNST & YOUNG LLP

New York, New York  
March 30, 1995

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that John J. Byrne does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ John J. Byrne

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Howard L. Clark does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Howard L. Clark

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Howard L. Clark Jr. does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Howard L. Clark Jr.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Robert P. Cochran does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Robert P. Cochran

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that George J. Gillespie III does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ George J. Gillespie III

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that K. Thomas Kemp does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ K. Thomas Kemp



FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Gordon S. Macklin does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Gordon S. Macklin

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Michael S. Paquette does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Michael S. Paquette

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Allan L. Waters does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Allan L. Waters

FUND AMERICAN ENTERPRISES HOLDINGS, INC.  
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Arthur Zankel does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 15th day of February, 1995.

/s/ Arthur Zankel



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12-MOS			12-MOS		
DEC-31-1994			DEC-31-1993		
JAN-01-1994			JAN-01-1993		
DEC-31-1994			DEC-31-1993		
		2			11
	609			951	
	50			46	
	13			16	
	0			0	
	0	0		0	0
	0			0	
	1,807			3,305	
254			1,537		
	547			601	
	0			0	
75			157		
	0			0	
	0			0	
1,807		3,305			0
		0			0
	229			251	
		0			0
	(147)			(131)	
	39			124	
	0			0	
(79)			(103)		
	42			141	
	(21)			(71)	
0			0		
	0			0	
	0			0	
	(44)				0
	(23)			70	
	0			0	
	0			0	