UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the period ended September 30, 1997

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	94-2708455
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

80 South Main Street, Hanover, New Hampshire 03755-2053
(Address of principal executive offices including zip code)

(603) 643-1567
(Registrant's telephone number, including area code)

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 [X] No [ ]

As of November 12, 1997, 6,377,757 shares of Common Stock with a par value of $1.00 per share were outstanding.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in millions, except per share amounts)

	SEPTEMBER 30, 1997 (Unaudited)	DECEMBER 31, 1996
Assets		
Common equity securities, at fair value (cost: $87.5 and $101.1)	$ 156.6	$ 160.8
Fixed maturity investments, at fair value (cost: $150.3 and $154.5)	152.5	155.4
Other investments (cost: $117.0 and $119.7)	194.4	176.5
Short-term investments, at amortized cost (which approximated market value)	88.9	67.5
Total investments	592.4	560.2
Cash	6.8	4.8
Capitalized mortgage servicing rights, net of accumulated amortization	167.1	410.9
Mortgage loans held for sale	484.0	314.9
Other mortgage origination and servicing assets	187.9	183.0
Receivable from sale of mortgage servicing	33.0	--
Insurance premiums receivable	55.8	52.2
Reinsurance recoverable on paid and unpaid losses	38.5	40.0
Investments in unconsolidated insurance affiliates	319.1	226.9
Other assets	138.6	187.7
Total Assets	$2,023.2	$1,980.6
Liabilities		
Short-term debt	$ 490.5	$ 407.9
Long-term debt	304.1	424.2
Unearned insurance premiums	76.9	72.6
Loss and loss adjustment expense reserves	71.3	65.4
Accounts payable and other liabilities	317.4	279.5
Total liabilities	1,260.2	1,249.6
Minority Interest - preferred stock of subsidiary	44.0	44.0
Shareholders' Equity		
Common stock at $1 par value per share - authorized 125,000,000 shares; issued 31,416,099 and 31,940,202 shares	31.4	31.9
Common paid-in surplus	360.5	366.5
Retained earnings	1,031.2	1,067.1
Common stock in treasury, at cost - 25,034,939 shares	(871.0)	(871.0)
Net unrealized investment gains, after tax	166.9	92.5
Total shareholders' equity	719.0	687.0
Total Liabilities, Minority Interest and Shareholders' Equity	$2,023.2	$1,980.6

See Notes to Condensed Consolidated Financial Statements.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

Unaudited

(millions, except per share amounts)

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Revenues:				
Gross mortgage servicing revenue	$ 20.8	$ 33.0	$ 69.4	$ 101.1
Amortization and impairment of capitalized mortgage servicing	(19.3)	(16.1)	(43.5)	(26.1)
Net gain (loss) on financial instruments	6.0	(.2)	4.3	(5.1)
Net mortgage servicing revenue	7.5	16.7	30.2	69.9
Net gain on sales of mortgages	6.4	7.7	15.7	32.2
Gain (loss) on sale of mortgage servicing	-	10.1	(4.3)	10.1
Other mortgage operations revenue	4.8	4.1	13.8	13.6
Earned property and casualty insurance premiums	36.7	30.4	108.0	75.7
Earnings from unconsolidated insurance affiliates	5.0	3.1	14.8	6.1
Other insurance operations revenue	2.4	2.0	6.9	7.3
Net investment income	16.6	15.8	46.3	44.8
Total revenues	79.4	89.9	231.4	259.7
Expenses:				
Compensation and benefits	22.2	25.3	72.6	73.2
Losses and loss adjustment expenses	24.6	21.7	72.9	52.2
General expenses	19.6	22.7	62.2	63.2
Interest expense	12.3	11.5	35.7	38.5
Total expenses	78.7	81.2	243.4	227.1
Pretax operating earnings (loss)	.7	8.7	(12.0)	32.6
Net realized investment gains (losses)	21.8	(1.6)	47.6	28.1
Pretax earnings	22.5	7.1	35.6	60.7
Income tax provision	7.1	3.4	14.7	24.7
After tax earnings	15.4	3.7	20.9	36.0
Loss on early extinguishment of debt, after tax	-	-	(6.0)	-
Net income	$ 15.4	$ 3.7	$ 14.9	$ 36.0
Earnings per share:				
After tax earnings	$ 2.18	$ .46	$ 2.84	$ 4.38
Net income	2.18	.46	2.03	4.38

See Notes to Condensed Consolidated Financial Statements

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(millions)

	Nine Months Ended September 30, 1997	1996
Cash flows from operations:		
Net income	$ 14.9	$ 36.0
Charges (credits) to reconcile net income to cash flows from operations:		
Undistributed earnings from unconsolidated insurance affiliates	(9.8)	(3.9)
Net realized investment gains	(47.6)	(28.1)
Extraordinary loss on early exitinguishment of debt	6.0	-
Net (increase) decrease in mortgage loans held for sale	(169.1)	107.5
Loss (gain) on sale of mortgage servicing	4.3	(10.1)
Increase in unearned insurance premiums	4.3	38.4
Increase in insurance premiums receivable	(3.6)	(8.7)
Increase in deferred insurance policy acquisition costs	(.9)	(6.6)
Depreciation and amortization	48.5	32.3
Increase in receivable from sale of servicing	33.0	-
Net unrealized (gain) loss on financial instruments	(4.7)	4.9
Changes in current income taxes receivable and payable	8.2	9.0
Deferred income tax (benefit) expense	(4.2)	15.1
Net increase in acounts payable and other liabilities	37.9	41.3
Other, net	26.5	(17.5)
Net cash flows (used for) provided from operating activities	(56.3)	209.6
Cash flows from investing activities:		
Net (increase) decrease in short-term investments	(21.4)	33.2
Sales of common equity securities and other investments	108.2	196.5
Sales and maturities of fixed maturity investments	62.3	98.3
Purchases of common equity securities and other investments	(42.8)	(58.1)
Purchases of fixed maturity investments	(58.4)	(145.8)
Acquisition of consolidated affiliate	-	(13.2)
Investments in unconsolidated insurance affiliates	-	(107.6)
Net proceeds from sales of mortgage servicing rights	241.5	11.7
Collections on and sales of other mortgage origination and servicing assets	240.4	131.6
Additions to other mortgage origination and servicing assets	(251.3)	(154.4)
Additions to capitalized mortgage servicing rights	(111.1)	(62.3)
Net purchases of fixed assets	(2.3)	(4.8)
Net cash flows provided from (used for) investing activities	165.1	(74.9)
Cash flows from financing activities:		
Net (repayments) issuances of short-term debt	81.5	(58.1)
Repayments of long-term debt	(131.0)	(29.7)
Purchases of common stock retired	(53.3)	(39.8)
Dividends paid to common shareholders	(4.0)	(4.5)
Other	-	(.9)
Net cash used for financing activities	(106.8)	(133.0)
Net increase in cash during period	2.0	1.7
Cash balance at beginning of period	4.8	2.7
Cash balance at end of period	$ 6.8	$ 4.4
Supplemental cash flows information:		
Interest paid	$ (34.7)	$ (33.8)

Net income taxes paid	$ (10.8)	$ (.7)

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Fund American Enterprises Holdings, Inc. (the "Company") and its subsidiaries (collectively, "Fund American"). Fund American's principal businesses are conducted through White Mountains Holdings, Inc. and its operating subsidiaries ("White Mountains"). White Mountains is a financial services holding company that houses the Company's insurance and mortgage banking operations. White Mountains' insurance operations are conducted through its subsidiaries and affiliates in the businesses of property-casualty insurance, reinsurance and financial guaranty insurance. White Mountains' mortgage banking operations are conducted through Source One Mortgage Services Corporation and its subsidiaries ("Source One"). Source One is one of the nation's largest mortgage banking companies.

The financial statements have been prepared in accordance with generally accepted accounting principles and include all adjustments (consisting of normal recurring adjustments) considered necessary by management to fairly present the financial position, results of operations and cash flows of Fund American. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company's 1996 Annual Report on Form 10-K. Certain amounts in the prior period financial statements have been reclassified to conform with the current presentation.

Note 2. Application of New Accounting Standards

In June 1996, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". SFAS No. 125 eliminates the distinction between "normal" servicing rights and excess servicing receivable and changes Source One's method of measuring the value of its capitalized excess servicing asset. SFAS No. 125 is effective for all transfers of financial assets occurring after December 31, 1996. Retroactive application of SFAS No. 125 is not permitted. The adoption of certain provisions of SFAS No. 125, which occurred in the 1997 first quarter, did not materially effect Source One's financial results. The adoption of certain other provisions of SFAS No. 125 has been deferred to 1998.

In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share". SFAS No. 128 will serve to simplify the computation of earnings per share and to make the U.S. standard more compatible with existing international standards. FASB No. 128 will become effective for all periods ending after December 15, 1997. Earlier application is not permitted. The adoption of SFAS No. 128 is not expected to change the method by which the Company currently calculates its earnings per share but will change the Company's presentation of earnings per share by eliminating the "primary earnings per share" disclosure (which considers the effects of common equivalent shares) in favor of a more simplistic "basic earnings per share" disclosure (which generally considers only common shares outstanding).

Note 3. Earnings Per Share

Primary earnings per share amounts are based on the weighted average number of common and dilutive common equivalent shares outstanding of 7,061,682 and 7,977,711 for the three-month periods ended September 30, 1997 and 1996, respectively, and 7,344,466 and 8,220,149 for the nine-month periods ended September 30, 1997 and 1996, respectively. Fully diluted earnings per share amounts are based on the weighted average number of common shares outstanding, assuming full dilution, of 7,061,688 and 7,977,743 for the three-month periods ended September 30, 1997 and 1996, respectively, and 7,344,479 and 8,220,229 for the nine-month periods ended September 30, 1997 and 1996, respectively.

Item 2. Management's Discussion and Analysis

Results of Operations -- Three-Month and Nine-Month Periods Ended September 30, 1997 and 1996

Fund American reported net income of $14.9 million, or $2.03 per share, for the nine month period ended September 30, 1997, compared to net income of $36.0 million, or $4.38 per share, for the nine month period ended September 30, 1996. For the 1997 third quarter Fund American reported net income of $15.4 million, or $2.18 per share, versus net income of $3.7 million, or $.46 per share, in 1996. The 1997 nine month results include a $6.0 million after tax extraordinary loss on early extinguishment of debt recorded in the second quarter by Source One. The 1996 nine month results include a $27.5 million pretax, $17.9 million after tax, recovery of Source One's valuation allowance associated with its capitalized mortgage loan servicing asset due to an increase in market interest rates.

Book value per common and common equivalent share increased to $102.14, an increase of $11.33 from the December 31, 1996 book value per share of $90.81.

Consolidated Insurance Operations.

Valley Insurance Companies ("Valley"), a Northwest region property-casualty company which writes personal and commercial lines, posted a combined ratio of 100.4% for the 1997 year-to-date period versus a 101.0% for the comparable 1996 period. Valley had $59.0 million of earned premium in the 1997 year-to-date period, an increase of $7.1 million from the comparable1996 amount. The operations of Charter Insurance Companies ("Charter"), which writes non-standard automobile insurance in Texas, posted a combined ratio of 92.7% for the 1997 year-to-date period versus 97.9% for the comparable 1996 period. Charter had $46.8 million of earned premium in the 1997 year-to-date period, an increase of $23.7 million from the comparable 1996 amount. Premiums for Charter's automobile policies written prior to 1996 were fully ceded to a former affiliate of Charter. White Mountains Insurance Company, a newly formed New England region property-casualty company which writes commercial lines, had $2.2 million of earned premium in the 1997 year-to-date period. A summary of White Mountains' consolidated insurance operating results follows:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
Dollars in millions	1997	1996	1997	1996
Net written premium	$39.1	$34.8	$112.9	$114.0
Ending statutory surplus			$91.8	$80.3
Valley:				
Loss and loss adjustment expense	66.7%	67.7%	64.8%	64.5%
Underwriting expense	34.7%	39.1%	35.6%	36.5%
Combined	101.4%	106.8%	100.4%	101.0%
Charter:				
Loss and loss adjustment expense	62.8%	76.3%	68.9%	78.1%
Underwriting expense	24.2%	22.7%	23.8%	19.8%
Combined	87.0%	99.0%	92.7%	97.9%
White Mountains Insurance Company:				
Loss and loss adjustment expense	127.9%	91.0%	109.6%	91.7%
Underwriting expense	45.8%	62.0%	53.6%	53.0%
Combined	173.7%	153.0%	163.2%	144.7%

Unconsolidated Insurance Operations.

The Company's unconsolidated insurance affiliates consist of a 25% economic interest in Financial Security Assurance Holdings Ltd. ("FSA"), a 50% interest in Folksamerica Holding Company, Inc. ("Folksamerica") and a 33% interest in Main Street America Holdings, Inc. ("MSA"). Fund American's earnings from these affiliates increased to $14.8 million for the first nine months of 1997, from $6.1 million for the comparable 1996 period. The increase is primarily due to strong operating results at FSA and MSA and the inclusion in 1997 of earnings from Folksamerica (which was acquired in June 1996). The strong operating results at FSA in 1997 were the result of a steady domestic transaction flow as well as several large, high premium European transactions. FSA's adjusted book value at September 30, 1997 was $37.88, up $3.35 from $34.53 at December 31, 1996. Folksamerica's operations performed well despite a continuing highly-competitive reinsurance market. Folksamerica's September 30, 1997 book value per share increased to $14.54, an increase of $2.42 from its 1996 year-end value of $12.12 per share. MSA's underwriting results for the first nine months of 1997 produced a combined ratio of 102.9% vs. a 108.9% combined ratio for the 1996 comparable period.

Mortgage Banking Operations.

For the 1997 year-to-date period, Source One had a net loss applicable to common stock of $13.8 million versus net income of $24.7 million for the comparable 1996 period. Source One's 1997 results include the following one-time charges: (i) a $6.0 million after tax extraordinary loss on early extinguishment of debt and (ii) restructuring and compensation charges of $3.1 million pretax, $2.0 after tax, associated with Source One's plan to reduce its operating costs and improve its financial performance. Source One's 1996 results include a $27.5 million pretax, $17.9 million after tax, recovery of Source One's valuation allowance associated with its capitalized mortgage loan servicing asset due to an increase in market interest rates. For the 1997 third quarter, Source One had net income applicable to common stock of $.1 million versus net income of $7.3 million for the comparable 1997 period. Source One's 1997 year-to-date and third quarter results include $6.3 million and $3.1 million of pretax earnings, respectively, associated with the Company's investment in FSA which was contributed to Source One during 1997 to provide additional credit support to Source One's mortgage banking operations.

A summary of Source One's mortgage loan production and mortgage servicing portfolio activities follows:

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
Millions	1997	1996	1997	1996
Mortgage loan production:				
Retail originations	$ 420	$ 371	$ 1,013	$ 1,471
Wholesale originations	829	420	1,704	1,632
Total	$ 1,249	$ 791	$ 2,717	$ 3,103
Mortgage loan servicing portfolio (a):				
Beginning balance	$ 28,583	$ 31,329	$ 29,201	$ 31,831
Mortgage loan production	1,249	791	2,717	3,103
Regular payoffs	(831)	(634)	(2,127)	(2,417)
Other	(357)	(3,839)	(1,147)	(4,870)
Ending balance	$ 28,644	$ 27,647	$ 28,644	$ 27,647

(a) Includes loans subserviced for others of $18,216 million and $3,796 million as of September 30, 1997 and 1996, respectively.

The decrease in mortgage loan production and payoffs for the 1997 year-to-date period and third quarter versus the comparable 1996 periods reflects higher market interest rates and a corresponding decrease in refinancing activity. Additional information regarding Source One's mortgage loan servicing portfolio is shown below:

	Sept. 30, 1997	Dec. 31, 1996
Mortgage loan servicing portfolio (a):		
Number of loans	462,234	478,779
Weighted average interest rate	8.41%	8.48%
Percent delinquent (includes loans in process of foreclosure)	6.78%	7.17%

(a) Includes loans subserviced for others of $18,216 million and $2,791 million as of September 30, 1997 and December 31, 1996, respectively.

Source One's gross mortgage servicing revenue decreased to $20.8 million and $69.4 million for the three and nine-month periods ended September 30, 1997, respectively, from $33.0 million and $101.1 million for the comparable 1996 periods. The decrease in gross mortgage servicing revenue during the 1997 periods is primarily the result of Source One's February 28, 1997 sale of servicing rights with respect to approximately $17.0 billion of mortgage loans. Source One's net mortgage servicing revenue decreased to $7.5 million and $30.1 million for the three and nine-month periods ended September 30, 1997, respectively, from $16.7 million and $69.9 million for the comparable 1996 periods. During 1997 Source One had pretax impairment on its capitalized mortgage loan servicing asset of $8.2 million (due to decreases in market interest rates during 1997 as compared to 1996) versus $27.5 million of pretax recoveries for the 1996 comparable period. The following table illustrates the recent change in Source One's servicing portfolio mix as a result of the sale:

Millions	Sept. 30, 1997	Dec. 31, 1996
Mortgage loan servicing portfolio owned	$ 10,428	$ 26,410
Mortgage loan servicing portfolio subserviced for others	18,216	2,791
Total mortgage loan servicing portfolio	$ 28,644	$ 29,201

In connection with the February 1997 servicing sale, Source One recorded a $4.3 million pretax loss ($2.8 million after tax) during the 1997 year-to-date period. Source One will continue to subservice the mortgage loans pursuant to a subservicing agreement at least until March 1998, June 1998 and August 1998 for Federal Home Loan Mortgage (FHLMC) loans, Government National Mortgage Association (GNMA) loans and Federal National Mortgage Association (FNMA) loans, respectively. The subservicing period can be extended for two years beyond these dates at the option of the purchaser. Source One is currently negotiating a proposed extension of the subservicing period which would include a decrease in the current subservicing fee. During the third quarter of 1996, Source One sold the rights to service $3.3 billion of its mortgage loan servicing portfolio for net proceeds of $55.9 million which resulted in a pretax realized gain of $10.1 million.

Source One utilizes interest rate floor contracts and principal only swap agreements to mitigate the effect on earnings of higher amortization and impairment of its capitalized servicing asset caused by changes in market interest rates. Net mortgage servicing revenue for the nine month period ended September 30, 1997 has been enhanced by $4.3 million of pretax net gains on financial instruments which represents an increase in the market value of Source One's investments in interest rate floor contracts and principal only swap agreements. Net mortgage servicing revenue for the comparable 1996 period has been reduced by $5.1 million of pretax net losses on financial instruments which represents a decrease in the market value of these financial instruments during the 1996 period.

The interest rate floor contracts derive their value from differences between the floor rate specified in the contract and market interest rates. The floor yields range from 5.47% to 6.24%. To the extent that market interest rates increase, the value of the floors declines. However, Source One is not exposed to losses in excess of its initial investment in the floors. The interest rate floor contracts are carried at fair value with related realized and unrealized gains and losses included in net loss on financial instruments in the consolidated income statements. As of September 30, 1997, the carrying value of Source One's open interest rate floor contracts totalled $5.6 million with a total notional principal amount of $1.2 billion. The floors have terms ranging from approximately one to five years.

The value of the principal-only swaps is determined by changes in the value of referenced principal-only strips. As of September 30, 1997, the carrying value of Source One's principal-only swap transactions totalled $8.6 million, with an original notional principal amount of $98.1 million. The principal-only swap transactions are carried at fair value with related realized and unrealized gains and losses included in net loss on financial instruments in the consolidated income statements. The principal-only swaps have remaining terms of approximately three to four years.

Net gain on sales of mortgages decreased to $15.7 million for the nine month period ended September 30, 1997 from $32.2 million for the comparable 1996 period. The 1997 amount includes a $3.0 million pretax charge, recorded during the 1997 second quarter, related to mortgage loans held for investment which have been identified for sale and marked down from amortized cost to current market value. The balance of the 1997 decline is due primarily to decreased capitalized mortgage originated mortgage servicing rights ("OMSR") production and the related decrease in mortgage loan sales volume during 1997, as compared to 1996, and a change in Source One's loan production mix which included a heavier volume of correspondent production which generates lower OMSR income.

Investment Operations. Fund American's investment income is comprised primarily of interest income earned on mortgage loans originated by Source One and the fixed maturity investments of its consolidated insurance operations. Net investment income was $46.3 million and $44.8 million, respectively, for the 1997 and 1996 nine-month periods.

Total net investment gains and losses, before tax, were as follows:

Millions	Nine Months Ended Sept. 30, 1997	Nine Months Ended Sept. 30, 1996
Net realized investment gains	$ 47.6	$ 28.1
Net unrealized investment gains (a)	114.5	27.1
Total net investment gains, before tax	$ 162.1	$ 55.2

(a) Includes net unrealized investment gains from investments in unconsolidated insurance affiliates.

Realized investment gains of $47.6 million for the first nine months of 1997 resulted principally from the sales of 834,895 shares of the common stock of Veritas DGC Inc. for net proceeds of $20.9 million, 628,581 shares of the common stock of Travelers Property Casualty Corp. for net proceeds of $22.9 million and 388,140 shares of the common stock of Mid Ocean Limited for net proceeds of $22.6 million. Realized gains of $28.2 million for the comparable 1996 period resulted principally from sales of 2,042,572 shares of the common stock of Zurich Reinsurance Centre Holdings, Inc. for net proceeds of $61.8 million and 2,928,100 shares of the common stock of The Louisiana Land and Exploration Company for net proceeds of $125.1 million.

Expenses and Income Taxes.

Insurance losses and loss adjustment expenses increased from $21.7 million and $52.2 million in the 1996 third quarter and year-to-date, respectively, to $24.6 million and $72.9 million in the 1997 third quarter and year-to-date, respectively, due primarily to increases in earned premium at Charter. The loss and loss adjustment expense ratio for the 1997 third quarter and first nine months was 67.0% and 67.5%, respectively, which compares to 71.4% and 69.0%, respectively, for the comparable 1996 periods.

The income tax provision for the 1997 third quarter includes $2.0 million of tax credits not previously recorded associated with the Company's investment in the San Juan Basin Royalty Trust. Excluding the tax credit, Fund American's effective income tax rate for the 1997 third quarter was 40.4%.

Liquidity and Capital Resources

Parent Company. In connection with Source One's February 28, 1997 sale of approximately $17.0 billion of mortgage servicing rights to a third party, the Company has made certain collection, payment and performance guarantees to the buyer for a period of no more than ten years. The aggregate amount of the Company's guaranty is initially limited to $20.0 million and is expected to amortize down to $15.0 million.

On November 3, 1997 the Company commenced a "Dutch auction" tender offer for the purchase of up to 1,000,000 shares of its common stock for no less than $105 per share and no more than $125 per share. The tender offer is scheduled to close on December 2, 1997. The Company anticipates that it will fund the purchase of shares purchased pursuant to the tender offer through sales and maturities of short-term investments and the sale of a portion of its passive investment portfolio.

Prospectively, the primary sources of cash inflows for the Company will be distributions received from its operating subsidiaries, sales of investment securities and investment income.

White Mountains and subsidiaries. On November 1, 1996, Fund American signed a definitive agreement (the "MSA Agreement") to increase its ownership of MSA from 33% to 50%. MSA currently shares in 40% of NGM's business through a quota share reinsurance agreement which is expected to be increased to 60% pursuant to the MSA Agreement. Also pursuant to the MSA Agreement, NGM will contribute certain of its insurance, reinsurance and information and financial services subsidiaries to MSA. The aggregate purchase price to be paid by Fund American pursuant to the MSA Agreement is approximately $60.2 million, subject to certain purchase price adjustments. Fund American expects to assign the additional investment in MSA to White Mountains. The closing is dependent upon the receipt of state regulatory approvals. White Mountains intends to finance the MSA investment by borrowing $50.0 million pursuant to White Mountains' credit facility, and through sales and maturities of investment securities.

As part of a previously disclosed reorganization plan, on July 31, 1997 (upon receipt of various regulatory and banking approvals) White Mountains was merged into Fund American Enterprises, Inc., a wholly-owned subsidiary of the Company and the direct parent company of Source One, and the combined entity was immediately renamed White Mountains Holdings, Inc.

Source One. Through September 30, 1997, Source One received $241.5 million of the estimated $271.5 million total proceeds from its February 1997 sale of mortgage servicing rights, with the $33.0 million balance (including $3.0 million of accrued interest) reflected as a receivable on the September 30, 1997 balance sheet. Source One is currently evaluating its options as to how it will utilize the remaining proceeds from the sale. These options include: (i) purchasing additional mortgage servicing rights from third parties; (ii) further reducing its outstanding indebtedness; (iii) reducing its outstanding preferred or common shareholders' equity; or (iv) any combination of the foregoing.

Source One had previously announced that it had contracted to receive from Fund American approximately $139 million (approximately $119 million net of associated tax liabilities and other adjustments) of capital infusions during 1997 consisting primarily of common stock and options to acquire common stock of FSA. During the 1997 first quarter, Fund American contributed net assets totalling $40.5 million to Source One which did not require regulatory approval. During the second quarter, Source One recorded the remaining $78.5 million of contracted net assets. The capital infusions were undertaken to improve Source One's debt ratings and reduce Source One's borrowing costs.

On May 22, 1997 Source One repurchased $119.6 million of its outstanding 8.875% medium-term notes due October 15, 2001. Source One recognized a $6.0 million after tax loss on the early retirement of the notes.

On July 25, 1997, Source One amended and restated its secured credit agreement to reflect a reduction in its borrowing requirements resulting from the cash proceeds received from the February 1997 servicing sale. The provisions of the amended agreement decrease Source One's borrowing capacity from $750.0 million to $500.0 million and reduce borrowing costs by lowering the facility fee.

Source One is currently considering further steps to restructure its debt capital including (i) the issuance of approximately $50.0 million of additional medium-term notes pursuant to an existing shelf registration and (ii) entering into interest rate swaps whereby Source One's obligation to pay a fixed rate of interest on a portion of its outstanding medium-term notes and debentures will be swapped for an obligation to pay a floating rate of interest. Source One believes that using floating rate debt to finance a larger portion of its mortgage servicing assets is prudent, since the value of such assets generally increases as interest rates increase, and declines as interest rates decrease.

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 cash needs.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

11 - Statement Re Computation of Per Share Earnings*
27 - Financial Data Schedule*

(b) Reports on Form 8-K

None.

*Filed herewith.

SIGNATURES

Pursuant to the requirements 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.
(Registrant)

Date: November 12, 1997

By: /s/

Michael S. Paquette
Vice President and Controller

EXHIBIT 11

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
(in thousands, except per share earnings)
Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Primary earnings per share:				
After tax earnings	$ 15,368	$ 3,666	$ 20,887	$ 35,966
Loss on early extinguishment of debt, after tax	--	--	(5,975)	--
Net income	$ 15,368	$ 3,666	$ 14,912	$ 35,966
Earnings per share denominator:				
Average common shares outstanding	6,387	7,298	6,669	7,538
Dilutive options and warrants	675	680	675	682
Shares for per share computation	7,062	7,978	7,344	8,220
Primary earnings per share:				
After tax earnings	$ 2.18	$ .46	$ 2.84	$ 4.38
Net income	2.18	.46	2.03	4.38
Fully diluted earnings per share				
After tax earnings	$ 15,368	$ 3,666	$ 20,887	$ 35,966
Loss on early extinguishment of debt, after tax	--	--	(5,975)	--
Net income	$ 15,368	$ 3,666	$ 14,912	$ 35,966
Earnings per share denominator:				
Average common shares outstanding	6,387	7,298	6,669	7,538
Dilution for options and warrants	675	680	675	682
Shares for per share computation	7,062	7,978	7,344	8,220
Fully diluted earnings per share:				
After tax earnings	$ 2.18	$ .46	$ 2.84	$ 4.38
Net income	2.18	.46	2.03	4.38

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9-MOS
DEC-31-1997
JAN-01-1997
SEP-30-1997
7
592
120
(13)
0
636
0
0
2,023
491
304
0
44
719
0
2,023
0
231
0
207
(48)
0
36
36
15
21
0
6
0
15
2.03
2.03