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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
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)	(Zip Code)

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

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 X 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 22, 1999, was $720,239,846.

As of March 22, 1999, 5,843,731 shares of Common Stock, par value of $1.00 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Notice of 1999 Annual Meeting of Shareholders and Proxy Statement dated March 29, 1999 (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". Fund American's principal businesses are conducted through White Mountains Holdings, Inc. and its operating subsidiaries ("White Mountains"). White Mountains' consolidated and unconsolidated insurance operations are conducted through its subsidiaries and affiliates in the businesses of property and casualty insurance, property and casualty reinsurance and financial guaranty insurance. White Mountains' mortgage banking operations are conducted through Source One Mortgage Services Corporation and its subsidiaries ("Source One"). The Company's principal office is located at 80 South Main Street, Hanover, New Hampshire, 03755-2053, and its telephone number is (603) 643-1567.

INSURANCE OPERATIONS

CONSOLIDATED REINSURANCE OPERATIONS

FOLKSAMERICA HOLDING COMPANY, INC. ("FOLKSAMERICA"). Folksamerica, through its wholly-owned subsidiary, Folksamerica Reinsurance Company (a New York corporation), is a multi-line broker-market reinsurance company which provides reinsurance to insurers of property and casualty risks in the United States, Canada, Latin America and the Carribean. Folksamerica is rated "A" (Excellent) by A.M. Best Company. During 1998, 1997 and 1996, Folksamerica had net written premiums of $212.6 million, $232.4 million and $171.9 million, respectively. At December 31, 1998 and 1997, Folksamerica had total assets $1.2 billion and $1.2 billion, respectively, and shareholders' equity of $302.0 million and $255.0 million, respectively.

In June 1996 White Mountains purchased a 50.0% economic interest in Folksamerica for $79.9 million from a group of European mutual insurance companies (the "European Mutuals") who continued to own the remaining 50.0% interest. White Mountains' initial investment in Folksamerica consisted of 6,920,000 shares of ten-year 6.5% voting preferred stock having a liquidation preference of $79.4 million ("Folksamerica Preferred Stock") and ten-year warrants ("Folksamerica Warrants") to purchase up to 6,920,000 shares of the common stock of Folksamerica ("Folksamerica Common Stock") for $11.47 per share, subject to certain adjustments. In November 1997 White Mountains and the European Mutuals each purchased an additional 1,563,907 shares of Folksamerica Common Stock for $20.8 million which maintained White Mountains 50% economic ownership position.

On August 18, 1998, White Mountains acquired all of the remaining outstanding shares of the Folksamerica Common Stock from the European Mutuals for $169.1 million which resulted in Folksamerica becoming a wholly-owned consolidated subsidiary of Fund American as of that date. Following the August 18, 1998 transaction, Folksamerica retired the Folksamerica Preferred Stock and issued White Mountains an equivalent amount of Folksamerica Common Stock. As of December 31, 1998, White Mountains owned all of the outstanding shares of Folksamerica Common Stock.

REINSURANCE OVERVIEW

Reinsurance is an arrangement in which a reinsurance company (the "reinsurer") agrees to indemnify an insurance company (the "ceding company") for all or a portion of the insurance risks underwritten by the ceding company under one or more insurance policies. Reinsurance can benefit a ceding company in a number of ways, including reducing net liability exposure on individual risks, providing catastrophe protections from large or multiple losses, stabilizing financial results and assisting in maintaining acceptable operating leverage ratios. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and underwrite a greater number of risks without a corresponding increase in its capital or surplus. Reinsurers may also purchase reinsurance, known as retrocessional reinsurance, to cover their own risks assumed from primary ceding companies. Reinsurance companies enter into retrocessional agreements for many of the same reasons that ceding companies enter into reinsurance agreements.

Folksamerica writes both treaty and facultative reinsurance. Treaty reinsurance is an agreement whereby the ceding company is obligated to cede, and the reinsurer is obligated to assume, a specified portion or category of risk under all qualifying policies issued by the ceding company during the term of a treaty. In the underwriting of treaty reinsurance, the reinsurer does not evaluate each individual risk assumed and generally accepts the original underwriting decisions made by the ceding insurer. Facultative reinsurance is underwritten on a risk-by-risk basis whereby Folksamerica applies its own pricing to an individual exposure. Facultative reinsurance is normally purchased by insurance companies for individual risks not covered under reinsurance treaties or for amounts in excess of limits on risks covered under reinsurance treaties. The majority of Folksamerica's assumed premiums are derived from treaty reinsurance contracts.

Folksamerica obtains virtually all of its business through brokers and reinsurance intermediaries which seek its participation on reinsurance being placed for their customers. Reinsurance is provided both on an excess of loss and quota share basis, which in 1998 amounted to 30.2% and 69.8% of its business, respectively. Folksamerica derives its business from a spectrum of ceding insurers including national, regional, specialty and excess and surplus lines writers. Folksamerica selects transactions based solely on

anticipated underwriting results of the transaction which are evaluated on a variety of factors including the quality of the reinsured, the attractiveness of the reinsured's insurance rates, policy conditions and the adequacy of the proposed reinsurance terms.

A significant period of time normally elapses between the receipt of reinsurance premiums and the disbursement of reinsurance claims ("float"). The claims process generally begins upon the occurrence of an event causing an insured loss followed by: (i) the reporting of the loss to the ceding company; (ii) the reporting of the loss by the ceding company to Folksamerica; (iii) the ceding company's adjustment and payment of the loss; and (iv) the payment to the ceding company by Folksamerica. During this time, Folksamerica earns investment income on the float. Therefore, Folksamerica's combined ratio can generally be higher than that of Fund American's consolidated property and casualty insurance operations and yet may still earn an equivalent or superior return on equity.

LINES OF BUSINESS AND GEOGRAPHIC LOCATION

The following tables set forth information regarding Folksamerica's net written premiums by lines of business and geographic location:

	Year Ended December 31,				
Millions	1998	1997	1996	1995	1994
Liability	$122.0	$123.6	$ 79.6	$ 71.9	$ 63.0
Property	87.2	104.9	85.9	87.9	89.9
Marine	3.4	3.9	6.4	-	-
Total	$212.6	$232.4	$171.9	$159.8	$152.9

	Year Ended December 31,				
Millions	1998	1997	1996	1995	1994
United States	$190.9	$208.6	$155.2	$159.8	$152.9
Canada	13.9	10.1	4.2	-	-
Latin America	7.8	13.7	12.5	-	-
Total	$212.6	$232.4	$171.9	$159.8	$152.9

UNDERWRITING

Folksamerica's primary underwriting objective is to carefully assess reinsurance opportunities to determine the probability of a particular transaction providing an underwriting profit. Those risks that do not provide a reasonable likelihood of delivering an underwriting profit are rejected. Underwriting opportunities presented to Folksamerica are evaluated based on a number of factors including historical analysis of results, estimates of future loss costs, a review of other programs displaying similar exposure characteristics, the primary insurers underwriting and claims experience and the primary insurer's financial condition. Folksamerica regularly conducts underwriting and claims audits of ceding companies to assist it in evaluating the information submitted by the ceding companies.

Folksamerica's most senior underwriters and executives are responsible for its underwriting policy and quality standards and informing Folksamerica's board of directors of current and anticipated market conditions and underwriting results.

MARKETING

Folksamerica generally obtains all its reinsurance business through brokers and reinsurance intermediaries which represent the ceding company in negotiations for the purchase of reinsurance. The process of effecting a brokered reinsurance placement typically begins when a ceding company enlists the aid of a reinsurance broker in structuring a reinsurance program. Often the ceding company and the broker will consult with one or more lead reinsurers as to the pricing and contract terms for the reinsurance protection being sought. Once the ceding company has approved the terms quoted by the lead reinsurer, the broker will offer participations to qualified reinsurers until the program is fully subscribed by reinsurers at terms agreed to by all parties.

Folksamerica pays its reinsurance brokers commissions representing negotiated percentages of the premium it writes. These commissions, which generally average 5% of premium, constitute part of Folksamerica's total acquisition costs and are included in its underwriting expenses. During the year ended December 31, 1998, Folksamerica received approximately 67% of its gross reinsurance premiums written from three major reinsurance brokers as follows: (i) E. W. Blanch - 25%; (ii) Guy Carpenter and affiliates - 23%; and (iii) AON Re, Inc. - 19%. During the year ended December 31, 1998, Folksamerica received no more than 10% of its gross reinsurance premiums from any individual ceding company.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Insurers and reinsurers establish loss and loss adjustment expense reserves representing estimates of future amounts needed to pay claims and related expenses with respect to insured events that have occurred.

Loss and loss adjustment expense reserves have two components: case reserves, which are reserves for reported losses, and incurred but not reported ("IBNR") reserves, which are reserves for losses not yet reported. Reserve estimates reflect the judgement of both the ceding company and the reinsurer, based on the experience and knowledge of its claims personnel, regarding the nature and value of the claim. The ceding company may periodically adjust the amount of the case reserves as additional information becomes known or partial payments are made.

Upon notification of a loss from a ceding company, Folksamerica establishes case reserves, including loss adjustment expense reserves, based upon Folksamerica's share of the amount of reserves established by the ceding company and Folksamerica's independent evaluation of the loss. Where appropriate, Folksamerica establishes case reserves in excess of its share of the reserves established by the ceding company.

Folksamerica uses a combination of actuarial methods to determine its IBNR reserves. These methods fall into two general categories: (1) methods by which ultimate claims are estimated based upon historical patterns of reported claim development experienced by Folksamerica, as supplemented by reported industry data, and (2) methods in which the level of Folksamerica's IBNR claim reserves are established based upon the IBNR claim reserves relative to earned premium applied by accident year, line of business and type of reinsurance written by Folksamerica. Due to the inherent uncertainties of estimating claim reserves, actual losses and loss adjustment expenses may deviate, perhaps substantially, from estimates of Folksamerica's reserves reflected in its consolidated financial statements.

During the claims settlement period, which may extend over a long period of time, additional facts regarding claims and trends may become known which may cause Folksamerica to adjust its estimates of the ultimate liability. The revised estimates of ultimate liability may prove to be less than or greater than the actual settlement or award amount for which the claim is finally discharged.

REINSURANCE INDUSTRY AND COMPETITION

Folksamerica commenced writing business in 1980 as one of a host of newly formed, foreign-owned reinsurers capitalized with minimum surplus. In 1991, recognizing that surplus size and critical mass would become an increasingly important business issue, Folksamerica launched an aggressive strategy to increase its resources and capacity through the acquisition of select broker-market companies. Since 1991, Folksamerica has acquired three such reinsurers which has raised Folksamerica's surplus and contributed a number of important business relationships.

In general, competition among primary companies has caused primary insurers to reduce their own premium writings or restructure their reinsurance programs, reducing the amount of reinsurance they purchase. As a result of consolidation within the industry, many ceding companies are now larger and financially stronger, enabling them to retain more risk. In addition, increasingly intense competition in the reinsurance markets has driven reinsurance prices on a number of accounts below pricing levels which Folksamerica will accept. Folksamerica's management believes that the reinsurance industry, including the intermediary market, will continue to undergo further consolidation. Management further believes that, although size and financial strength will continue to be factors in selecting reinsurance partners, product pricing has become the most telling competitive factor.

CONSOLIDATED INSURANCE OPERATIONS

Since 1995 White Mountains has been acquiring and developing various insurance operating interests. In December 1995 White Mountains acquired Valley Group, Inc. ("VGI") of Albany, Oregon and Charter Group, Inc. ("CGI") of Richardson, Texas for $41.7 million in cash less $3.0 million of purchase price adjustments. In September 1995, White Mountains formed White Mountains Insurance Company ("WMIC") which is a New Hampshire-based midsize commercial property and casualty company. In December 1995 CGI and WMIC were contributed to VGI thereby making them wholly-owned subsidiaries of VGI.

VALLEY INSURANCE COMPANIES. Valley Insurance Company ("VIC"), Valley Property & Casualty Insurance Company ("Valley P&C"), Valley National Insurance Company ("Valley National") and certain related non-insurance affiliates, collectively ("Valley"), write personal and commercial lines as further described below:

VIC: A Northwest-based property and casualty company which writes personal and commercial lines. In 1998, 1997 and 1996, VIC had $86.7 million, $77.7 million and $75.1 million of net written premiums, respectively, primarily in Oregon, California and Washington. At December 31, 1998 and 1997, VIC had $158.2 million and $146.6 million of total admitted assets, respectively, and $56.5 million and $61.2 million of policyholders' surplus, respectively. VIC was established in 1982 and began writing insurance policies in 1985. VIC is rated "A" or "excellent" by A.M. Best.

VALLEY P&C: On December 5, 1996, VGI formed Valley P&C to specifically write property and casualty insurance within Oregon. Valley P&C wrote its first policies in February 1997 and had $6.2 million and $5.2 million in net written premiums during 1998 and 1997, respectively. At December 31, 1998 and 1997, Valley P&C had $13.0 million and $7.7 million of total admitted assets, respectively, and $7.3 million and $3.7 million of policyholders' surplus, respectively. Valley P&C is rated "A" or "excellent" by A.M. Best.

VALLEY NATIONAL: On January 19, 1996, Valley purchased an inactive insurance company for $13.2 million, net of cash balances acquired. The newly acquired insurance company, which was renamed Valley National, is licensed to write property and casualty insurance in 48 states. Assets acquired pursuant to the purchase of Valley National included an investment portfolio, consisting principally of fixed maturity investments, totalling $6.7 million. Valley National wrote its first policies in December 1996 and had $10.9 million and $2.7 million in gross written premiums ($1.4 million and $.3 million of net written premiums) during 1998 and 1997, respectively. In the future, Valley National may further expand its operations to certain other states in which it is currently licensed. At December 31, 1998 and 1997, Valley National had $13.2 million and $11.5 million of total admitted assets, respectively, and $11.9 million and $11.1 million of policyholders' surplus, respectively. Valley National is a wholly-owned subsidiary of VIC and shares its A.M. Best's "A" rating through a combination of a reinsurance arrangement with VIC and its ownership structure.

Valley markets insurance products principally through independent agents. Valley's primary business focus is to establish strong long-term relationships with its agents and insured customers by focusing on providing quality insurance products to families and family-owned businesses. This approach has resulted in an established track record of growth:

	Year Ended December 31,				
Statutory Basis(a), in Millions	1998	1997	1996	1995	1994
Gross written premiums	$ 95.8	$ 89.2	$ 81.9	$ 73.1	$ 64.8
Ending total assets	171.2	154.3	138.2	126.8	80.4
Ending policyholders' surplus	63.8	64.9	57.8	58.5	23.5

(a) The term "statutory" as contained herein refers to a basis of accounting other than generally accepted accounting principles ("GAAP") that is prescribed by the individual states that an insurance company transacts business in.

In 1998, 1997 and 1996 Valley wrote $95.8, $89.2 million and $81.9 million, respectively, of gross premiums within the following states, through approximately 317 independent agents:

	Year Ended December 31, 1998		
Dollars in millions	Gross Written Premiums	Policies In Force*	Agents*
Oregon	$ 44.5	30,876	99
California	27.7	12,084	90
Washington	16.6	6,983	62
Arizona, Idaho, Utah and other	7.0	5,372	66
Totals	$ 95.8	55,315	317

	Year Ended December 31, 1997		
Dollars in millions	Gross Written Premiums	Policies In Force*	Agents*
Oregon	$ 43.1	30,789	98
California	26.2	12,333	80
Washington	17.2	6,960	69
Arizona, Idaho, Utah and other	2.7	2,180	38
Totals	$ 89.2	52,262	285

	Year Ended December 31, 1996		
Dollars in millions	Gross Written Premiums	Policies In Force*	Agents*
Oregon	$ 40.9	31,118	99
California	27.5	12,910	74
Washington	13.2	4,554	63
Arizona, Idaho, Utah and other	.3	222	9
Totals	$ 81.9	48,804	245

* Determined at year end.

Valley's focus on delivering insurance products to families and family-owned businesses has resulted in a book of business which is balanced between personal lines and commercial lines. Gross written premiums for Valley's primary lines of business are shown below:

	Year Ended December 31,				
Millions	1998	1997	1996	1995	1994
Personal lines:					
Automobile	$ 33.1	$ 29.3	$ 25.9	$ 23.9	$ 22.5
Homeowners	14.0	13.4	12.0	10.4	8.3
Other	1.0	1.5	1.3	1.1	.8
Total personal lines	48.1	44.2	39.2	35.4	31.6
Commercial lines:					
Multiple peril	45.2	42.2	39.1	34.3	30.2
Other	2.5	2.8	3.6	3.4	3.0
Total commercial lines	47.7	45.0	42.7	37.7	33.2
Total gross written premiums	$ 95.8	$ 89.2	$ 81.9	$ 73.1	$ 64.8

The long-term relationships cultivated by Valley with its agents and insured customers, along with superior customer service and convenient premium billing and payment systems, have produced a relatively high level of persistency in Valley's "package" book of business. In 1998, 1997 and 1996, package business represented approximately 73.6%, 79.1% and 80.0% of Valley's premium writings, respectively, for both personal and commercial lines:

	Year Ended December 31,				
Renewal retention ratios	1998	1997	1996	1995	1994
Personal automobile/homeowners packages	91.0%	91.4%	89.4%	88.2%	87.8%
Commercial multiple peril packages	74.6%	78.9%	75.5%	76.5%	84.5%

Renewal persistency can be a significant indicator of an insurance company's long-term prospects for successful underwriting. An insurance company typically incurs more marketing and underwriting costs to write new business (e.g., policies written for new customers)

than it does to write "seasoned" business (e.g., policy renewals). Additionally, losses and loss adjustment expenses are typically higher and less predictable for new business than for seasoned business.

CHARTER INSURANCE COMPANIES. CGI, through its wholly-owned subsidiary Charter Indemnity Company, its controlled affiliate Charter County Mutual Insurance Company and certain related non-insurance subsidiaries (collectively "Charter"), markets and underwrites nonstandard automobile insurance to individuals primarily in the states of Texas and Oklahoma. For the years ended December 31, 1998, 1997 and 1996, Charter's net written premiums totalled $64.3 million, $62.9 million and $69.9 million, respectively, and its earned premiums totalled $64.2 million, $62.4 million and $37.7 million, respectively. Written premiums (and related expenses and losses) for Charter's policies written prior to January 1, 1996, were entirely ceded to Charter's former parent and are now fully retained, therefore, Charter's 1996 earned premiums are not directly comparable to its 1998 and 1997 earned premiums.

Charter writes all its business through independent agents. At December 31, 1998 Charter had approximately 1,600 agents. During 1998 Charter began to write policies in California and Missouri and is expected to expand its operations to other states. Charter is rated "A-" or "excellent" by A.M. Best.

The nonstandard automobile insurance market consists of drivers who are unable to obtain coverage from standard carriers due to their prior driving records, other underwriting criteria or market conditions. Management believes that opportunities in the nonstandard automobile insurance market are influenced by many factors including the market conditions for standard automobile insurance, residual market plans, and the extent to which state motor vehicle laws are enforced. The nonstandard automobile insurance market has grown in recent years as the result of tightening of underwriting standards by underwriters of standard and preferred automobile insurance, and increased enforcement of motor vehicle laws including driving while intoxicated and uninsured motorist laws.

Charter offers both liability and physical damage coverage in its nonstandard automobile insurance markets, generally with policies having terms of 6 months or 12 months. Most of Charter's policyholders choose basic limits of liability coverage, typically $20,000 per person and $40,000 per accident for bodily injury, and $15,000 for property damage. For the year ended December 31, 1998, Charter's net written premiums totalled $43.1 million for liability coverages and $21.2 million for physical damage coverages.

Management pursues a strategy of establishing Charter as a low cost provider of nonstandard automobile insurance while maintaining a commitment to provide "service beyond expectation" to both agents and the insured. Management believes that Charter has become a low cost provider of nonstandard automobile insurance. Increased automation of certain marketing, underwriting, claims and administrative functions has provided Charter with the ability to process more business without a corresponding increase in costs, while maintaining a high level of service to its agents and insured customers.

Management believes that most classes of nonstandard automobile insurance can be underwritten profitably if they are priced adequately. Charter seeks to classify risks into narrowly defined segments through the utilization of available underwriting criteria and internal performance statistical data. Charter maintains a proprietary database which contains statistical records with respect to its agents and the insured. Management believes this database enhances Charter's ability to analyze loss experience, and to underwrite and price its products based on a number of variables. Charter utilizes many factors and analyses to determine its rates including: type, age and location of the vehicle; number of vehicles per policyholder; number and type of traffic violations or accidents; limits of liability; deductibles; and age, sex and marital status of the insured.

Automobile damage claims are normally settled in a timely manner which limits the amount of investment income that can be generated on the earned and unearned insurance premiums that it has received from its policyholders. Therefore, Charter's combined ratio must generally be lower than that of Fund American's other consolidated property and casualty insurance operations in order to earn an equivalent return on equity.

WHITE MOUNTAINS INSURANCE COMPANY. WMIC is currently licensed to write insurance in Maine, New Hampshire, Vermont, Massachusetts, New York, Rhode Island and Texas and is expected to expand its operations to other states as additional regulatory approvals are obtained. WMIC markets its products principally through independent agents and had gross written premiums during 1998, 1997 and 1996 of $7.5 million, $5.2 million and $2.4 million ($6.3 million, $4.7 million and $2.0 million of net written premiums), respectively. At December 31, 1998 and 1997, WMIC had $33.3 million and $31.4 million of total admitted assets, respectively, and $30.3 million and $29.1 million of policyholders' surplus, respectively. WMIC is a wholly-owned subsidiary of VIC and shares its A.M. Best's "A" rating through a combination of a reinsurance arrangement with VIC and its ownership structure.

UNDERWRITING

Valley, Charter and WMIC's primary underwriting objective is to carefully assess insurance risks to determine the likelihood of a particular risk providing an underwriting profit. Those risks that do not provide a reasonable likelihood of delivering an underwriting profit are rejected.

Valley, Charter and WMIC's Underwriting Committee, composed of its most senior underwriters and executives, is responsible for its underwriting policy, quality standards and for informing their boards of directors of current and anticipated market conditions and its actual underwriting results.

MARKETING

In the United States, property and casualty insurance can be obtained through national and regional companies that use an agency distribution system, direct writers, brokers or through self-insurance including the use by corporations of subsidiary captive insurers. Valley, Charter and WMIC market their products principally through independent agents.

Valley, Charter and WMIC pay their independent agents commissions representing negotiated percentages of the premium they write. These commissions, which currently range from 10.0% to 17.5% of premium, depending on the line of business, constitute part of total acquisition costs and are included in underwriting expenses.

COMPETITION

The principal competitive factors that affect Valley, Charter and WMIC are: (i) pricing; (ii) underwriting; (iii) quality of claims and policyholder services; (iv) appointing and retaining high quality independent agents; (v) operating efficiencies; and (vi) product differentiation and availability. No single company or group of affiliated companies dominates the insurance industry. The highly competitive environment in the property and casualty insurance market during the past several years has intensified due to increased capacity resulting from growing capital supporting the industry and robust investment returns achieved in recent years. Valley, Charter and WMIC strive to be low cost operators within their sectors of the insurance industry while maintaining superior levels of customer service. Valley, Charter and WMIC each maintain a disciplined approach to pricing and underwriting of insurance risks. Application of this disciplined approach in a highly competitive environment results in a lower volume of insurance premiums than would result from a less disciplined approach, but should produce better overall financial returns from the business over long periods of time.

Perception of financial strength, as reflected in the ratings assigned to an insurance company, especially by A.M. Best, is also a factor in determining an insurance company's competitive position. Valley, Charter and WMIC have consistently maintained adequate capitalization and claims payment ratings to effectively conduct its business and management believes that such strength will continue to be maintained in the future.

INVESTMENTS IN UNCONSOLIDATED INSURANCE AFFILIATES

White Mountains' investments in unconsolidated insurance affiliates represent strategic operating investments in other insurers in which White Mountains has a significant voting and economic interest but does not own greater than 50% of the entity. Since 1994, Fund American has been active in accumulating its investments in unconsolidated affiliates which are further described below:

FINANCIAL SECURITY ASSURANCE HOLDINGS LTD. ("FSA"). FSA, through its wholly-owned subsidiary, Financial Security Assurance Inc., guarantees scheduled payments of principal and interest on municipal bonds and asset-backed securities, including residential mortgage-backed securities. FSA's guaranty on investment-grade securities helps issuers lower their funding costs and provides bondholders with the highest-quality investments. FSA's claims-paying ability is rated Triple-A by Fitch IBCA, Inc., Moody's Investors Service, Inc., Standard & Poor's Rating Services and Nippon Investors Service Inc. For 1998, 1997 and 1996 FSA's gross premiums written totalled $319.3 million, $236.4 million and $177.0 million, respectively, and its net income was $117.0 million, $100.5 million and $80.8 million, respectively. As of December 31, 1998 and 1997, FSA's total assets were $2.4 billion and

$1.9 billion, respectively, and its shareholders' equity was $1,073.4 million and $882.4 million, respectively.

In May 1994 Fund American purchased 2,000,000 shares of the common stock of FSA ("FSA Common Stock") from MediaOne Capital Corp. ("MediaOne", formerly U S WEST Capital Corp.), a wholly-owned subsidiary of MediaOne Group, Inc. (formerly U S WEST, Inc.). The purchase was part of an initial public offering of 8,082,385 shares of FSA Common Stock at the offering price of $20.00 per share.

In September 1994 Fund American acquired various fixed price options and shares of convertible preferred stock ("FSA Options and Preferred Stock") which, in total, give Fund American the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of $125.7 million.

In 1995 and 1996, respectively, Fund American purchased an additional 460,200 shares of FSA Common Stock on the open market for $8.8 million and an additional 1,000,000 shares of FSA Common Stock in a private transaction for $26.5 million.

All shares of and rights to FSA Common Stock owned or acquired by Fund American as described above (other than those acquired on the open market) are subject to certain restrictions on transfer, voting provisions and other limitations and requirements set forth in a Registration Rights Agreement and a Voting Trust Agreement. As of December 31, 1998, 1997 and 1996 Fund American's economic interest in FSA was approximately 25.1%, 26.2% and 25.1%, respectively, and Fund American's voting interest in FSA was approximately 23.1%, 24.0% and 23.0%, respectively. During 1997 Fund American transferred all of its interests in FSA to Source One.

Mr. John J. ("Jack") Byrne (Chairman of the Company) is Vice Chairman of FSA and Mr. K. Thomas Kemp (President and CEO of the Company) and Mr. James H. Ozanne (President of Fund American Enterprises, Inc. ("FAE"), a wholly-owned subsidiary of White Mountains) are directors of FSA. In addition to being FSA directors, Mr. Kemp is Chairman of FSA's Human Resources Committee and Mr. Ozanne is Chairman of FSA's Underwriting Committee.

Fund American's investment in FSA Common Stock is accounted for using the equity method. FSA Common Stock is publicly traded on the New York Stock Exchange ("NYSE"). The market value of the FSA Common Stock as of December 31, 1998 and 1997, as quoted on the NYSE, exceeded Fund American's carrying value of the FSA Common Stock under the equity method. Fund American's investments in FSA Options and Preferred Stock are accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115 whereby the investments are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses, after tax, reported as a net amount in a separate component of shareholders' equity and reported on the income statement as a component of comprehensive net income.

MAIN STREET AMERICA HOLDINGS, INC. ("MSA"). MSA is a subsidiary of National Grange Mutual Insurance Company of Keene, New Hampshire ("NGM"). NGM insures property and casualty risks located primarily in New York, Massachusetts, Connecticut, Pennsylvania, New Hampshire, Virginia and Florida. NGM's principal lines of business and approximate percentage of total written premiums are personal

automobile (45%), homeowners (15%), commercial multi-peril (15%), commercial automobile (10%) and all other (15%). MSA participates in NGM's property and casualty business through a reinsurance agreement. MSA's net written premiums totalled $258.5 million, $156.6 million and $147.2 million in 1998, 1997 and 1996, respectively, and its net income was $13.4 million, $11.9 million and $9.7 million, respectively. MSA's total assets as of December 31, 1998 and 1997 were $588.6 million and $337.2 million, respectively, and its shareholders' equity was $232.5 million and $120.6 million, respectively.

In December 1994 the Company (who subsequently transferred the MSA investment to White Mountains) acquired 90,606 shares of the common stock of MSA ("MSA Common Stock") for $25.0 million in cash plus $1.2 million in subsequent purchase price adjustments. White Mountains initial investment in MSA represented approximately 33.1% of the MSA Common Stock outstanding at that time. From 1994 to 1997 MSA participated in 40% NGM's property and casualty business through a reinsurance agreement.

In March 1998 White Mountains acquired an additional 131,487 shares of MSA Common Stock for $70.3 million (subject to certain purchase price adjustments which are not expected to exceed $3.5 million) which raised White Mountains ownership of MSA to 50.0%. As a result of White Mountains' additional investment in MSA during 1998, MSA's reinsurance pooling agreement was increased from 40% to 60% and NGM contributed certain of its insurance, reinsurance and financial services subsidiaries to MSA. Fund American's investment in MSA Common Stock is accounted for using the equity method.

Messrs. Raymond Barrette (Executive Vice President and Chief Financial Officer of the Company), Terry L. Baxter (President of White Mountains), Morgan W. Davis (Executive Vice President of White Mountains) and Kemp are directors of MSA.

AMLIN PLC ("AMLIN") FORMERLY ML (BERMUDA) LIMITED ("MURRAY LAWRENCE"). Amlin is a managing agency group in the Lloyd's insurance market. On December 8, 1997, White Mountains purchased approximately 15.8% of the common stock of Murray Lawrence for $23.6 million. At December 31, 1997 White Mountains carried this investment as an "investment in unconsolidated insurance affiliate" and valued it at its original cost of $23.6 million which approximated its fair value at that date.

During 1998 Murray Lawrence merged with Angerstein Underwriting and the combined entity was named Amlin. Amlin is publicly traded on the London Stock Exchange. White Mountains owns 13,980,861 shares of the common stock of Amlin, which represents an approximate 6.5% ownership stake as of December 31, 1998. As a result of White Mountains' decreased ownership percentage of this investment resulting from the merger, White Mountains recharacterized its investment in Amlin as an "other investment" and carried the investment at its fair value of $25.1 million at December 31, 1998. Mr. Kemp is a director of Amlin.

MORTGAGE BANKING OPERATIONS

Source One was incorporated in 1972 and is the successor to Citizens Mortgage Corporation which was organized in 1946. As a mortgage banker, Source One engages primarily in the business of producing and selling residential mortgage loans and servicing and subservicing residential mortgage loans for third parties. Through subsidiaries, Source One also markets credit-related insurance products (such as life, disability, health, accidental death and property and casualty insurance).

Source One's principal office is located in Farmington Hills, Michigan. Source One is a wholly-owned subsidiary of Fund American whereby the Company currently owns 3% of the outstanding common stock of Source One and White Mountains owns the remaining 97% of the outstanding common stock of Source One.

MORTGAGE BANKING OVERVIEW

Mortgage banking is the business of serving as a financial intermediary in the origination and purchase of mortgage loans, the holding of such loans while aggregating sufficient loans to form appropriate mortgage-backed security pools, selling such loans through pools or directly to investors and servicing or subservicing such loans during the repayment period.

The origination process involves providing competitive mortgage loan rates, soliciting loan applications, reviewing title and credit matters, and funding loans at closing. Mortgage loans can also be purchased from other originating mortgage bankers.

Marketing or selling mortgage loans requires matching the needs of the production market (homebuyers and homeowners seeking new mortgages) with the needs of the secondary market for mortgage loans (securities broker-dealers, depository institutions, insurance companies, pension funds and other investors). Conventional mortgage loans (e.g., those not guaranteed or insured by agencies of the Federal government) which are secured by residential properties, and which comply with applicable requirements, are packaged for direct sale or conversion to a mortgage-backed security. Such mortgage-backed securities are guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC") or the Federal National Mortgage Association ("FNMA"). Mortgage loans insured by the Federal Housing Administration ("FHA") and the Veterans Administration ("VA") 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 various forms and offer the resulting mortgage-backed securities to the public through securities broker-dealers.

Servicing involves collecting principal, interest and funds to be escrowed for tax and insurance payments from mortgage loan borrowers, remitting principal and interest collections to mortgage loan investors, paying property taxes and insurance premiums on mortgaged property and performing all related accounting and reporting

activities. Servicing may also involve advancing uncollected payments to mortgage loan investors, administering delinquent loans and supervising foreclosures in the event of unremedied defaults. 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. Subservicing involves the administrative servicing of loans owned by others for a fee.

MORTGAGE LOAN PRODUCTION

Source One produces residential mortgage loans through: (i) a correspondent network of more than 200 banks, thrift institutions and other mortgage lenders; (ii) 163 retail branch offices in 31 states and Puerto Rico; (iii) approximately 425 mortgage brokers; and (iv) a specialized marketing and affinity program. Source One primarily produces fixed rate mortgage loans. Generally speaking, fixed rate mortgages tend to capture a large share of origination volumes in a declining interest rate environment. Additionally, fixed rate mortgage loans are inherently less susceptible to prepayment risk than adjustable rate mortgages. During periods of increasing interest rates, the likely adverse effects of lower fixed rate mortgage loan originations are mitigated by a reduction in the prepayment risk on the fixed rate mortgage loans Source One services. During 1998 and 1997, fixed rate mortgage loan production accounted for approximately 98% and 88%, respectively, of Source One's total mortgage loan production.

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

	Year Ended December 31,				
Millions	1998	1997	1996	1995	1994
Loan production by type of loan:					
FHA insured and VA guaranteed	$ 3,009	$ 2,985	$ 2,035	$ 1,565	$ 2,065
Conventional	7,857	1,418	1,796	1,287	2,521
Total	$10,866	$ 4,403	$ 3,831	$ 2,852	$ 4,586
Loan production by origination source:					
Correspondent network acquisitions	$ 6,880	$ 2,552	$ 1,640	$ 1,157	$ 1,081
Retail branch office originations	2,692	1,339	1,590	1,347	2,005
Mortgage broker originations	872	390	369	196	696
Specialized marketing program originations	290	122	232	152	804
Subprime and other	132	--	--	--	--
Total	$10,866	$ 4,403	$ 3,831	$ 2,852	$ 4,586

During 1997 Source One broadened its product line by offering higher profit margin products such as FHA home improvement ("203(k)") loans, manufactured housing loans, subprime loans and 125% loan to value second mortgage ("125% LTV") loans. The 203(k) loans and manufactured housing loans produced by Source One are sold to third parties with servicing retained whereby the subprime loans and 125% LTV loans produced by Source One are sold to third parties on a servicing released basis. Source One is currently expanding its capability to service and subservice subprime loans and to subservice 125% LTV loans. These new products did not account for a significant portion of Source One's total mortgage loan production during 1998 or 1997.

SALES OF LOANS

Source One sells mortgage loans either through mortgage-backed securities issued pursuant to programs of GNMA, FNMA and FHLMC, or to institutional investors. Most mortgage 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 1998 approximately 71.1%, 20.6% and 5.3% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. During 1997 approximately 65.5%, 23.3% and 6.7% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. During 1996 approximately 42.8%, 35.3% and 11.6% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. Since 1993, substantially all GNMA securities have been sold without recourse to Source One for loss of principal in the event of a subsequent default by the mortgage borrower.

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.

To minimize interest rate risk associated with mortgage loans whose interest rate is "locked" but has not yet been sold, 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 (the "Pipeline") which it believes will close. Source One's risk management function closely monitors the Pipeline to determine appropriate forward commitment coverage on a daily basis.

LOAN SERVICING

Source One generally retains the rights to service the mortgage loans it produces. In addition, Source One may purchase servicing rights from banks, thrift institutions and other mortgage lenders. There were no significant purchases of mortgage servicing rights by Source One during 1998 and 1997.

Source One also sells servicing rights when management deems it economically advantageous. During 1998 Source One sold the rights to service $10.6 billion of nonrecourse mortgage loans and continues to subservice a large portion of these loans pursuant to a subservicing agreement. During 1997 Source One sold the rights to service a $17.0 billion portfolio of nonrecourse mortgage loans and continues to subservice a portion of these loans pursuant to a subservicing agreement.

The following table summarizes the changes in Source One's mortgage loan servicing portfolio, excluding loans sold but not transferred:

	Year Ended December 31,				
Billions	1998	1997	1996	1995	1994
Servicing portfolio owned at beginning of year	$ 11.6	$ 26.4	$ 27.8	$ 35.3	$ 38.4
Mortgage loan production	10.9	4.4	3.8	2.9	4.6
Servicing acquisitions and other	--	--	2.8	4.7	3.7
Total servicing in	10.9	4.4	6.6	7.6	8.3
Regular payoffs	1.6	1.2	3.0	2.3	4.7
Sales of servicing	10.6	17.0	3.3	11.0	3.9
Principal amortization, foreclosures and other	1.1	1.0	1.7	1.8	2.8
Total servicing out	13.3	19.2	8.0	15.1	11.4
Servicing portfolio owned	9.2	11.6	26.4	27.8	35.3
Subservicing portfolio	15.9	14.9	2.8	4.0	4.3
Balance at end of year	$ 25.1	$ 26.5	$ 29.2	$ 31.8	$ 39.6

COMPETITION

Source One competes nationally and locally for loan production with other mortgage banks, 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 generally originates 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 and broker network. It is the opinion of the management of Source One that no single mortgage lender dominates the industry.

INVESTMENT PORTFOLIO MANAGEMENT

Fund American's philosophy is to invest all assets to maximize their after tax total return over extended periods of time. Under this approach, each dollar of after tax investment income, realized capital gains and unrealized appreciation is valued equally. Management further believes that insurance company float generated should be invested in a "balanced portfolio" consisting of a mixture of fixed income investments, equity securities and occasionally other investments in order to maximize returns over extended periods of time. This investment philosophy of Fund American is established and administered by the Fund American and White Mountains Finance Committees. The Finance Committees also regularly monitor the overall investment results of Fund American, review the results of each of Fund American's various investment managers, review compliance with established investment guidelines, approve all purchases and sales of investment securities and ultimately report the overall investment results to the Company's Board of Directors (the "Board").

The fixed income portfolios of Valley, Charter and WMIC are actively managed by an affiliate of MSA pursuant to discretionary management agreements. The fixed income and equity investment portfolio and other investments of Folksamerica are managed internally by employees of Folksamerica.

The equity investment portfolios and other investments of the Company, White Mountains, Valley, Charter and WMIC are managed by a small group of employees located in Hanover, New Hampshire and various internal and external portfolio managers pursuant to discretionary management agreements. FAE's investment portfolio is primarily managed by a small group of employees located in White River Junction, Vermont.

As previously stated, the investment portfolios of Fund American's insurance operations consist, in part, of common equity securities and related investments as follows: (i) $143.0 million at Folksamerica or approximately 15% of Folksamerica's total investment portfolio at December 31, 1998; (ii) $48.5 million at Valley and Charter or approximately 28% of Valley and Charter's total investment portfolio at

December 31, 1998; and (iii) $26.7 million at WMIC or approximately 83% of WMIC's total investment portfolio at December 31, 1998. Management believes that modest investments of equity securities within the investment portfolios of its insurance operations will enhance their after tax returns without significantly increasing the risk profile of the portfolio when considered over long periods of time.

CERTAIN BUSINESS CONDITIONS

Inflation and changes in market interest rates can have significant effects on White Mountains' insurance operations. Inflation increases the costs of settling insurance claims over time. Increases in market interest rates, which often occur during periods of high inflation, reduce the market value of the insurance operations' fixed-income investments. Conversely, reductions in market interest rates increase the market value of White Mountains' fixed-income investments.

Changes in the economy or prevailing interest rates can also have significant effects, including material adverse effects, on the mortgage banking industry including Source One. 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 from 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 increase and the average life of mortgage 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 servicing rights because prepayments of mortgages decline and the average life of loan servicing rights is lengthened. In an attempt to mitigate Source One's exposure to changes in market interest rates, Source One utilizes various derivative financial instruments. See "Management's Discussion and Analysis".

REGULATION

Folksamerica, Valley, Charter and WMIC are subject to regulation and supervision of their operations in each of the jurisdictions where they conduct business. Regulations vary between jurisdictions but, generally, they provide regulatory authorities with broad supervisory, regulatory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial

statements, reserves for unpaid losses and loss adjustment expenses, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. Over the last several years most states have, and continue to implement, laws which establish standards for current, as well as continued, state accreditation. In addition, the National Association of Insurance Commissioners has adopted risk-based capital ("RBC") standards for property and casualty companies. The RBC ratios for Folksamerica, Valley, Charter and WMIC, as of December 31, 1998 and 1997, were above the levels which would require regulatory action.

Source One is subject to the rules and regulations of, and examinations by, investors and insurers including FNMA, FHLMC, GNMA, FHA and VA with respect to the origination and selling and servicing of mortgage loans. Lenders are required to submit audited financial statements annually and to maintain specified net worth levels which vary depending on the amount of loans serviced and annual production. 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, licensing laws, usury laws, the Home Mortgage Disclosure Act, and other regulations which, among other things, prohibit discrimination in residential lending and require disclosure of certain information to borrowers. There are various other state laws and regulations affecting Source One's mortgage banking operations. Source One's internal audit function (which is managed by Source One but is outsourced to a third party) and quality control departments monitor compliance with all these laws and regulations.

Fund American is not aware of any current recommendations by regulatory authorities that would be expected to have a material effect on its results of operations or liquidity or any other matters that would require disclosure herein.

EMPLOYEES

As of December 31, 1998, the Company employed 11 persons and White Mountains employed 2,825 persons (including 261 persons at Valley, 186 persons at Charter, 34 persons at WMIC, 2,212 persons at Source One, 125 persons at Folksamerica and 3 persons at FAE). None of Fund American's employees are covered by a collective bargaining agreement. Management believes that Fund American's employee relations are good.

FORWARD-LOOKING STATEMENTS

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial

performance, business prospects, new products and similar matters. This information is often subject to various risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that numerous factors could cause actual results and experience to differ materially from anticipated results or other expectations expressed in its forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include those discussed elsewhere herein (such as those involving competition, regulation and certain business conditions).

ITEM 2. PROPERTIES

The Company leases 8,600 square feet of space at 80 South Main Street, Hanover, New Hampshire, under a lease expiring in 2006, which serves as its corporate office. Folksamerica leases 40,000 square feet of office space in New York, New York, under a lease expiring 2004, which serves as its principal office. Charter leases 56,000 square feet of office space in Richardson, Texas under a lease expiring in 2007, which serves as its principal office. Valley and Source One own their principal offices in Albany, Oregon and Farmington Hills, Michigan, respectively. Fund American leases several other office facilities and operating equipment under cancelable and noncancelable agreements. Most 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 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of March 22, 1999, there were 470 registered holders of shares of the Company's Common Stock, par value $1.00 per share ("Shares").

During 1998 and 1997 the Company declared and paid quarterly cash dividends of $.40 per Share and $.20 per Share, respectively. 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. The Company's Common Stock (symbol FFC) is listed on the NYSE. The quarterly trading range for Shares during 1998 and 1997 is presented below:

	1998		1997	
	High	Low	High	Low
Quarter ended:				
December 31	$144 3/8	$117	$124	$105 1/4
September 30	153 1/4	119	108	99 1/2
June 30	150 1/4	135 9/16	110 1/2	98
March 31	137 5/16	120 1/8	109 3/4	94

ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated income statement data and ending balance sheet data for each of the five years ended December 31, 1998, follows:

	Year Ended December 31,				
Millions, except per share amounts	1998(a)	1997	1996	1995	1994
INCOME STATEMENT DATA:					
Revenues	$ 578	$ 310	$ 325	$ 222	$ 228
Expenses	519	329	336	234	219
Pretax operating earnings (loss)	59	(19)	(11)	4	9
Net realized investment gains	71	97	39	39	39
Pretax earnings	130	78	28	43	48
Income tax provision	48	29	19	17	21
After tax earnings	82	49	9	26	27
Loss on early extinguishment of debt, after tax	--	(6)	--	--	--
Gain from sale of discontinued operations, after tax	--	--	--	66(b)	--
Cumulative effect of accounting change - purchased mortgage servicing, after tax	--	--	--	--	(44)(c)
Net income (loss)	82	43	9	92	(17)
Other comprehensive income (loss), after tax	(9)	42(d)	54	18	(55)
Comprehensive net income (loss)	$ 73	$ 85	$ 63	$ 110	$ (72)
Basic earnings per share:					
After tax earnings	$ 13.38	$ 6.89	$ .66	$ 1.88	$ 1.27
Net income (loss)	13.38	5.98	.66	10.30	(3.72)
Comprehensive net income (loss)	11.87	12.33(d)	8.01	12.64	(9.89)
Diluted earnings per share:					
After tax earnings	11.94	6.22	.60	1.71	1.20
Net income (loss)	11.94	5.40	.60	9.36	(3.51)
Comprehensive net income (loss)	10.58	11.15(d)	7.33	11.48	(9.34)
Cash dividends paid per share of common stock	1.60	.80	.80	.20	--
ENDING BALANCE SHEET DATA:					
Total assets	$ 3,281	$ 2,010(d)	$ 1,981	$ 1,872	$ 1,807
Short-term debt	749	571	408	445	254
Long-term debt	360	304	424	407	547
Minority interest - preferred stock of subsidiary	44	44	44	44	100
Shareholders' equity	703	659(d)	687(e)	700(e)	661(e)
Book value per common and equivalent share (f)	109.68(g)	100.08(d)	90.81	83.28	68.95

(a) Includes the ending balance sheet and the interim period results of operations of Folksamerica which was acquired by Fund American on August 18, 1998.
(b) Reflects the settlement of certain tax liabilities relating to the sale of Fireman's Fund Insurance Company ("Fireman's Fund") for less than the previously accrued amount.
(c) 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.
(d) Restated as a result of Fund American's acquisition of Folksamerica during 1998. See Note 2.
(e) Reflects significant redemptions of the Company's Voting Preferred Stock Series D, par value $1.00 per share and repurchases of Shares.
(f) Book value per common share as adjusted for the after tax dilutive effects of outstanding options and warrants to acquire Shares.
(g) Excludes a $37.1 million unamortized deferred credit associated with Fund American's purchase of Folksamerica which will serve to increase the Company's future book value per common and equivalent share by $5.43 over an approximate five year period. See Note 2.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS: YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

CONSOLIDATED RESULTS

Fund American reported comprehensive net income of $73.3 million for the year ended December 31, 1998, which compares to comprehensive net income of $84.7 million and $63.2 million for 1997 and 1996, respectively. Comprehensive net income for 1998 includes after tax unrealized investment holding gains of $37.2 million versus $104.6 million and $79.6 million for 1997 and 1996, respectively.

Net income, which does not include comprehensive income items (primarily unrealized investment holding gains and losses), for 1998 was $82.2 million versus $43.0 million and $8.6 million for 1997 and 1996, respectively. Net income for 1998 includes after tax realized investment gains of $46.1 million versus $62.9 million and $25.0 million for 1997 and 1996, respectively.

Net income applicable to common stock (which is net of preferred stock dividends) for 1998, 1997 and 1996 was $78.5 million, $39.3 million and $4.9 million, respectively.

Book value per common and common equivalent share was $109.68 at December 31, 1998 ($115.11 including the after tax unamortized deferred credit associated with Fund American's purchase of Folksamerica in August 1998), which compares to $100.08 at December 31, 1997. Strong operating results at the Company's reinsurance and mortgage banking subsidiaries and favorable investment portfolio results produced most of the increase in book value per share from 1997 to 1998.

INSURANCE OPERATIONS

REINSURANCE OPERATIONS

Folksamerica contributed $10.0 million to net income during 1998, which includes $4.5 million of net income from January 1, 1998 to August 18, 1998 during which Folksamerica was an unconsolidated affiliate and $5.5 million of net income during which Folksamerica was consolidated. Folksamerica contributed $5.2 million and $2.4 million to net income as an unconsolidated insurance affiliate during 1997 and 1996, respectively.

Folksamerica's results for the three years ended December 31, 1998, 1997 and 1996 included $238.1 million, $238.0 million and $181.4 million of earned reinsurance premiums, respectively, and $170.3 million, $165.6 million and $138.6 million of losses and loss adjustment expenses, respectively. For 1998 Folksamerica's combined ratio was 108.0% versus a combined ratio of 102.9% and 108.9% for the comparable 1997 and 1996 periods.

A summary of Folksamerica's 1998, 1997 and 1996 underwriting results follows:

Dollars in millions	Year Ended December 31, 1998	1997	1996
Net written premiums	$ 212.6	$ 232.4	$ 171.9
Earned premiums	238.1	238.0	181.4
Losses and loss adjustment expenses	170.3	165.6	138.6
Underwriting expenses	92.6	81.6	54.8
Underwriting loss	$ (24.8)	$ (9.2)	$ (12.0)
Combined ratios:			
Loss and loss adjustment expense	71.5%	69.6%	76.4%
Underwriting expense	36.5	33.3	32.5
Combined	108.0%	102.9%	108.9%

During 1998, Folksamerica's written premium volume decreased approximately 9% versus 1997 premium levels reflecting an increase in non-renewed business due to deteriorating terms and conditions. Folksamerica's combined ratio for 1998 was higher than that of 1997 due primarily to two property events experienced during the year (Canadian ice storms and Hurricane Georges) and higher asbestos and environmental losses. During 1997, Folksamerica's premium volume increased approximately 35% versus 1996 premium levels reflecting its acquisition of Christiania General Insurance Corporation in June 1996.

As previously mentioned, Folksamerica underwrites each reinsurance contract anticipating an element of underwriting profit. The anticipated degree of underwriting profit varies by contract and is based on a variety of factors which can include some degree of float. Despite this expectation on an individual contract basis, Folksamerica's reported results for the years ended December 31, 1998, 1997 and 1996 included overall underwriting losses due to the following: (i) actual results on some accounts or classes have produced higher than anticipated loss costs. Considering the highly competitive market conditions, there has been insufficient margin in profitable accounts to absorb higher loss costs produced by other accounts; (ii) higher than anticipated property catastrophe losses, particularly during 1998; and (iii) continued strengthening of reserve portfolios relating to acquired companies, particularly for claims related to mass torts. In this regard, Folksamerica has built ample protections into its prior acquisition structures which partially mitigate the underwriting losses. The financial benefits of those protections are generally not reflected in the underwriting results, rather, such benefit is included in "other insurance operations revenue" in the income statement.

Since Folksamerica's claims settlement period generally extends over a long period of time, Folksamerica earns significant amounts of investment income on the float generated by its reinsurance operations. When considering investment income and certain other items at the Folksamerica holding company level (primarily interest expense and income taxes), Folksamerica reported net income of $27.3 million, $35.9 million and $17.1 million for the three years ended December 31, 1998, 1997 and 1996, respectively, and reported comprehensive net income of $53.3 million, $50.9 million and $18.4 million during those periods, respectively. This resulted in Folksamerica attaining an after tax return on its beginning equity of 20.9%, 29.9% and 16.0% for 1998, 1997 and 1996, respectively.

The following table presents the subsequent development of the year-end reinsurance losses for the ten year period from 1988 to 1998. Section I of the table shows the estimated liabilities that were recorded at the end of each of the indicated years for all current and prior year unpaid losses and loss adjustment expenses ("lae"). Section II shows the re-estimate of the liabilities made in each succeeding year. Section III shows the cumulative liabilities paid of such previously recorded liabilities. Section IV shows the cumulative deficiency representing the aggregate change in the liability from the original balance sheet dates:

	Reinsurance Losses and Loss Adjustment Expenses (a) Year Ended December 31,										
Dollars in Millions	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
I. Liability for unpaid losses and lae	$267.7	$312.7	$355.2	$425.2	$647.1	$670.6	$709.7	$760.8	$740.8	$739.1	$723.2
II. Liability re-estimated as of:											
1 year later	276.7	321.5	388.8	456.3	695.4	701.1	768.7	786.4	765.2	755.8	-
2 years later	279.0	353.1	413.3	462.2	717.0	757.3	797.8	810.4	785.4		
3 years later	301.4	376.1	415.4	476.9	759.2	779.2	818.6	833.0			
4 years later	326.5	378.0	424.9	496.6	770.4	800.1	837.5				
5 years later	328.7	391.0	438.2	499.2	795.0	817.1					
6 years later	344.2	400.5	441.7	509.6	808.9						
7 years later	351.4	403.7	450.4	516.0							
8 years later	354.5	410.4	456.8								
9 years later	364.6	415.7									
10 years later	370.3										
III. Cumulative amount of liability paid through:											
1 year later	66.0	84.5	93.8	119.4	220.8	201.5	203.1	214.1	183.1	175.0	-
2 years later	103.5	135.4	154.7	179.1	338.1	324.9	341.4	339.5	305.6		
3 years later	131.7	171.5	191.7	233.9	416.5	422.6	432.4	424.5			
4 years later	156.1	195.5	226.8	278.3	487.2	487.7	494.5				
5 years later	172.1	221.6	258.3	312.4	534.0	529.4					
6 years later	193.5	243.7	285.0	339.1	563.1						
7 years later	211.4	265.5	304.7	353.0							
8 years later	229.2	278.6	314.4								
9 years later	242.8	286.4									
10 years later	250.2										
IV. Cumulative deficiency	$102.6	$103.0	$101.6	$ 90.8	$161.8	$146.4	$127.9	$72.2	$44.6	$16.8	-
Percent deficient	38%	33%	29%	21%	25%	22%	18%	9%	6%	2%	-

(1) For the years 1988 through 1991 liabilities are shown net of reinsurance recoverable. For the years 1992 through 1998 liabilities are shown without regard to reinsurance recoverable in accordance with SFAS No. 113. The table excludes

the insurance operations of VGI whose liability for unpaid losses and lae totalled $88.5 million, $71.9 million and $65.4 million as of December 31, 1998, 1997 and 1996, respectively. Historic data for VGI is not considered to be meaningful due to Charter reinsuring all of its business to its former owner for periods prior to 1996. During 1998 and 1996, VGI's losses and loss adjustment expenses relating to prior years developed unfavorably by $6.7 million and $3.5 million, respectively. During 1997, VGI's losses and loss adjustment expenses relating to prior years developed favorably by $2.5 million pretax.

The table above has been prepared in accordance with prescribed instructions, however, management believes that this information is not indicative of Folksamerica's actual loss development history for the following reasons: (i) with respect to 1992 through 1998, the information is presented prior to considering the benefit of significant amounts of ceded reinsurance recovered (and recoverable) from Folksamerica's reinsurers; (ii) the information includes the complete loss development history for companies acquired by Folksamerica for all periods presented, including periods prior to Folksamerica's acquisition of such companies; and (iii) the structure of each of Folksamerica's acquisitions has provided effective economic protections to offset potential post-acquisition loss development. The form of these protections has included deferred and adjustable purchase consideration and favorable purchase prices. In consideration of such factors, the table presented below is management's attempt to adjust the deficiencies presented above for the most recent five years:

	Year Ended December 31,				
Percent of deficit to carried reserves:	1994	1995	1996	1997	1998
Deficiency as reported	18%	9%	6%	2%	-%
Deficiency as adjusted for the effects described above	3%	2%	1%	-%	-%

INSURANCE OPERATIONS

Valley, Charter and WMIC represent Fund American's consolidated insurance subsidiaries. Valley, Charter and WMIC's results for the years ended December 31, 1998, 1997 and 1996, included $160.6 million, $145.3 million and $109.7 million of property and casualty insurance premiums earned, respectively, and $115.1, $97.1 million and $85.9 million of losses and loss adjustment expenses, respectively.

A summary of 1998, 1997 and 1996 underwriting results for Valley, Charter and WMIC follows:

	Year Ended December 31, 1998		
Dollars in millions	Valley	Charter	WMIC
Net written premiums	$ 94.3	$ 64.3	$ 6.3
Earned premiums	91.1	64.2	5.3
Losses and loss adjustment expenses	67.8	43.7	3.6
Underwriting expenses	31.3	15.5	3.5
Underwriting profit (loss)	$ (7.9)	$ 5.0	$ (1.8)
Combined ratios:			
Loss and loss adjustment expense	74.4%	68.0%	67.3%
Underwriting expense	33.5	23.8	61.1
Combined	107.9%	91.8%	128.4%

Dollars in millions	Year Ended December 31, 1997		
	Valley	Charter	WMIC
Net written premiums	$ 83.2	$ 62.9	$ 4.7
Earned premiums	79.6	62.4	3.3
Losses and loss adjustment expenses	51.8	41.8	3.5
Underwriting expenses	28.3	17.1	2.0
Underwriting profit (loss)	$ (.5)	$ 3.5	$ (2.2)
Combined ratios:			
Loss and loss adjustment expense	65.0%	66.9%	107.8%
Underwriting expense	34.8	27.3	53.1
Combined	99.8%	94.2%	160.9%

Dollars in millions	Year Ended December 31, 1996		
	Valley	Charter	WMIC
Net written premiums	$ 75.1	$ 69.9	$ 2.0
Earned premiums	70.7	37.7	1.3
Losses and loss adjustment expenses	54.4	30.3	1.2
Underwriting expenses	24.8	8.0	.9
Underwriting loss	$ (8.5)	$ (.6)	$ (.8)
Combined ratios:			
Loss and loss adjustment expense	76.8%	80.4%	95.8%
Underwriting expense	34.9	18.9	50.4
Combined	111.7%	99.3%	146.2%

Valley's 1998 underwriting results suffered from losses in certain of its commercial lines business (primarily within Washington) which resulted in an underwriting ratio of 107.9% for the year and an underwriting loss of $7.9 million. Charter's 1998 underwriting results produced a satisfactory 91.8% combined ratio and a $5.0 million underwriting profit. For 1998, Charter's policy counts increased strongly but total premiums were down due to price reductions, a shift towards liability-only policies and a shift towards six-month policies. WMIC's loss and loss adjustment expense ratio for 1998 of 67.3% shows significant improvement over prior year results but its expense ratio for 1998 of 61.1% will not be meaningful for some time. WMIC's premium volumes must grow significantly from current levels to provide sufficient expense ratio economies of scale.

Valley and Charter's 1997 underwriting results produced satisfactory combined ratios and an overall underwriting profit. However, premium growth at both Valley and Charter suffered during 1997 as a result of increased competition in the marketplace which illustrates Fund American's underwriting discipline in a highly competitive market. WMIC's 1997 results were adversely impacted by several large workers' compensation claims although underwriting results on this small and growing book of business are not yet considered to be meaningful.

Valley's 1996 underwriting results were adversely impacted by severe fourth quarter storm-related losses and by $3.5 million in reserve strengthening for losses and loss adjustment expenses incurred in prior years. Charter's earned premiums trailed net written premiums during 1996 because Charter began to retain virtually all its written premiums. Charter's policies written prior to 1996 were fully ceded to a former affiliate of Charter.

Valley, Charter and WMIC's claims are normally settled in a more timely manner than those of Folksamerica which limits the amount of investment income that can be generated on the earned and unearned insurance premiums that it has received from its policyholders. When considering investment income and certain other items of VGI (primarily interest expense, income taxes and goodwill amortization), VGI reported net income (loss) of $5.0 million, $7.2 million and $(2.6) million for the three years ended December 31, 1998, 1997 and 1996, respectively, and reported comprehensive net income (loss) of $11.4 million, $13.6 million and $(1.8) million during those periods, respectively. This resulted in VGI attaining an after tax return (loss) on equity of 11.0%, 14.8% and (1.9)% for 1998, 1997 and 1996, respectively.

INVESTMENTS IN UNCONSOLIDATED INSURANCE AFFILIATES

FSA and MSA represented Fund American's investments in unconsolidated insurance affiliates at December 31, 1998. Fund American's investment in FSA increased $42.0 million during 1998 which consisted of $13.8 million of pretax earnings from FSA Common Stock, $26.6 million of pretax unrealized investment gains from FSA Options and Preferred Stock, $3.1 million of pretax unrealized investment gains

from FSA's investment portfolio, less $1.5 million of dividends received from FSA Common Stock. White Mountains' investment in MSA increased $9.0 million during 1998 (excluding White Mountains' additional purchase of MSA Common Stock for $70.3 million in February 1998) which consisted of $4.9 million of pretax earnings from MSA Common Stock and $4.1 million of pretax unrealized investment gains from MSA's investment portfolio.

FSA, MSA, Folksamerica and Murray Lawrence represented Fund American's investments in unconsolidated insurance affiliates as of December 31, 1997. Fund American's investment in FSA increased $80.0 million during 1997 which consisted of $11.4 million of pretax earnings from FSA Common Stock, $68.0 million of pretax unrealized investment gains from FSA Options and Preferred Stock, $2.1 million of pretax unrealized investment gains from FSA's investment portfolio, less $1.5 million of dividends received from FSA Common Stock. White Mountains' investment in MSA increased $6.2 million during 1997 which consisted of $3.8 million of pretax earnings from MSA Common Stock and $2.4 million of pretax unrealized investment gains from MSA's investment portfolio. White Mountains' investment in Folksamerica increased $2.7 million during 1997 (excluding White Mountains' purchase of Folksamerica Common Stock for $20.8 million during December 1997) which consisted of $.9 million of pretax earnings from Folksamerica Common Stock and $1.8 million of pretax unrealized investment gains from Folksamerica's investment portfolio. White Mountains investment in Murray Lawrence, which was acquired on December 8, 1997, remained at its cost of $23.6 million during 1997.

FSA, MSA and Folksamerica represented Fund American's investments in unconsolidated insurance affiliates as of December 31, 1996. Fund American's investment in FSA increased $23.1 million during 1996 (excluding Fund American's purchase of 1,000,000 additional shares of FSA Common Stock for $26.5 million during 1996) which consisted of $7.8 million of pretax earnings from FSA Common Stock, $17.3 million of pretax unrealized investment gains from FSA Options and Preferred Stock, less $1.0 million of pretax unrealized investment losses from FSA's investment portfolio, less $1.0 million of dividends received from FSA Common Stock. White Mountains' investment in MSA increased $1.0 million during 1996 which consisted of $1.5 million of pretax earnings from MSA Common Stock offset by $.5 million of pretax unrealized investment losses from MSA's investment portfolio. White Mountains' investment in Folksamerica increased $.2 million from June 1996 to December 31, 1996.

MORTGAGE BANKING OPERATIONS

For the year ended December 31, 1998, Source One's mortgage banking operations contributed $33.2 million of net income to Fund American versus net losses of $22.1 million and $8.0 million for during 1997 and 1996, respectively. Source One's 1998 results include a $15.2 million

pretax, $9.9 million after tax, gain on sales of mortgage servicing rights. Source One's 1997 results included the following charges: (i) a $6.0 million after tax extraordinary loss on early extinguishment of debt, (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, (iii) an $8.0 million pretax, $5.2 million after tax, loss on sales of mortgage servicing rights and assumption of subservicing and (iv) a $17.7 million pretax, $11.5 million after tax, charge to Source One's valuation allowance for impairment of their capitalized mortgage loan servicing portfolio. Source One's 1996 results include a $29.1 million pretax ($25.9 after tax) write-off of goodwill and certain other intangible assets which was partially offset by a $10.1 million pretax, $6.6 million after tax, gain on sales of mortgage servicing rights.

Gross mortgage servicing revenue was $78.1 million for the year ended December 31, 1998 which compares to $94.9 million in 1997 and $139.6 million in 1996. The decrease in gross mortgage servicing revenue from 1996 to 1998 is primarily the result of sales of mortgage servicing rights with respect to $10.6 billion and $17.0 billion of mortgage loans during 1998 and 1997, respectively.

Source One's net mortgage servicing revenue was $43.3 million for the year ended December 31, 1998 which compares to $38.2 million in 1997 and $70.3 million in 1996. Net mortgage servicing revenue for the year ended December 31, 1998 was enhanced by $20.4 million of pretax net gains on financial instruments versus gains of $11.3 million for 1997 and $9.9 million for 1996.

Source One utilizes interest rate floor contracts, interest rate swap agreements and principal only swap agreements to mitigate the effect on earnings of higher amortization and impairment of the capitalized servicing asset caused by changes in market interest rates. These financial instruments are carried at fair value on the balance sheet with unrealized and realized gains reported as net gains on financial instruments on the income statement. Source One's management believes that these financial instruments have proven to be an effective means to substantially offset fluctuations in the value of Source One's mortgage servicing asset caused by changes in market interest rates.

Net gains on sales of mortgages were $86.8 million for the year ended December 31, 1998, versus $21.5 million in 1997 and $38.3 million in 1996. The increase in gains from 1997 to 1998 reflects significant increases in Source One's correspondent production and related mortgage sales volumes during the period. The decrease in gains from 1996 to 1997 are due primarily to a change in Source One's loan production mix which included a proportionately higher volume of correspondent production during 1997 versus 1996 (which generates lower originated mortgage servicing rights income).

During 1998 Source One sold the rights to service $10.6 billion of nonrecourse mortgage loans for cash proceeds of $227.9 million, resulting in a pretax gain of $15.2 million. During 1997 Source One

sold the rights to service $17.0 billion of nonrecourse mortgage loans for cash proceeds of $266.9 million, resulting in a pretax loss of $8.0 million. As part of the 1998 and 1997 servicing sales, Source One retained the right to subservice $4.1 billion and $17.0 billion of these loans, respectively, for a contracted fee through 2001. During 1996 Source One sold the rights to service $3.3 billion of mortgage loans for net proceeds of $55.9 million, resulting in a pretax gain of $10.1 million.

Total mortgage loan production for the years ended December 31, 1998, 1997 and 1996, was $10.9 billion, $4.4 billion and $3.8 billion, respectively. The increase in production from 1996 to 1998 is reflective of overall lower market interest rates and a corresponding increase in refinancing activities during the period. Production related to refinancing activities made up 61%, 40% and 33% of total production during 1998, 1997 and 1996, respectively.

INVESTMENT OPERATIONS

The total return from Fund American's investment activities (excluding net unrealized investment holding gains and losses from Fund American's investments in unconsolidated insurance affiliates) is shown below:

	Year Ended December 31,		
Millions	1998	1997	1996
Net investment income:			
Mortgage banking operations	$ 81.6	$ 43.5	$ 40.8
Insurance operations, reinsurance operations and other	36.8	21.6	16.5
Total net investment income	118.4	65.1	57.3
Net unrealized investment holding gains arising during the period	26.8	86.6	106.5
Total net investment return, before tax	$ 145.2	$ 151.7	$ 163.8

Fund American's investment income is comprised primarily of interest income earned on mortgage loans originated by Source One, interest income associated with the fixed maturity investments of its consolidated insurance and reinsurance operations and dividend income from its equity investments. The increase in net investment income from mortgage banking operations from 1996 to 1998 is mainly attributable to an increase in interest income from mortgage loans held for sale due to higher mortgage loan production experienced during

those periods, particularly during 1998. The increase in net investment income from insurance, reinsurance and other from 1997 to 1998 is primarily the result of the addition of Folksamerica's sizable fixed income portfolio in August 1998. The increase in net investment income from insurance, reinsurance and other from 1996 to 1997 is a result of increases in investment income from White Mountains' growing portfolio of fixed maturity investments.

Net realized investment gains of $71.0 million recorded during 1998 resulted principally from the sale of all Fund American's holdings (1,014,250 common shares) of White River Corporation for net proceeds of $92.1 million. The total cash received by Fund American included the sales proceeds associated with shares which were being held for delivery upon the exercise of existing employee stock options (295,432 common shares or $17.8 million) and is payable to the recipient at a future date pursuant to the Company's nonqualified retirement plan.

Net realized investment gains of $96.7 million recorded during 1997 included $37.2 million of pretax gains from the sale of 1,980,982 shares of the common stock of Travelers Property Casualty Corp. for net proceeds of $69.2 million, $24.3 million of pretax gains from the sale of 5,000,000 units of beneficial interest of San Juan Basin Royalty Trust for net proceeds of $45.7 million, $10.3 million of pretax gains from the sale of 388,140 shares of the common stock of Mid Ocean Limited ("Mid Ocean") for net proceeds of $22.6 million and $15.5 million of pretax gains from the sale of 834,895 shares of the common stock of Veritas DGC Inc. for net proceeds of $20.9 million.

Net realized investment gains of $38.5 million recorded during 1996, before tax, included $27.2 million of pretax gains from the sale of 2,928,100 shares of the common stock of The Louisiana Land & Exploration Company common stock for net proceeds of $125.1 million, $1.4 million of pretax gains from the sale of 2,042,572 shares of the common stock of Zurich Reinsurance Centre Holdings, Inc. for net proceeds of $61.8 million and $9.3 million of pretax gains from the sale of 600,000 of the shares of common stock of Mid Ocean for net proceeds of $28.2 million.

EXPENSES

Insurance losses and loss adjustment expenses totalled $174.8 million for 1998 versus $97.1 million for 1997 and $85.9 million for 1996. Insurance and reinsurance acquisition expenses totalled $54.8 million for 1998 versus $23.2 million for 1997 and $15.2 million for 1996. The increase in these insurance expenses from 1997 to 1998 is primarily attributable to the inclusion of Folksamerica in the Company's consolidated results during the 1998 third quarter. The

increase in these insurance expenses from 1996 to 1997 is due to an increase in insurance premium volumes at Valley, Charter and WMIC. During 1998 and 1996, losses and loss adjustment expenses relating to prior years developed unfavorably by $6.7 million and $3.5 million, respectively. During 1997, losses and loss adjustment expenses relating to prior years developed favorably by $2.5 million pretax.

Compensation and benefits expenses totalled $130.2 million for 1998 versus $101.8 million for 1997 and $91.3 million for 1996. The increase in compensation and benefits expense from 1997 to 1998 is due to an increase in production-related compensation at Source One and the inclusion of $7.1 million of Folksamerica's compensation and benefits expenses for 1998. The increase in compensation and benefits expense from 1996 to 1997 is primarily due to an increase in stock-based compensation accruals associated with certain of the Company's long-term compensation plans and its qualified and nonqualified retirement plans. During 1997 the market value of the Company's common stock rose 26%.

Interest expense of $83.9 million for 1998 compares to $46.0 million for 1997 and $46.3 million for 1996. The increase in interest expense from 1997 to 1998 reflects: (i) an increase in average indebtedness outstanding during 1998 at Source One as a result of significantly higher mortgage loan production volumes; (ii) the inclusion of $1.4 million of Folksamerica's interest expense for 1998; and (iii) an increase in average indebtedness under White Mountains' $50.0 million revolving credit facility associated with its 1998 acquisition of Folksamerica and its 1998 increase in its investment in MSA.

General expenses of $75.4 million for 1998 compares to $60.5 million for 1997 and $64.9 million for 1996. The increase in compensation and benefits expense from 1997 to 1998 is due to an increase in production-related general expenses at Source One and the inclusion of $1.3 million of Folksamerica's general expenses for 1998.

Source One's provision for mortgage loan losses, included in general expenses, was $3.8 million in 1998 which compares to $4.7 million for 1997 and $3.0 million for 1996. The decrease in provision for loan losses from 1996 to 1998 primarily reflects significant reductions in the size of Source One's owned mortgage servicing portfolio during the period. Source One has established an allowance for mortgage loan losses which totalled $11.5 million and $12.8 million as of December 31, 1998 and 1997, respectively. In addition, Source One has established a $5.2 million and $8.2 million pretax reserve for estimated losses on its principal recourse portfolio as of December 31, 1998 and 1997, respectively. Source One believes that its total allowances are adequate to provide for estimated uninsured losses on the mortgage servicing portfolio.

INCOME TAXES

The income tax provision related to pretax earnings for 1998, 1997 and 1996 represents an effective tax rate of 36.8%, 37.5% and 68.7%, respectively. The primary reason for the high effective tax rate experienced in 1996 was the write-off of goodwill and certain other intangible assets related to Source One. The total pretax write-off of these assets was $32.6 million and the related tax benefit was $3.2 million.

Fund American recorded a net deferred Federal income tax asset of $7.8 million as of December 31, 1998. The 1998 net deferred tax asset includes $142.9 million of deferred tax assets (relating primarily to various operating items) partially offset by $135.1 million of deferred tax liabilities (relating primarily to net unrealized investment holding gains). Fund American recorded a net deferred Federal income tax liability of $19.6 million as of December 31, 1997. The 1997 net deferred tax liability includes $108.0 million of deferred tax liabilities (relating primarily to net unrealized investment holding gains) partially offset by $88.4 million in net deferred tax assets (relating primarily to various operating items).

On January 2, 1991, the Company sold Fireman's Fund to Allianz of America, Inc. The $1.3 billion gain from the sale as reported in 1991 included a $75.0 million tax benefit related to the Company's estimated tax loss from the sale. Since 1991 the Company has carried an estimated reserve related to tax matters affecting the amount of the deductible tax loss from the sale and other tax matters. The amount of tax benefit from the sale of Fireman's Fund 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 1991 or prior years' Federal income tax returns, the results of further IRS audits and other matters affecting the amount of the deductible tax loss from the sale.

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.

In August 1998 the Company entered into a $35.0 million revolving credit agreement with a syndicate of banks which served to replace an expiring arrangement in the same amount. Under the agreement, through August 12, 1999, the Company may borrow up to $35.0 million at short-term market interest rates. The credit agreement contains certain customary covenants and conditions. At December 31, 1998 the Company was in compliance with all covenants under the facility and had no borrowings outstanding under the agreement. At December 31, 1997 the Company had no outstanding borrowings under the former facility.

During 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. During 1995 and 1994 the Company repurchased $8.8 million and $24.9 million, respectively, in principal amount of the notes due in February 2003. At December 31, 1998 the $116.3 million of remaining outstanding notes had an average maturity of 4.4 years and a yield to maturity of 7.82%.

During 1998 and 1997 the Company repurchased 151,916 Shares for $19.8 million and 924,739 Shares for $103.5 million, respectively. All Shares repurchased during 1998 and 1997 have been retired. During 1998 and 1997 the Company declared and paid quarterly cash dividends of $.40 per Share and $.20 per share, respectively. The Company's repurchases of Shares and dividends paid during 1998 and 1997 represent returns of excess capital to its shareholders.

In connection with Source One's 1997 sale of approximately $17.0 billion of mortgage servicing rights to a third party, the Company has made a collection, payment and performance guaranty 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 amortizes down to $15.0 million as mortgage loans serviced under agreement are repaid. During 1998, the Company permitted the third party to include an additional $2.9 billion of mortgage servicing rights that it purchased from Source One during 1998 to be included in the guaranty, however, the inclusion of the 1998 servicing rights sold did not serve to change the maximum amount of the guaranty or the original term of the agreement. The Company estimates that its aggregate guaranty under this arrangement is currently approximately $15.0 million.

WHITE MOUNTAINS, FOLKSAMERICA, VALLEY AND CHARTER

In November 1996 White Mountains and Valley entered into a five year credit facility under which they may borrow up to $50.0 million and $15.0 million, respectively, at market interest rates. The facility contains certain customary covenants and conditions but does limit White Mountains' ability to pay dividends to its shareholders. As of December 31, 1998 and 1997, White Mountains and Valley were in compliance with all covenants under the facility. At December 31, 1998 White Mountains had $50.0 million of borrowings outstanding under the facility which were used to partially fund White Mountains additional investment in MSA and its acquisition of Folksamerica during 1998. White Mountains 1998 borrowings had a weighted average interest rate of 6.20%. White Mountains had no borrowings outstanding at December 31, 1997 under the facility. During 1998 and 1997 Valley had $15.0 million of borrowings outstanding under the facility with a weighted average interest rate of 6.14% and 6.09%, respectively.

In November 1995 Charter issued two notes totalling $20.2 million. Certain of the notes were due in 1996 and $3.2 million of notes were extended to be payable in three equal installments in 1997, 1998 and 1999. As of December 31, 1998 $1.1 million of the notes remained outstanding. The notes are collateralized by certain assets of Charter.

During 1997 the Company reorganized its structure in order to strengthen Source One and make it a part of Fund American's operating group under White Mountains. Pursuant to this reorganization plan, White Mountains was merged into FAE and the combined entity was immediately renamed White Mountains. In addition, Source One received $139 million of capital infusions, consisting primarily of Fund American's investments in FSA, in order to improve Source One's debt ratings and reduce its borrowing costs. As a result of the reorganization plan, the Company currently owns 3% of the outstanding common stock of Source One and White Mountains owns the remaining 97% of the outstanding common stock of Source One.

As part of the August 18, 1998 Folksamerica acquisition, Fund American agreed to repay or refinance Folksamerica's $55.6 million of outstanding long-term indebtedness during February 1999. On February 24, 1999, White Mountains repayed and replaced its $50.0 million five

year credit facility with a new $100 million facility at Folksamerica. The new credit agreement contains certain customary covenants and conditions.

On February 11, 1999, White Mountains entered into a definitive agreement to sell VGI (which includes Valley, Charter and WMIC but excludes Valley National) to Unitrin, Inc. for total proceeds of approximately $215 million (consisting of approximately $130 million in cash upon closing and a special dividend consisting primarily of investment securities of approximately $85 million prior to close). The transaction is subject to certain Federal and state approvals and is expected to close during the 1999 second quarter. White Mountains expects to record an approximate $90 million pretax gain on the sale of VGI.

In a separate transaction, White Mountains has entered a definitive contract to sell Valley National to Executive Risk Indemnity for an amount to be determined upon closing. The transaction is subject to certain Federal and state approvals and is expected to close during the 1999 second quarter. White Mountains expects to record an approximate $8 million pretax gain on the sale of Valley National.

On March 25, 1999, Fund American and Citicorp Mortgage, Inc. ("Citicorp") reached a definitive agreement (the "Citicorp Agreement") under which Citicorp will acquire a substantial amount of Fund American's mortgage-banking related assets and certain of its mortgage banking liabilities. Fund American will retain the Source One legal entity which will continue to own all of Fund American's investments in FSA and certain other mortgage-related and other assets and liabilities. Fund American will likely sell or run-off the residual mortgage-banking assets remaining after the sale and extinguish the remaining liabilities. Fund American expects to record an after tax gain of approximate $15.0 million gain on the Citicorp Agreement. The amount of prospective gain on the sale of Source One's residual net mortgage-banking assets cannot be accurately determined at this time.

Under the insurance laws of the various states under which Folksamerica, Valley, Charter and WMIC are incorporated or licensed to write business, an insurer is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by Folksamerica, Valley, Charter and WMIC in the future.

SOURCE ONE

Source One's primary cash flow requirements relate to funding mortgage loan production and investments in mortgage servicing rights. To meet these financing needs, Source One relies on various short-term and long-term credit facilities, early funding programs and cash flow from operations. Source One's investments, mortgage loans held for sale and mortgage loan servicing portfolio provide a liquidity reserve since these assets may be sold to meet cash needs.

During 1998 Source One sold the rights to service $10.6 billion of nonrecourse mortgage loans for cash proceeds of $227.9 million. During 1997 Source One sold the rights to service $17.0 billion of nonrecourse mortgage loans for cash proceeds of $266.9 million. As part of the 1998 and 1997 servicing sales, Source One retained the right to subservice $4.1 billion and $17.0 billion, respectively, of these loans for a contracted fee through 2001. The proceeds of the 1997 and 1998 servicing sales were used by Source One to retire debt and to distribute its excess capital to common shareholders. During 1996 Source One sold the rights to service $3.3 billion of mortgage loans for cash proceeds of $55.9 million.

In July 1998 Source One amended and restated its $600.0 million secured revolving credit agreement to increase its borrowing capacity and flexibility. The provisions of the amended agreement increased Source One's borrowing capacity to $800.0 million. The facility expires on July 9, 1999. At December 31, 1998, Source One had $650.5 million of borrowings outstanding under this facility.

In July 1997 Source One amended and restated its secured revolving credit agreement to decrease its borrowing capacity from $750.0 million to $600.0 million and to reduce its borrowing costs by lowering the facility fee. At December 31, 1997, Source One had $559.0 million of borrowings outstanding under this facility.

During the second quarter of 1998 Source One entered into two additional secured credit agreements whereby it may borrow up to $35.0 million and $175.0 million through July 1999 and April 1999, respectively. At December 31, 1998, Source One had a total of $21.6 million in borrowings outstanding under these agreements.

In April 1998 Source One replaced its existing $15.0 million unsecured revolving credit agreement under which it can borrow up to $40.0 million through April 15, 1999. As of December 31, 1998, there was $25.2 million outstanding under the revolving credit agreement.

In May 1997 Source One entered into a unsecured revolving credit agreement under which it can borrow up to $15.0 million through June 1, 1998. As of December 31, 1997, there was $10.5 million outstanding under the revolving credit agreement.

In December 1995, Source One exchanged and retired 2,239,061 shares of preferred stock (the "Source One Preferred Stock") for $56.0 million in principal amount of 9.375% subordinated debentures. The subordinated debentures are due in 2025 but are redeemable at the option of Source One, in whole or part, at any time on or after May 1, 1999.

Dividends paid on the Source One Preferred Stock were $3.7 million for 1998, 1997 and 1996. Dividends on the Source One Preferred Stock accrue at an annual rate of 8.42% or $2.105 per share of Source One Preferred Stock outstanding.

In 1991 Source One issued $160.0 million of 8.875% medium-term notes due in 2001 of which $138.4 million remained outstanding at December 31, 1996. During 1997 Source One repurchased and retired in principal amount $119.7 million of these notes leaving $18.7 million outstanding at December 31, 1997 and 1998.

In 1992 Source One issued $100.0 million of 9% debentures due in 2012 pursuant to a $250.0 million shelf registration statement. The debentures may not be redeemed by Source One prior to maturity. The proceeds from issuance were used for general corporate purposes.

Source One must comply with certain financial covenants provided in its secured and unsecured revolving credit facilities, including restrictions relating to tangible net worth and leverage. In addition, the secured facility contains certain covenants which limit Source One's ability to pay dividends or make distributions of its capital in excess of preferred stock dividends and subordinated debt interest requirements each year. Source One is currently in compliance with all such covenants.

MARKET RISK

Fund American's consolidated balance sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risk. The term market risk refers to the risk of loss arising from adverse changes in: interest rates, foreign currency exchange rates, commodity prices, and other relevant market rates and prices such as prices for common equity securities. Due to Fund American's sizable investments in fixed maturity investments and common equity securities at its insurance and reinsurance subsidiaries, derivative securities and mortgage-related assets and liabilities at its mortgage banking subsidiary and its use of medium and long-term debt financing at the Company and certain of its operating companies, market risk can have a significant affect on Fund American's consolidated financial position.

INTEREST RATE RISK

FIXED MATURITY PORTFOLIO. In connection with the Company's consolidated insurance and reinsurance subsidiaries, Fund American invests in interest rate sensitive securities, primarily debt securities. Fund American's strategy is to purchase fixed maturity investments that are attractively priced in relation to perceived credit risks. Fund American's investments in fixed maturity investments are held as available for sale and, accordingly, Fund American accepts that realized and unrealized losses on these instruments may occur. Fund American does not use derivative securities to manage its interest rate risk associated with its fixed maturity investments, rather it manages the average duration of the fixed maturity portfolio in the anticipation of achieving an adequate yield without subjecting the portfolio to an unreasonable level of interest rate risk.

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity investments, respectively. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions. These investments are carried at fair value on the balance sheet with unrealized gains reported net of tax in a separate component of shareholders equity.

DERIVATIVE SECURITIES. In connection with its mortgage banking operations, Source One utilizes derivative contracts, consisting of interest rate floor contracts, interest rate swap agreements and principal-only swap agreements, in an attempt to offset the effect on earnings of impairment of its capitalized servicing asset caused by changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into increases and decreases in fair values of these financial instruments, respectively. These financial instruments are carried at fair value on the balance

sheet (as other investments) with unrealized and realized gains reported as net gains on financial instruments on the income statement.

INDEBTEDNESS. Fund American utilizes debt financing at all levels of its businesses, particularly at Source One. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed rate indebtedness, respectively, particularly long-term debt. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on Fund American's fixed maturity portfolio, derivative securities and long-term fixed rate indebtedness outstanding. Significant variations in market interest rates could produce changes in the timing of repayments due to prepayment options available to the issuer or the holder which are not reflected herein. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk.

Dollars in Millions	Fair Value at December 31, 1998	Assumed Change in Interest Rate	Estimated Fair Value after Change in Interest Rate	Percentage Increase (Decrease) to Shareholders' Equity
Fixed maturity investments	$929.6	50 bp decrease	$946.4	1.6%
		50 bp increase	$913.2	(1.5)%
		100 bp increase	$897.1	(3.0)%
		200 bp increase	$866.2	(5.9)%
Derivative securities	$ 17.5	50 bp decrease	$31.5	1.3%
		50 bp increase	$5.4	(1.1)%
		100 bp increase	$(4.7)	(2.1)%
		200 bp increase	$(20.7)	(3.5)%
Fixed rate indebtedness (a)	$233.1	50 bp decrease	$239.4	(.6)%
		50 bp increase	$227.0	.6%
		100 bp increase	$221.2	1.1%
		200 bp increase	$210.1	2.1%

(a) Excludes short-term indebtedness, long-term indebtedness refinanced or callable by Fund American during 1999 and variable rate obligations.

MORTGAGE-RELATED ASSETS. Source One's mortgage loan production and servicing activities are subject to interest rate risk and are generally counter cyclical in nature. In addition, Source One utilizes various financial instruments, including derivatives, to manage the interest rate risk related specifically to its mortgage loan pipeline, mortgage loans held for sale and gain or loss on sales of mortgage servicing rights. The overall objective of Source One's interest rate risk management policies is to offset changes in the values of these items resulting from changes in interest rates.

As part of the interest rate risk management process, Source One performs various sensitivity analyses that quantify the net financial impact of changes in interest rate-sensitive assets and commitments. These analyses incorporate scenarios including assumed shifts in the yield curve. Various modeling techniques are employed to forecast the value of these assets and commitments. For pipeline commitments, an option-adjusted spread model is used which incorporates implied market volatilities and prepayment speeds. For mortgage servicing rights, a

discounted cash flow model is used which incorporates prepayment speeds, discount rates and credit losses.

Utilizing the sensitivity analyses described above, the table below summarizes the estimated effects of hypothetical increases and decreases in market interest rates on Source One's mortgage servicing values:

Dollars in Millions	Carrying Value at December 31, 1998	Assumed Change in Interest Rate	Estimated Fair Value after Change in Interest Rate	Percentage Increase (Decrease) to Shareholders' Equity
Mortgage servicing rights (a)	$171.3	50 bp decrease	$156.0	(1.4)%
		50 bp increase	$183.9	1.2%
Mortgage forward contracts	$ -	50 bp decrease	$ 11.6	1.1%
		50 bp increase	$(11.6)	(1.1)%
Mortgage loan pipeline	$ -	50 bp decrease	$(11.7)	(1.1)%
		50 bp increase	$ 11.4	1.1%

(a) Represents the carrying value of capitalized mortgage servicing excluding $1.6 million of capitalized subservicing.

As shown above, the projected increase or decrease in the value of the mortgage loan pipeline would be expected to be substantially offset by a decrease or increase in the related mortgage loan forward contracts. In addition, the projected increase or decrease in the value of the mortgage servicing rights would be expected to be substantially offset by a decrease or increase in the value of the related financial instruments as previously described herein. This analysis is limited by the fact that it was performed at a specific point in time and does not incorporate other factors that would impact Source One's financial performance. Actual results would likely vary.

FOREIGN CURRENCY EXCHANGE RATES

Folksamerica operates a branch office in Toronto, Canada to service its Canadian customers. Net unrealized foreign currency translation gains and losses, after tax, associated with Folksamerica's Canadian operations are reported as a net amount in a separate component of shareholders' equity. Changes in the values of these operations due to currency fluctuations, after tax, are reported on the income statement as a component of comprehensive net income. At December 31, 1998, Folksamerica's net assets denominated in Canadian dollars represented approximately one percent of Fund American's consolidated shareholders' equity, therefore, any significant change in foreign currency rates would not have a material impact on Fund American's financial position.

EQUITY PRICE RISK

The carrying values of Fund American's common equity securities, a significant portion of its other investments (primarily restricted common equity securities and partnership interests invested in common equity securities) and its investments in FSA Options and Preferred Stock are based on quoted market prices or management's estimates of fair value (which is based, in part, on quoted market prices) as of the balance sheet date. Market prices of common equity securities are subject to fluctuations which could cause the amount to be realized upon sale of the investment to differ significantly from the current reported value. The fluctuations may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, general market conditions and supply and demand imbalances for a particular security.

The table below summarizes Fund American's equity price risks as of December 31, 1998 and shows the effects of a hypothetical 20% increase and a 20% decrease in market prices as of that date.

Dollars in Millions	Fair Value at December 31, 1998	Assumed Price Change	Estimated Fair Value after Assumed Price Change	Percentage Increase (Decrease) to Shareholders' Equity
Common equity securities	$241.7	20% increase	$290.0	4.5%
		20% decrease	$193.4	(4.5)%
Other investments (a)	$ 77.3	20% increase	$ 92.8	1.4%
		20% decrease	$ 61.8	(1.4)%
FSA Options and Preferred Stock	$114.4	20% increase	$136.6	2.1%
		20% decrease	$ 91.5	(2.1)%

(a) Excludes $17.5 million of derivative securities (see "Interest Rate Risk") and $2.1 million of other investments which would not be directly affected by the assumed changes in equity prices.

OTHER MATTERS

ACCOUNTING FOR FSA OPTIONS AND CONVERTIBLE PREFERRED STOCK

Fund American currently owns 3,460,200 shares of the common stock of FSA ("FSA Shares") and various fixed price options and shares of convertible preferred stock of FSA (the "FSA Options and FSA Preferred Stock") which, in total, give Fund American the right to acquire up to 4,560,607 additional FSA Shares. Fund American's investment in FSA Shares is accounted for using the equity method of accounting pursuant to which the investment is reported at FSA's book value ($35.87 per FSA Share at December 31, 1998). Fund American's investments in FSA Options and FSA Preferred Stock are currently accounted for under the provisions of SFAS No. 115 pursuant to which the investments are reported at fair value ($52.62 per underlying FSA Share at December 31, 1998).

Fund American currently expects to exercise the FSA Options during 1999 and convert the FSA Preferred Stock during 2004. Assuming that equity accounting continues to be the proper accounting method for valuing Fund American's investment in FSA Shares, upon exercise of the FSA Options and conversion of the FSA Preferred Stock, Fund American expects that it would be required to restate its historic balance sheets to account for its investments in FSA Options and FSA Preferred Stock from fair value to their original cost. Upon exercise, Fund American's original cost basis in the FSA Shares acquired will be increased by the exercise price paid. Because the new cost basis of Fund American's investment in FSA Shares is expected to be considerably less than its portion of the fair value of FSA's net identifiable assets at the date of exercise, Fund American would be required to record a deferred credit that would be amortized to income over an anticipated five year period. Assuming the FSA Options were exercised and the FSA Preferred Stock converted as of December 31, 1998, Fund American would be required to reduce its book value by $72.9 million ($10.67 per share) and would record a deferred credit of $35.7 million ($5.23 per share). This net difference in carrying value of $37.2 million (which represents the effective write-down of the FSA Options and FSA Preferred Stock from fair value to FSA's book value) would continue to exist until such time as equity accounting is no longer appropriate for Fund American's investment in FSA Shares.

This analysis is based solely on Fund American's current circumstances concerning its investments in FSA Options and FSA Preferred Stock. Fund American's actual accounting valuation will be determined at the point of exercise for the FSA Options and upon the conversion of the FSA Preferred Stock and will be based on the circumstances concerning such investments existing at that time.

YEAR 2000

STATUS. Since 1996 Fund American has been identifying, modifying and testing its internal systems and controls to ensure that these systems can accurately process transactions involving the Year 2000 and beyond with no material adverse effects to its customers or disruption to its business operations. As of December 31, 1998, the Company has substantially completed its testing phase (the final phase of its Year 2000 remediation plan). Fund American estimates that its total pretax cost of Year 2000 remediation, excluding its unconsolidated insurance

affiliates, is approximately $3.0 million of which the majority of this amount has been expensed as of December 31, 1998. This estimate does not include the cost of hardware and software replacements and upgrades made in the normal course of business and represents less than 20% of Fund American's total Information Technology budget.

Fund American has also been closely monitoring the year 2000 issues of its third party constituents that it voluntarily interacts with (e.g. customers, suppliers, reinsurers, creditors, borrowers...). Fund American's third party constituents have been requested to provide Fund American with information concerning their Year 2000 remediation plans and the status of such plans. For those constituents who either fail to respond to this inquiry or are deemed to be unlikely to remedy their own Year 2000 issues in a timely manner, Fund American is in the process of either replacing that constituent or establishing similar relationships with new parties that are currently Year 2000 compliant.

As of December 31, 1998, FSA and MSA had also substantially completed the testing phase of their Year remediation plans and are in the process of determining their third party exposures in a similar manner to that of Fund American. Fund American's nominees to the Boards of Directors of FSA and MSA have received detailed briefings concerning their respective Year 2000 plans and have determined that these plans appear to be on schedule for a timely completion and should reduce the risk of Year 2000 issues. Fund American's portion of the total estimated costs of the Year 2000 issue for its unconsolidated insurance affiliates are not material and the majority of such expenses have already been incurred.

RISKS. The failure to identify or correct significant Year 2000 issues could result in an interruption in, or a failure of, certain normal business activities or operations concerning the Company, its consolidated insurance and mortgage banking subsidiaries and its unconsolidated insurance affiliates. Such failures could adversely affect Fund American's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of potential business interruptions caused by third party constituents in which Fund American must interact (including but not limited to suppliers of electrical power, various private and public markets for equity and debt securities, certain agencies of the Federal government and the states in which Fund American conducts business), Fund American is unable to determine at this time whether the consequences of any Year 2000 failures will have a material impact on its results of operation, liquidity or financial condition. However, Fund American currently believes that, with the implementation of its Year 2000 plan (which is in the final stages of completion), the possibility of significant interruptions of normal business activities due to the Year 2000 issue should be reduced.

Folksamerica's approach towards underwriting against potential Year 2000 exposures is to seek coverages which contain Year 2000 event exclusions. In instances where exclusions are not provided, Folksamerica attempts to determine whether the risk is acceptable based on a variety of factors (a description of such factors is not provided herein as each situation is unique). Folksamerica has estimated that less that 9% of its property reinsurance coverage in force could be subject to Year 2000 exposures. However, these risks generally lie

with large corporations who have been aware of the issue for some time and have invested significant time and resources towards Year 2000 remediation. Additionally, Folksamerica does not anticipate significant Year 2000 exposures from its casualty reinsurance coverage in force due to the nature of such exposures. Further, Folksamerica generally writes such exposures on an excess of loss basis which provides Folksamerica with additional protections against potential losses of this nature.

The Company is currently in the process of developing a Year 2000 contingency plan (the "Y2K Plan") which is designed to mitigate, to the extent possible, any adverse affects the Company may suffer due to any potential business interruptions caused by third party constituents in which Fund American must interact (as further explained above). It is expected that the Y2K Plan will be finalized during the third quarter of 1999.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market Risk Disclosures" contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedule appearing on page 38 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 10, 1999, the Audit Committee of the Board appointed PricewaterhouseCoopers LLP ("PWC") as its independent auditors for the fiscal year ending December 31, 1999, to succeed KPMG LLP ("KPMG") effective upon the date of their reports on such consolidated financial statements for the year ended December 31, 1998.

PWC has served as Folksamerica's independent auditors since 1981 and has served as FSA's independent auditors since 1989. The Audit Committee has recommended that PWC succeed KPMG as the Company's independent auditors for 1999 due to the growing significance of Folksamerica and FSA to the Company's 1999 financial position and results of operations and the pending disposition of VGI.

In connection with the audits of the years ended December 31, 1998 and 1997, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

The Company has requested KPMG furnish a letter addressed to the Commission stating whether it agrees with the above statements. A copy of this letter, dated March 25, 1999, is contained herein as Exhibit 16(a).

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

A. DIRECTORS (AS OF MARCH 22, 1999)

Reported under the caption "Election of Directors" on pages 3 through 6 of the Company's 1999 Proxy Statement, herein incorporated by reference.

B. EXECUTIVE OFFICERS (AS OF MARCH 22, 1999)

Name	Position	Age	Executive officer since
Raymond Barrette	Executive Vice President and Chief Financial Officer	48	1997
Terry L. Baxter	President of White Mountains	53	1994
Reid T. Campbell	Vice President and Director of Finance	31	1996
Morgan W. Davis	Executive Vice President of White Mountains	48	1994
K. Thomas Kemp	President and CEO	58	1991
Michael S. Paquette	Senior Vice President and Controller	35	1993
David G. Staples	Vice President and Director of Taxation	38	1997

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

MR. BARRETTE joined Fund American in 1997 as the Company's Executive Vice President and Chief Financial Officer. Mr. Barrette is also Executive Vice President and Chief Financial Officer of White Mountains. He was formerly a consultant with Tillinghast-Towers Perrin from 1994 to 1996 and was President of the Personal Insurance Division of Fireman's Fund from 1991 to 1993. Mr. Barrette is a director of FAE, MSA, Source One, Folksamerica, White Mountains, Valley, Charter and WMIC.

MR. BAXTER was elected President of White Mountains in 1997. Mr. Baxter previously served as Chairman of Source One from 1996 to 1997 and as President and Secretary of FAE from 1994 to 1997. Prior to joining Fund American 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 during the Reagan Administration. Mr. Baxter is a director of FAE, MSA, Source One, Folksamerica, White Mountains, Valley, Charter, WMIC and Sextant Underwriting Plc.

MR. CAMPBELL was elected Vice President and Director of Finance in February 1998 and previously served as Assistant Controller from 1996 to 1998 and Director of Accounting from 1995 to 1996. Mr. Campbell has been with Fund American since 1994. Mr. Campbell is also

Vice President and Director of Finance of White Mountains. Prior to joining Fund American, Mr. Campbell was with KPMG Peat Marwick from 1990 to 1994.

MR. DAVIS has served as White Mountains' Executive Vice President since 1997 and served as Senior Vice President since 1994. Mr. Davis is also President and Chief Executive Officer of WMIC and Chairman and President of VGI. Prior to joining Fund American in 1994, Mr. Davis was an independent consultant. Mr. Davis is a director of MSA, White Mountains, Valley, Charter, WMIC, ABRA, Inc. and CCC Information Services Group Inc. and is a trustee of Azusa Pacific University.

MR. KEMP was appointed President and Chief Executive Officer in 1997. Mr. Kemp previously served as Executive Vice President since 1993 and as Vice President, Treasurer and Secretary from 1991 to 1993. Mr. Kemp also serves as a director of the Company, Chairman and Chief Executive Officer of White Mountains and Chairman of WMIC. He is also a director of Folksamerica, FSA, FAE, MSA and AMLIN Plc.

MR. PAQUETTE was appointed Senior Vice President and Controller in 1997. Mr. Paquette previously served as Vice President and Controller since 1995 and as Vice President and Chief Accounting Officer from 1993 to 1995. Mr. Paquette is also Senior Vice President and Controller of White Mountains and WMIC. Mr. Paquette has been a member of the Fund American organization since 1989.

MR. STAPLES was elected Vice President and Director of Taxation in 1997 and has been with Fund American since 1996. Prior to joining Fund American, Mr. Staples served as Vice President and Director of Taxation for Crum & Forster Holdings, Inc. from 1993 to 1996, and was with KPMG Peat Marwick from 1983 to 1993.

ITEM 11. EXECUTIVE COMPENSATION

Reported under the captions "Compensation of Executive Officers" on pages 9 through 11, "Reports of the Compensation Committees on Executive Compensation" on pages 11 though 13, "Shareholder Return Graph" on page 14, and "Compensation Plans" on page 15 of the Company's 1999 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 7 through 8 of the Company's 1999 Proxy Statement, herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reported under the captions "Certain Relationships and Related Transactions" on page 11 and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" on page 16 of the Company's 1999 Proxy Statement, herein incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

A. DOCUMENTS FILED AS PART OF THE REPORT

The financial statements and financial statement schedules and reports 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 38 of this report. A listing of exhibits filed as part of the report appear on pages 56 through 58 of this report.

B. REPORTS ON FORM 8-K

During the fourth quarter of 1998 the Company filed two amendments to its Current Report on Form 8-K dated August 18, 1998 which was filed in connection with its acquisition of Folksamerica on that date. The amendments served to provide the requisite pro forma financial information concerning the Folksamerica transaction and were filed on October 16, 1998 and November 13, 1998.

C. EXHIBITS

EXHIBIT NUMBER		NAME
3(i)	--	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference herein 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 herein 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 herein 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 (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated April 10, 1994)
10(a)	--	Second Amended and Restated Credit Agreement dated August 14, 1998 among the Company, the Lenders (as named therein) and The First National Bank of Chicago (*)
(b)	--	Second Amended and Restated Credit Agreement dated August 14, 1998 among White Mountains, the Lenders (as named therein) and The First National Bank of Chicago (*)
(c)	--	Second Amended and Restated Credit Agreement dated August 14, 1998 among VGI, the Lenders (as named therein) and The First National Bank of Chicago (*)
(d)	--	Amendment No. 1 dated November 20, 1998 to the Second Amended and Restated Credit Agreement dated August 14, 1998 among the Company, the Lenders (as named therein) and The First National Bank of Chicago (*)
(e)	--	Amendment No. 1 dated November 20, 1998 to the Second Amended and Restated Credit Agreement dated August 14, 1998 among White Mountains, the Lenders (as named therein) and The First National Bank of Chicago (*)
(f)	--	Amendment No. 1 dated November 20, 1998 to the Second Amended and Restated Credit Agreement dated August 14, 1998 among VGI, the Lenders (as named therein) and The First National Bank of Chicago (*)
(g)	--	Securities Purchase Agreement dated April 10, 1994 between the Company, U S WEST, Inc., U S WEST Capital Corporation and FSA (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated April 10, 1994)
(h)	--	Folksamerica Stock Purchase Agreement dated as of July 1, 1998 by and among the Company, White Mountains, Folksam Mutual General Insurance Company, Folksam International Insurance Co. Ltd, Weiner Staedtische Allgemeine Versicherung AG, P&V Assurances S.C. and Samvirke Skadeforsikring AS (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated August 18, 1998)

(i)	--	Assignment and Assumption Agreement dated as of August 18, 1998 by and among Folksam Omsesidig Sakforsakring, Samvirke Skadeforsikring AS and the Company (incorporated by reference herein to Exhibit 10(b) of the Company's Report on Form 8-K dated August 18, 1998)
(j)	--	Subscription Agreement dated November 6, 1997 between Folksamerica, the Company, White Mountains, Folksam Mutual General Insurance Company, Folksam International Insurance Co. Ltd, Weiner Staedtische Allgemeine Versicherung AG, P&V Assurances S.C. and Samvirke Skadeforsikring AS (incorporated by reference herein to Exhibit 10(l) of the Company's 1997 Annual Report on Form 10-K)
(k)	--	Securities Purchase Agreement dated March 6, 1996 between the Company and Folksamerica (incorporated by reference herein to Exhibit 10(a) of the Company's Report on Form 8-K dated June 19, 1996)
(l)	--	Folksamerica Stock Purchase Agreement dated August 8, 1995 between the Company, Skandia U.S. Holding Corporation, and Skandia America Corporation (incorporated by reference herein to Exhibit 10(e) of the Company's 1995 Annual Report on Form 10-K)
(m)	--	Guaranty, dated February 28, 1997, by the Company to and for the benefit of Chemical Mortgage Company (incorporated by reference herein to Exhibit 10(y) of the Company's 1996 Annual Report on Form 10-K)
(n)	--	VGI Stock Acquisition Agreement dated February 10, 1999 between Unitrin, Inc. and the Company (*)
(o)	--	Transition Services Agreement dated March 25, 1999 between the Company and Citicorp Mortgage, Inc. (*)
(p)	--	Source One Asset Purchase Agreement dated March 25, 1999 between the Company, Source One and Citicorp Mortgage Inc.(*)
(q)	--	Common Stock Warrant Agreement with respect to shares of the Company's Common stock between the Company and John J. Byrne (incorporated by reference herein to Exhibit 10(v) of the Company's Registration Statement on Form S-1 (No. 33-0199)) (**)
(r)	--	The Company's Retirement Plan for Non-Employee Directors (incorporated by reference herein to Exhibit 10(aa) of the Company's 1992 Annual Report on Form 10-K) (**)
(s)	--	The Company's Voluntary Deferred Compensation Plan, as amended on November 15, 1996 (incorporated by reference herein to Exhibit 10(o) of the Company's 1996 Annual Report on Form 10-K) (**)
(t)	--	The Company's Deferred Benefit Plan, as amended on November 15, 1996 (incorporated by reference herein to Exhibit 10(p) of the Company's 1996 Annual Report on Form 10-K) (**)
(u)	--	The Company's Long-Term Incentive Plan, as amended February 15, 1995 (incorporated by reference to Appendix I of the Company's Notice of 1995 Annual Meeting of Shareholders and Proxy Statement) (**)
(v)	--	Valley Group Employees' 401(k) Savings Plan (incorporated by reference herein to Exhibit 4(c) of the Company's Registration Statement on Form S-8 (No. 333-30233) (**)
11	--	Statement Re Computation of Per Share Earnings (***)
16	--	Letter of KPMG LLP dated March 25, 1999 (*)
21	--	Subsidiaries of the Registrant (*)

23(a)	--	Consent of KPMG LLP dated March 25, 1999 (*)
(b)	--	Consent of Ernst & Young LLP dated March 25, 1999 (*)
(c)	--	Consent of PricewaterhouseCoopers LLP dated March 25, 1999 relating to Valley, Folksamerica and FSA (*)
24	--	Powers of Attorney (*)
27	--	1998 Financial Data Schedule (*)
99(a)	--	Report of PricewaterhouseCoopers LLP dated February 2, 1999 relating to Folksamerica(*)
(b)	--	The Consolidated Financial Statements of FSA and the related Report of Independent Accountants as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998 (*)
(c)	--	Report of Coopers & Lybrand L.L.P. dated February 14, 1997 relating to VGI (*)

(*) Included herein.
(**) Management contracts or compensation plans/arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of Form 10-K.
(***) Not included herein as the information is contained elsewhere within report. See Note 1 of the Notes to Consolidated Financial Statements.

D. FINANCIAL STATEMENT SCHEDULE

The financial statement schedule 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 Schedule appearing on page 61 of this report.

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.

Date: March 26, 1999

By: /s/ MICHAEL S. PAQUETTE
Senior Vice President and Controller

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
RAYMOND BARRETTE* Raymond Barrette	Executive Vice President and Chief Financial Officer	March 26, 1999
JOHN J. BYRNE* John J. Byrne	Chairman	March 26, 1999
PATRICK M. BYRNE* Patrick M. Byrne	Director	March 26, 1999
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	March 26, 1999
ROBERT P. COCHRAN* Robert P. Cochran	Director	March 26, 1999
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Director	March 26, 1999
/s/ K. THOMAS KEMP K. Thomas Kemp	President, Chief Executive Officer and Director	March 26, 1999
GORDON S. MACKLIN* Gordon S. Macklin	Director	March 26, 1999

FRANK A. OLSON* Frank A. Olson	Director	March 26, 1999
MICHAEL S. PAQUETTE* Michael S. Paquette	Senior Vice President and Controller	March 26, 1999

*By: /s/ K. THOMAS KEMP
K. Thomas Kemp, Attorney-in-Fact

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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

CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31, 1998	1997
ASSETS		
Fixed maturity investments, at fair value (cost $916.1 and $165.4)	$ 929.6	$ 168.3
Common equity securities, at fair value (cost $195.4 and $64.7)	241.7	104.2
Other investments (cost $88.5 and $103.1)	96.9	167.9
Short-term investments, at amortized cost (which approximated fair value)	79.0	62.8
Total investments	1,347.2	503.2
Cash	22.4	7.0
Mortgage loans held for sale	676.3	519.3
Capitalized mortgage servicing, net of accumulated amortization	169.7	181.0
Pool loan purchases	165.0	149.8
Mortgage claims receivable and real estate acquired	33.1	41.2
Receivable from sale of mortgage servicing	73.8	27.3
Investments in unconsolidated insurance affiliates	354.3	360.1
Insurance and reinsurance balances receivable	124.7	56.1
Reinsurance recoverable on paid and unpaid losses	137.3	9.6
Other assets	176.9	155.7
Total assets	$ 3,280.7	$ 2,010.3
LIABILITIES		
Short-term debt	$ 748.5	$ 571.4
Long-term debt	359.7	304.3
Loss and loss adjustment expense reserves	811.7	71.9
Unearned insurance and reinsurance premiums	153.1	78.0
Deferred credit	37.1	-
Accounts payable and other liabilities	424.1	281.8
Total liabilities	2,534.2	1,307.4
MINORITY INTEREST - PREFERRED STOCK OF SUBSIDIARY	44.0	44.0
SHAREHOLDERS' EQUITY		
Common stock - authorized 125,000,000 shares, issued 30,863,547 and 31,015,463 shares	30.9	31.0
Paid-in surplus	354.2	355.9
Retained earnings	1,063.2	1,008.9
Common stock in treasury, at cost: 25,034,939 shares	(871.0)	(871.0)
Accumulated other comprehensive net income, after tax	125.2	134.1
Total shareholders' equity	702.5	658.9
Total liabilities, minority interest and shareholders' equity	$ 3,280.7	$ 2,010.3

See Notes to Consolidated Financial Statements.

CONSOLIDATED INCOME STATEMENTS

Millions, except per share amounts	Year Ended December 31, 1998	1997	1996
REVENUES:			
Earned property and casualty insurance premiums	$246.0	$145.3	$ 109.7
Earnings from unconsolidated insurance affiliates	24.3	21.3	12.0
Other insurance operations revenue	12.2	7.8	9.4
Net investment income	118.4	65.1	57.3
Gross mortgage servicing revenue	78.1	94.9	139.6
Amortization and impairment of capitalized mortgage servicing	(55.2)	(68.0)	(79.2)
Net gain on financial instruments	20.4	11.3	9.9
Net mortgage servicing revenue	43.3	38.2	70.3
Net gain on sales of mortgages	86.8	21.5	38.3
Gain (loss) on sales of mortgage servicing rights and assumption of subservicing	15.2	(8.0)	10.1
Other mortgage operations revenue	31.9	19.1	18.1
Total revenues	578.1	310.3	325.2
EXPENSES:			
Insurance losses and loss adjustment expenses	174.8	97.1	85.9
Compensation and benefits	130.2	101.8	91.3
Interest expense	83.9	46.0	46.3
General expenses	75.4	60.5	64.9
Insurance and reinsurance acquisition expenses	54.8	23.2	15.2
Write-off of goodwill and other intangible assets	-	-	32.6
Total expenses	519.1	328.6	336.2
Pretax operating earnings (loss)	59.0	(18.3)	(11.0)
Net realized investment gains	71.0	96.7	38.5
Pretax earnings	130.0	78.4	27.5
Income tax provision	47.8	29.4	18.9
AFTER TAX EARNINGS	82.2	49.0	8.6
Loss on early extinguishment of debt, after tax	-	(6.0)	-
NET INCOME	82.2	43.0	8.6
Net unrealized investment holdings gains and other, after tax	37.2	104.6	79.6
Reclasses of realized gains included in net income, after tax	(46.1)	(62.9)	(25.0)
COMPREHENSIVE NET INCOME	73.3	84.7	63.2
Preferred stock dividends of subsidiary	(3.7)	(3.7)	(3.7)
Comprehensive net income applicable to common stock	$ 69.6	$ 81.0	$ 59.5
BASIC EARNINGS PER COMMON SHARE:			
After tax earnings	$13.38	$ 6.89	$ .66
Loss on early extinguishment of debt, after tax	-	(.91)	-
Net income	$13.38	$ 5.98	$ .66
Comprehensive net income	$11.87	$12.33	$ 8.01
DILUTED EARNINGS PER COMMON SHARE:			
After tax earnings	$11.94	$ 6.22	$ .60
Loss on early extinguishment of debt, after tax	-	(.82)	-
Net income	$11.94	$ 5.40	$ .60
Comprehensive net income	$10.58	$11.15	$ 7.33

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Millions	Total	Common stock and paid-in surplus	Retained earnings	Common stock in treasury	Net unrealized investment gains	Foreign currency translation adjustment
Balances at January 1, 1996	$699.7	$408.2	$1,124.6	$(871.0)	$ 37.9	$ -
Net income	8.6	-	8.6	-	-	-
Dividends to shareholders	(9.6)	-	(9.6)	-	-	-
Purchases of common stock retired	(66.3)	(9.8)	(56.5)	-	-	-
Change in net unrealized investment gains and losses, after tax	54.6	-	-	-	54.6	-
Balances at December 31, 1996	687.0	398.4	1,067.1	(871.0)	92.5	-
Net income	43.0	-	43.0	-	-	-
Dividends to shareholders	(9.0)	-	(9.0)	-	-	-
Purchases of common stock retired	(103.7)	(11.5)	(92.2)	-	-	-
Change in net unrealized investment gains and losses, after tax	41.6	-	-	-	41.6	-
Balances at December 31, 1997	658.9	386.9	1,008.9	(871.0)	134.1	-
Net income	82.2	-	82.2	-	-	-
Dividends to shareholders	(13.1)	-	(13.1)	-	-	-
Purchases of common stock retired	(19.8)	(1.8)	(18.0)	-	-	-
Change in net unrealized investment gains and losses and other, after tax	(8.9)	-	-	-	(8.0)	(.9)
Other	3.2	-	3.2	-	-	-
BALANCES AT DECEMBER 31, 1998	$702.5	$385.1	$1,063.2	$(871.0)	$126.1	$(.9)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 1998	1997	1996
Net income	$ 82.2	$ 43.0	$ 8.6
Reconciliation of net income to cash flows from operating activities:			
Undistributed earnings from unconsolidated insurance affiliates	(19.1)	(14.7)	(8.2)
Net realized investment gains	(71.0)	(96.7)	(38.5)
Net unrealized gains on financial instruments	(12.1)	(11.1)	(1.7)
Depreciation and amortization of servicing assets, goodwill and other	63.1	71.0	92.8
Amortization of deferred credit	(2.7)	-	-
Write-off of goodwill and other intangible assets	-	-	32.6
Mortgage loan production	(10,866.3)	(4,403.3)	(3,831.6)
Mortgage loan sales and amortization	10,709.2	4,198.9	3,897.7
(Gain) loss on sales of mortgage servicing rights	(15.2)	8.0	(10.1)
(Decrease) increase in unearned insurance premiums	(7.0)	5.4	37.6
Increase in insurance premiums receivable	(2.4)	(3.9)	(6.9)
Decrease (increase) in deferred insurance policy acquisition costs	2.5	(1.1)	(6.5)
Increase in insurance loss reserves	13.7	6.5	21.2
Net change in current and deferred income taxes receivable and payable	12.0	4.5	11.8
Change in other assets	26.4	55.9	(29.3)
Change in accounts payable and other liabilities	120.5	11.1	33.7
Other, net	(5.0)	17.4	(1.4)
Net cash provided from (used for) operating activities	28.8	(109.1)	201.8
Cash flows from investing activities:			
Net decrease in short-term investments	47.0	4.7	36.1
Sales of common stocks and other investments	168.5	207.9	231.6
Sales of fixed maturity investments	132.8	92.5	131.7
Purchases of common stocks and other investments	(61.1)	(54.8)	(85.0)
Purchases of fixed maturity investments	(122.7)	(102.6)	(180.8)
Acquisitions of consolidated insurance affiliates, net of cash balances acq	(167.5)	-	(13.2)
Investments in unconsolidated insurance affiliates	(70.3)	(44.4)	(107.6)
Collections on other mortgage origination and servicing assets	278.4	274.2	175.3
Additions to capitalized mortgage servicing rights	(249.1)	(139.5)	(88.6)
Proceeds from sales of mortgage servicing rights	182.8	242.6	11.7
Additions to other mortgage origination and servicing assets	(296.9)	(285.1)	(205.7)
Collections on notes receivable	7.0	-	-
Net purchases of fixed assets	(5.4)	(2.9)	(7.3)
Net cash (used for) provided from investing activities	(156.5)	192.6	(101.8)
Cash flows from financing activities:			
Net issuances (repayments) of short-term debt	176.8	162.4	(36.2)
Issuances of long-term debt	-	-	15.0
Repayments of long-term debt	(1.1)	(131.0)	-
Purchases of common stock retired	(19.5)	(103.7)	(66.3)
Cash dividends paid to common and preferred shareholders	(13.1)	(9.0)	(9.6)
Other	-	-	(.8)
Net cash provided from (used for) financing activities	143.1	(81.3)	(97.9)
Net increase in cash during year	15.4	2.2	2.1
Cash balance at beginning of year	7.0	4.8	2.7
Cash balance at end of year	$ 22.4	$ 7.0	$ 4.8

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and 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. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior year financial statements have been restated to conform with the current year presentation.

INVESTMENT SECURITIES

Fund American's portfolio of fixed maturity investments, common equity securities and other investments are mainly classified as available for sale and are reported at fair value as of the balance sheet date. Net unrealized investment gains and losses, after tax, associated with such investments are reported as a net amount in a separate component of shareholders' equity. Changes in net unrealized investment gains and losses, after tax, are reported on the income statement as a component of comprehensive net income.

Premiums and discounts on fixed maturity investments are accreted to income over the anticipated life of the investment.

Other investments include: (i) equity securities having no established public market value which are recorded at an internally appraised fair value; (ii) securities which, due to restrictions regarding resale, are recorded at a discount to the quoted market value for similar unrestricted securities; (iii) investment limited partnership interests which are recorded using the equity method of accounting; (iv) mortgage loans held for investment which are recorded at the lower of cost or fair value, determined on an individual loan basis; and (v) financial instruments which are classified as trading securities and are recorded at fair value with realized and unrealized gains and losses reported on the income statement as gains or losses on financial instruments.

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.

Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 1998 and 1997, and comprise securities which mature or become available for use within one year.

Fund American's consolidated insurance operations are required to maintain deposits with insurance regulators of certain states in order to maintain their insurance licenses. The total fair value of such

deposits totalled $12.0 million and $11.3 million as of December 31, 1998 and 1997, respectively.

INSURANCE AND REINSURANCE OPERATIONS

Premiums written are recognized as revenues as earned ratably over the terms of the related policies or reinsurance treaties. Unearned premiums represent the portion of premiums applicable to future insurance or reinsurance coverage provided by policies or treaties in force.

Deferred policy acquisition costs represent commissions, premium taxes, brokerage expenses and other costs which are directly attributable to and vary with the production of new business and are deferred and amortized over the applicable premium recognition period. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income.

Losses and loss adjustment expenses are charged against income as incurred. Unpaid insurance losses and loss adjustment expenses are based on estimates by claims adjusters, legal counsel and actuarial staff of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance losses and loss adjustment expenses are based on reports received from ceding companies. Unpaid loss and loss adjustment expense reserves represent management's best estimate of ultimate losses and loss adjustment expenses net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any adjustments resulting therefrom are reflected in current operations. The process of estimating loss and loss adjustment expenses involves a considerable degree of judgement by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

In the normal course of business, Fund American's insurance subsidiaries seek to limit losses that may arise from catastrophes or other events that may cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Fund American remains contingently liable for risks reinsured with third parties to the extent that the reinsurer is unable to honor its obligations under reinsurance contracts at the time of loss.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premiums written. Amounts applicable to reinsurance ceded for unearned premium reserves and loss and loss adjustment expense reserves (e.g., prepaid reinsurance premiums and reinsurance recoverable on unpaid losses, respectively) are not material and have been included as a component of other assets. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

MORTGAGE BANKING OPERATIONS

Fund American acquired Source One in 1986. The purchase price paid for Source One in 1986 was in excess of the estimated fair value of the net assets acquired on that date and was allocated to goodwill. Prior to December 1996 Source One's goodwill was being amortized over 20 years. During 1996 Fund American re-assessed the recoverability of goodwill and certain other intangible assets related to Source One and determined that it should write-off all such assets related to Source One. This resulted in a $32.6 million pretax write-off of goodwill and other intangible assets. Factors considered in the determination to write-off all Source One's goodwill and other assets were (i) increased competition and industry consolidation during 1996 which had adversely impacted the value of both the mortgage loan production and servicing operations of Source One and (ii) the attainment of a definitive agreement in the fourth quarter of 1996 to sell the majority of Source One's mortgage servicing portfolio at essentially book value.

Mortgage loans held for sale are stated at the lower of aggregate cost or fair value, including the fair value of commitments to originate and sell mortgage loans. Conventional mortgage loans are placed on a non-accrual basis when delinquent 90 days or more as to interest or principal. Interest on delinquent FHA insured loans is accrued at the insured rate beginning on the sixty-first day of delinquency. Interest on delinquent 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, are deferred and 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 origination and acquisition of mortgage servicing rights which are deferred and amortized over the expected life of the loan. The total cost of acquiring mortgage loans, either through origination activities or purchase transactions, is allocated between the mortgage servicing rights and the loans based on their relative fair values. The fair values of mortgage servicing rights are estimated by calculating the present value of the expected future net cash flows associated with such rights, incorporating assumptions that market participants would use in their estimates of future servicing income and expense. A current market rate is used to discount estimated future cash flows. Impairment of capitalized mortgage servicing rights is measured on a disaggregated basis by stratifying the mortgage servicing rights based on one or more predominant risk characteristics of the underlying loans. Impairment is recognized through a valuation allowance for each individual stratum. The valuation allowance for Source One's principal recourse portfolio includes a reserve for estimated losses on the corresponding loans.

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 GNMA, FNMA or FHLMC mortgage-backed security pools which Source One services. 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 that are not fully recoverable from the claims filed with the underlying mortgage insuring agencies.

Real estate acquired is stated at the lower of fair value less estimated selling costs or the recorded balance satisfied at the date of acquisition, as determined on an individual property basis. Costs related to maintaining the properties are charged to expense as incurred.

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.

FOREIGN CURRENCY TRANSLATION

Folksamerica operates a branch office in Toronto, Canada to service its Canadian customers. Net unrealized foreign currency translation gains and losses, after tax, associated with Folksamerica's Canadian operation are reported as a net amount in a separate component of shareholders' equity. Changes in the values of these operations due to currency fluctuations, after tax, are reported on the income statement as a component of comprehensive net income.

EARNINGS PER SHARE

Basic earnings per share amounts are based on the weighted average number of Shares outstanding. In the basic earnings per share calculation, net income is reduced by preferred stock dividends to arrive at earnings applicable to common stock.

Diluted earnings per share amounts are based on the weighted average number of Shares and potential dilutive Shares outstanding. Potential

dilutive Shares include stock options, warrants and preferred stock redeemable for Shares. In the diluted earnings per share calculation, net income is reduced by preferred stock dividends to arrive at earnings applicable to common stock.

The following table outlines the Company's computation of earnings per share for the years ended December 31, 1998, 1997 and 1996:

	Year Ended December 31,		
	1998	1997	1996
BASIC EARNINGS PER SHARE NUMERATORS (IN MILLIONS):			
After tax earnings	$ 82.2	$ 49.0	$ 8.6
Preferred stock dividends of subsidiary	(3.7)	(3.7)	(3.7)
After tax earnings applicable to common stock	78.5	45.3	4.9
Loss on early extinguishment of debt, after tax	-	(6.0)	-
Net income available applicable to common stock	$ 78.5	$ 39.3	$ 4.9
Comprehensive net income applicable to common stock	$ 69.6	$ 81.0	$ 59.5
DILUTED EARNINGS PER SHARE NUMERATORS (IN MILLION):			
After tax earnings applicable to common stock	$ 78.5	$ 45.3	$ 4.9
After tax dilution to earnings from unconsolidated insurance affiliates	(.4)	(.2)	-
Diluted after tax earnings available applicable to common stock	78.1	45.1	4.9
Loss on early extinguishment of debt, after tax	-	(6.0)	-
Diluted net income available applicable to common stock	$ 78.1	$ 39.1	$ 4.9
Diluted comprehensive net income applicable to common stock	$ 69.2	$ 80.8	$ 59.5
EARNINGS PER SHARE DENOMINATORS (IN THOUSANDS):			
Basic earnings per share numerator (average common shares outstanding)	5,866	6,570	7,429
Dilutive stock options and warrants to acquire common stock (a)	669	674	681
Diluted earnings per share denominator	6,535	7,244	8,110
BASIC EARNINGS PER SHARE (IN DOLLARS):			
After tax earnings	$13.38	$ 6.89	$ .66
Loss on early extinguishment of debt, after tax	-	(.91)	-
Net income applicable to common stock	$13.38	$ 5.98	$ .66
Comprehensive net income	$11.87	$12.33	$ 8.01
DILUTED EARNINGS PER SHARE (IN DOLLARS):			
After tax earnings	$11.94	$ 6.22	$ .60
Loss on early extinguishment of debt, after tax	-	(.82)	-
Net income applicable to common stock and assumed conversions	$11.94	$ 5.40	$ .60
Comprehensive net income	$10.58	$11.15	$ 7.33

(a) See Note 11 for detailed information concerning the Company's outstanding dilutive stock options and warrants to acquire common stock.

ACCOUNTING STANDARDS RECENTLY ADOPTED AND ISSUED

In December 1996 the Financial Accounting Standards Board (the "FASB") issued SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of SFAS No. 125" which deferred the adoption of certain transfer and collateral provisions of SFAS No. 125 to periods beginning after December 31, 1997. The adoption of SFAS No. 127, did not have a material effect on Fund American's current financial position or results of operations.

In June 1997 the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprises and Related Information" which establishes new standards for reporting information about operating segments. The required information under SFAS No. 131 is contained in Note 14.

In March 1998, the American Institute of Certified Public Accountants (the "AICPA") issued Statement of Position ("SOP") 98-1 entitled "Accounting For the Cost of Computer Software Developed or Obtained for Internal Use" which requires the capitalization of certain prospective costs in connection with developing or obtaining software for current use. The adoption of SOP 98-1 is not expected to have a material impact on Fund American's financial position or results of operations.

In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires companies to record all derivatives on the balance sheet as either assets or liabilities and measure those instruments at fair value. The manner in which companies are to record gains and losses resulting from changes in the values of those derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 is effective beginning in 2000 with earlier adoption permitted. The adoption of SFAS No. 133, is not expected to have a material effect on Fund American's financial position or results of operations.

In October 1998, the AICPA issued SOP 98-7 entitled "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk". SOP 98-7 provides guidance on how to account for all insurance and reinsurance contracts that do not transfer insurance risk, except for long-duration life and health insurance contracts. SOP 98-7 is effective for periods beginning January 1, 2000, with early adoption permitted. Fund American is currently evaluating the impact of the adoption of SOP 98-7 and the potential effects on its financial position and results of operations.

NOTE 2. REINSURANCE OPERATIONS

On August 18, 1998, Fund American acquired all of the remaining outstanding shares of Folksamerica Common Stock for $169.1 million thereby causing Folksamerica to become a consolidated subsidiary of the

Company as of that date. Before the August 18th transaction, Fund American owned a 50% non-consolidated interest in Folksamerica, primarily through the Folksamerica Preferred Stock with fixed price warrants to acquire common stock. As a result of the Folksamerica transaction, Fund American has restated its December 31, 1997 balance sheet and its income statement for the year ended December 31, 1997 to account for the portion of its investment in Folksamerica that was reported at fair value in accordance with SFAS No. 115 entitled "Accounting for Certain Investments in Debt and Equity Securities" to its original cost in accordance with the purchase accounting principles of Accounting Principles Board Opinion ("APB") No. 18 entitled "The Equity Method of Accounting for Investments in Common Stock". Because the cost of Fund American's investment in Folksamerica was less than the fair value of Folksamerica's net identifiable assets at August 18, 1998, Fund American recorded a $39.8 million deferred credit ($37.1 million as of December 31, 1998) that will be amortized to income over 5 years.

Supplemental condensed pro forma financial information for the year ended December 31, 1998, which assumes that Fund American's acquisition of all the outstanding Folksamerica Common Stock had occurred as of January 1, 1998, follows:

Millions, except per share amounts	PRO FORMA YEAR ENDED DECEMBER 31, 1998
Total revenues	$756.0
Net income	$ 98.7
Comprehensive net income	$ 99.5
BASIC EARNINGS PER SHARE:	
Net income	$16.19
Comprehensive net income	$16.33
DILUTED EARNINGS PER SHARE:	
Net income	$14.46
Comprehensive net income	$14.59

The pro forma information presented does not purport to represent what Fund American's results of operations actually would have been had Fund American acquired all the outstanding common stock of Folksamerica as of January 1, 1998, or to project Fund American's results of operations for any future date or period.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY

The following table summarizes Fund American's loss and loss adjustment expense reserve activity relating to Folksamerica for the interim period from August 18, 1998 to December 31, 1998:

Millions	YEAR ENDED DECEMBER 31, 1998
Beginning balance	$ -
Gross loss and loss adjustment expenses acquired	726.1
Less beginning reinsurance recoverable	(124.1)
Net loss and loss adjustment expenses acquired 602.0 Losses and loss adjustment expenses incurred relating to:	
Current year losses	58.6
Prior year losses	1.1
Loss and loss adjustment expenses paid relating to:	
Current year losses	(13.0)
Prior year losses	(54.5)
Net ending balance	594.2
Plus ending reinsurance recoverable	129.0
Gross ending balance	$ 723.2

As of December 31, 1998, Folksamerica carried reported case reserves for environmental and asbestos exposures of $14.9 million ($10.9 million net of reinsurance) and $29.5 million ($17.9 million net of reinsurance), respectively. Folksamerica also holds IBNR for these exposures of $25.2 million ($19.2 million net of reinsurance).

ADDITIONAL REINSURANCE OPERATIONS INFORMATION

For the period from August 18, 1998 to December 31, 1998, Fund American recorded $73.7 million of premiums written, $85.4 million of premiums earned, $29.1 million of reinsurance acquisition costs and $59.7 million of loss and loss adjustment expenses relating to Folksamerica. These amounts are shown net of reinsurance ceded by Folksamerica of $9.4 million of premiums written, $8.7 million of premiums earned, $.9 million of reinsurance acquisition costs and $18.9 million of loss and loss adjustment expenses.

Folksamerica's policyholders' surplus, as reported to various regulatory authorities as of December 31, 1998 was $328.5 million and its statutory net income for the period from August 18, 1998 to December 31, 1998 was $9.0 million. The principal differences between Folksamerica's statutory amounts and the amounts reported in accordance with GAAP (Folksamerica's stand-alone shareholders' equity was $302.0 million at December 31, 1998 and its net income was $5.5 million for the year then ended) include deferred taxes, deferred acquisition costs and market value adjustments for debt securities. Folksamerica's statutory policyholders' surplus at December 31, 1998 was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the states under which Folksamerica is incorporated or licensed to write business, an insurer is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by Folksamerica in the future. At December 31, 1998, Folksamerica had the ability to pay dividends to its shareholders of $32.9 million without prior approval of regulatory authorities.

NOTE 3. INSURANCE OPERATIONS

CONSOLIDATED INSURANCE OPERATIONS

In 1995 White Mountains created WMIC and commenced its operations. On December 1, 1995, White Mountains acquired Valley and Charter for $41.7 million in cash less $3.0 million of purchase price adjustments. The purchase price paid for Valley and Charter was $.9 million less than the aggregate book value and estimated fair value of the net assets of the companies on the date of acquisition. The resulting negative goodwill is being amortized to income on a straight-line basis over five years. On January 19, 1996, VIC purchased Valley National for $13.2 million, net of cash balances acquired. Assets acquired pursuant to the Valley National acquisition included an investment portfolio, consisting principally of fixed maturity investments, totalling $6.7 million. The excess purchase price of $6.4 million is being amortized over a five year period.

In 1998, 1997 and 1996, Valley, Charter and WMIC had $167.8 million, $157.5 million and $154.3 million of gross written premiums, respectively, primarily in California, Oregon, Texas and Washington. In 1998, 1997 and 1996 Valley, Charter and WMIC had $160.6 million, $145.3 million and $109.7 million of earned premiums.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY

The following table summarizes Valley, Charter and WMIC's loss and loss adjustment expense reserve activity for the years ended December 31, 1998, 1997 and 1996:

Millions	Year Ended December 31,		
	1998	1997	1996
Beginning balance	$ 71.9	$ 65.4	$ 44.1
Less beginning reinsurance recoverable	(8.7)	(9.2)	(7.3)
Net loss and loss adjustment reserve	63.2	56.2	36.8
Losses and loss adjustment expenses incurred relating to:			
Current year losses	108.4	99.6	82.1
Prior year losses	6.7	(2.5)	3.5
Loss and loss adjustment expenses paid relating to:			
Current year losses	(65.5)	(59.7)	(47.8)
Prior year losses	(33.2)	(30.4)	(18.4)
Net ending balance	79.6	63.2	56.2
Plus ending reinsurance recoverable	8.9	8.7	9.2
Ending balance	$ 88.5	$ 71.9	$ 65.4

ADDITIONAL INSURANCE OPERATIONS INFORMATION

Total policyholders' surplus of Valley, Charter and WMIC, as reported to various regulatory authorities, as of December 31, 1998 and 1997, was $105.7 million and $97.7 million, respectively. Statutory net income for the years ended December 31, 1998 and 1997 for Valley, Charter and WMIC totalled $8.4 million and $11.0 million, respectively. For the year ended December 31, 1996, Valley had a statutory net loss of $6.4 million. The principal differences between Valley, Charter and WMIC's statutory amounts and the amounts reported in accordance with GAAP (VGI's stand-alone shareholders' equity was $109.4 million at December 31, 1998 and its net income was $4.8 million for the year then ended) include deferred taxes, surplus debentures and deferred acquisition costs. Valley, Charter and WMIC's statutory policyholders' surplus at December 31, 1998 and 1997, was in excess of the minimum requirements of relevant state insurance regulations.

Under the insurance laws of the various states under which Valley, Charter and WMIC are incorporated or licensed to write business, an insurer is restricted with respect to the amount of dividends it may pay without prior approval by state regulatory authorities. Accordingly, there is no assurance that dividends may be paid by Valley, Charter and WMIC in the future. At December 31, 1998 and 1997, $1.1 million and $9.8 million, respectively, of Valley, Charter and WMIC's statutory surplus was available for the payment of dividends to its shareholders without prior approval of regulatory authorities.

NOTE 4. INVESTMENT SECURITIES

Fund American's net investment income is comprised primarily of interest income earned on mortgage loans held for sale (gross of related interest expense on short-term borrowings used to finance such loans), interest income from its fixed maturity investments, dividend income from its equity investments and interest income from its short-term investments. Net investment income consisted of the following:

	Year Ended December 31,		
Millions	1998	1997	1996
Investment income:			
Mortgage loans held for sale	$ 81.4	$ 43.1	$ 39.3
Fixed maturity investments	28.4	11.3	10.4
Common equity securities	3.6	7.3	4.3
Short-term investments	3.5	3.9	6.6
Other	2.3	-	(2.3)
Total investment income	119.2	65.6	58.3
Less investment expenses and other charges	(.8)	(.5)	(1.0)
Net investment income, before tax	$118.4	$ 65.1	$ 57.3

Total net investment gains, before tax, associated with Fund American's investment portfolio consisted of the following:

Millions	Year Ended December 31, 1998	1997	1996
Gross realized investment gains	$ 74.0	$ 98.6	$ 43.3
Gross realized investment losses	(3.0)	(1.9)	(4.8)
Net realized investment gains	71.0	96.7	38.5
Change in net unrealized investment holding gains (a)	(44.2)	(10.1)	68.0
Total net investment gains, before tax	$ 26.8	$ 86.6	$ 106.5

(a) Excludes net unrealized investment gains and losses recorded from Fund American's investments in unconsolidated insurance affiliates.

The components of Fund American's ending net unrealized investment gains and losses on its investment portfolio and its investments in unconsolidated insurance affiliates were as follows:

Millions	December 31, 1998	1997
Investment securities:		
Gross unrealized investment gains	$ 68.4	$ 112.1
Gross unrealized investment losses	(2.5)	(2.0)
Net unrealized gains from investment securities	65.9	110.1
Net unrealized gains from investments in unconsolidated insurance affiliates	128.1	96.2
Total net unrealized investment gains, before tax	$ 194.0	$ 206.3

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of Fund American's fixed maturity investments as of December 31, 1998 and 1997, were as follows:

Millions	December 31, 1998 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Debt securities issued by industrial corporations	$351.9	$ 7.0	$(1.0)	$357.9
U. S. Government and agency obligations	217.6	4.7	(.3)	222.0
Municipal obligations	189.1	2.8	(.1)	191.8
GNMA Mortgage-backed securities	79.0	.9	(.7)	79.2
MediaOne redeemable preferred stock	49.8	-	-	49.8
Foreign government obligations	26.7	.3	(.1)	26.9
Aggregate of holdings less than $10 million	2.0	-	-	2.0
Total fixed maturity investments	$916.1	$15.7	$(2.2)	$929.6

Millions	December 31, 1997 Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
MediaOne redeemable preferred stock	$ 49.4	$ -	$ -	$ 49.4
Municipal obligations	33.3	.6	-	33.9
Debt securities issued by industrial corporations	32.4	1.0	(.7)	32.7
U. S. Government and agency obligations	32.3	.9	-	33.2
GNMA Mortgage-backed securities	15.4	1.0	-	16.4
Aggregate of holdings less than $10 million	2.6	.1	-	2.7
Total fixed maturity investments	$165.4	$3.6	$(.7)	$168.3

The cost or amortized cost and carrying value of Fund American's fixed maturity investments at December 31, 1998 and 1997, are presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Millions	December 31, 1998 Cost or Amortized Cost	Carrying Value
Due in one year or less	$109.4	$108.1
Due after one year through five years	278.9	279.9
Due after five years through ten years	352.8	365.9
Due after ten years	98.0	99.1
GNMA Mortgage-backed securities	77.0	76.6
Total	$916.1	$929.6

Sales of investments, excluding short-term investments, totalled $301.3 million, $300.4 million and $363.3 million for the years ended December 31, 1998, 1997 and 1996, respectively. A non-cash exchange of investment securities totalling $2.3 million is not reflected in the 1996 Consolidated Statement of Cash Flows. There were no non-cash exchanges of investment securities during 1998 or 1997.

Fund American adopted the provisions of SFAS No. 130 during 1997 and now reports the change in net unrealized investment gains, after tax, on its income statement to arrive at comprehensive net income. All prior period income statements have been restated to reflect application of this statement. The components of the change in net unrealized investment gains, after tax, are as follows:

Millions	Year Ended December 31, 1998	1997	1996
Net realized investment gains	$ 71.0	$ 96.7	$ 38.5
Income tax expense applicable to net realized investment gains	(24.9)	(33.8)	(13.5)
Net realized investment gains, after tax	$ 46.1	$ 62.9	$ 25.0
Net unrealized investment holding gains arising during the year	$ 58.6	$ 160.9	$ 122.5
Income tax expense applicable to net unrealized investment holding gains	(20.5)	(56.3)	(42.9)
Net unrealized investment holding gains arising during the year, after tax	38.1	104.6	79.6
Net unrealized gains reclassed to realized gains for investments sold, after tax	(46.1)	(62.9)	(25.0)
Change in net unrealized investment gains, after tax	$(8.0)(a)	$ 41.7	$ 54.6

(a) Excludes a $.9 million after tax unrealized loss associated with foreign currency translation adjustments

NOTE 5. CAPITALIZED MORTGAGE SERVICING

Source One estimates the fair values of its mortgage servicing rights by calculating the present value of the expected future net cash flows associated with such rights. In making those estimates, Source One incorporates assumptions that market participants would use in their estimates of future servicing income and expense.

To measure impairment of its owned mortgage servicing rights, Source One has determined that the predominant risk characteristics inherent in the portfolio are prepayment risk, risk of default and operational risk. As a result, Source One has stratified its owned mortgage loan servicing portfolio by interest rate, loan type (investor), original term to maturity and principal recourse.

In estimating the fair value of its owned mortgage loan servicing portfolio, Source One uses market consensus prepayment rates and discounts future net cash flows using representative market interest rates which were 10.5% for conventional loans, 12.0% for insured loans, and 21.0% for recourse loans. The fair value of each stratum is computed and compared to its recorded book value to determine if an

impairment valuation allowance, or recovery of a previously established valuation allowance, is required.

As a result of the 1997 servicing sale, Source One's recourse portfolio has become a significant component of its total remaining owned servicing portfolio. Included in Source One's calculation for measuring impairment of its capitalized servicing asset is an $5.2 million and $8.2 million pretax reserve for estimated recourse losses on the corresponding loans in determining the fair value of its principal recourse portfolio as of December 31, 1998 and 1997, respectively.

The discount rate and prepayment assumptions are significant factors used in estimating the fair value of Source One's mortgage servicing rights. Accordingly, the value of mortgage servicing rights can be significantly impacted by changes in interest rates.

Source One adopted certain provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" in the 1997 first quarter. SFAS No. 125 served to eliminate the distinction between "normal" servicing rights and excess servicing receivables. Source One estimated the fair value of its portfolio during 1997 in accordance with SFAS No. 125 which did not materially effect Source One's 1997 results.

Prior to the adoption of SFAS No. 125, Source One estimated the fair value of its capitalized excess servicing asset by discounting the anticipated future cash flows over the estimated life of the related loans. Source One uses "interest only strip" interest rates to determine the appropriate discount rates and prepayment speed assumption rates that are based on interest rates, loan types (investor) and original term to maturity. The discount rate used to capitalize excess servicing for the year ended December 31, 1996, ranged from 12.0% to 12.6%. For the year ended December 31, 1996, the weighted average discount rate inherent in the carrying amount of the capitalized excess servicing asset was 10.4%.

The following table summarizes the fair value of mortgage servicing rights and certain characteristics of Source One's servicing portfolio related to such mortgage servicing rights by loan type as of December 31, 1998:

	Fair value of mortgage servicing rights (millions)	Principal balance serviced(a) (millions)	Weighted average interest rate	Weighted average maturity (months)	Weighted average service fee
Loan Type:					
Insured	$117.4	$4,901	7.47%	334	.50%
Conventional	33.0	1,573	7.78	271	.39
Recourse	25.9	1,787	8.43	202	.47
Adjustable	1.7	106	7.89	256	.41
Total servicing portfolio	$178.0	$8,367	7.74%	293	.47%

(a) Excludes $635 million of principal balance of mortgage servicing rights not capitalized prior to the adoption of an accounting standard implemented by Source One in 1995 and $195 million of originations funded but not yet capitalized.

The following table summarizes changes in Source One's capitalized servicing asset:

Millions	Mortgage servicing	Valuation allowance	Subservicing	Deferred gain on sale of servicing	Total capitalized servicing
Balances at January 1, 1996	$438.1	$(28.0)	$ -	$(13.0)	$397.1
Additions	125.5	-	-	-	125.5
Scheduled amortization	(69.9)	-	-	-	(69.9)
Impairment/unscheduled amortization	(1.1)	(8.2)	-	-	(9.3)
Amortization of deferred gain	-	-	-	6.1	6.1
Recourse loan losses	-	7.3	-	-	7.3
Sales	(45.9)	-	-	-	(45.9)
Balances at December 31, 1996	446.7	(28.9)	-	(6.9)	410.9
Additions	90.4	(1.2)	-	-	89.2
Scheduled amortization	(37.5)	-	(8.9)	-	(46.4)
Impairment/unscheduled amortization	-	(21.2)	(.5)	-	(21.7)
Amortization of deferred gain	-	-	-	6.9	6.9
Recourse loan losses	-	3.9	-	-	3.9
Sales	(273.7)	2.3	9.6	-	(261.8)
Balances at December 31, 1997	225.9	(45.1)	.2	-	181.0
Additions	240.8	-	-	-	240.8
Scheduled amortization	(38.6)	-	(1.8)	-	(40.4)
Impairment/unscheduled amortization	-	(14.7)	-	-	(14.7)
Recourse loan losses	-	2.7	-	-	2.7
Sales	(221.2)	21.5	-	-	(199.7)
BALANCES AT DECEMBER 31, 1998	$206.9	$(35.6)	$(1.6)	$ -	$169.7

During 1998 Source One sold the rights to service $10.6 billion of nonrecourse mortgage loans for cash proceeds of $227.9 million resulting in a pretax gain on sale of $15.2 million. During 1997 Source One sold the rights to service $17.0 billion of nonrecourse mortgage loans for cash proceeds of $266.9 million resulting in a pretax loss on sale of $8.0 million including a related loss on the assumption of subservicing. During 1996 Source One sold the rights to service $3.3 billion of mortgage loans for net proceeds of $55.9 million, resulting in a pretax gain of $10.1 million. As part of the 1998 and 1997 servicing sales, Source One retained the right to subservice $4.1 billion and $17.0 billion of these loans, respectively, for a contracted fee through 2001. Subservicing assets are amortized on a straight-line basis over the subservicing period and are tested for impairment.

During 1994 Source One sold the rights to service $3.9 billion of mortgage loans to a third party and retained the rights to subservice those loans pursuant to a subservicing agreement. In connection with the servicing sale, a pretax gain of $19.9 million was deferred in 1994 and was to be recognized as income over the five-year life of the subservicing agreement. In 1996, the third party sold the rights to service approximately $1.0 billion of these loans subserviced by Source One which resulted in Source One recognizing $2.4 million of the deferred gain on an accelerated basis. In 1997, the third party sold the remainder of the loans subserviced by Source One which resulted in Source One recognizing the remaining balance of the deferred gain during 1997.

NOTE 6. MORTGAGE SERVICING

Source One services loans throughout the United States. Source One's portfolio of mortgage loans serviced (including loans subserviced, interim servicing contracts and portfolios under contract to acquire but excluding loans sold but not transferred) totalled $25.1 billion and $26.5 billion as of December 31, 1998 and 1997, respectively. The following table summarizes the mortgage loan servicing portfolio as of December 31, 1998:

		Weighted average			
Loan type	Principal balance serviced (millions)	Loan balance (thousands)	Interest rate	Net servicing fee rate	Remaining contractual life (months)
Residential					
Conventional	$ 3,929	$ 64	8.14%	.396%	237
FHA	2,486	75	7.74	.398	334
VA	2,736	81	7.26	.400	331
Commercial	46	927	7.16	.189	173
Owned servicing portfolio	$ 9,197	$ 72	7.76%	.397%	291
Subservicing portfolio	15,915				
Total mortgage servicing portfolio	$25,112				

The servicing fee rates in the preceding table are shown after deducting applicable guarantee fees. Guarantee fees, when applicable, range from 6 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 owned mortgage loan servicing portfolio by interest rate range and by location of property:

Interest rate range	December 31, 1998 Number of loans	December 31, 1998 Aggregate principal balance (millions)	December 31, 1998 Weighted average interest rate	December 31, 1997 Number of loans	December 31, 1997 Aggregate principal balance (millions)	December 31, 1997 Weighted average interest rate
5.99% and lower	438	35	5.17%	843	$ 66	5.41%
6.00% - 6.49%	1,193	127	6.22	1,823	159	6.13
6.50% - 6.99%	10,870	1,111	6.64	4,166	319	6.66
7.00% - 7.49%	28,036	2,337	7.08	12,968	729	7.17
7.50% - 7.99%	30,928	2,550	7.58	29,240	2,455	7.63
8.00% - 8.49%	15,778	1,155	8.12	27,989	2,280	8.13
8.50% - 8.99%	17,999	809	8.62	32,178	1,867	8.59
9.00% - 9.49%	5,934	275	9.12	13,452	722	9.07
9.50% - 9.99%	7,580	339	9.64	29,142	1,420	9.55
10% and above	9,574	459	10.73	32,488	1,610	10.49
Total	128,330	$9,197	7.76%	184,289	$11,627	8.52%

State	December 31, 1998 Number of loans	December 31, 1998 Aggregate principal balance (millions)	December 31, 1998 Percentage of servicing portfolio	December 31, 1997 Number of loans	December 31, 1997 Aggregate principal balance (millions)	December 31, 1997 Percentage of servicing portfolio
California	17,617	$1,795	19.5%	20,459	$ 1,889	16.3%
New York	17,572	935	10.2	22,118	1,162	10.0
Texas	11,448	676	7.4	15,655	736	6.3
Washington	5,033	486	5.3	7,889	690	5.9
Florida	7,849	471	5.1	12,894	663	5.7
Michigan	7,810	393	4.3	10,773	520	4.5
Maryland	4,159	377	4.1	5,020	362	3.1
New Jersey	5,145	364	4.0	7,088	503	4.3
Ohio	4,461	298	3.2	6,658	357	3.1
Illinois	3,441	260	2.8	6,335	420	3.6
Other	43,795	3,142	34.1	69,400	4,325	37.2
Total	128,330	$9,197	100.0%	184,289	$11,627	100.0%

Escrow funds of approximately $207.9 million and $196.8 million as of December 31, 1998 and 1997, 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.

NOTE 7. 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:

Millions	December 31, 1998	December 31, 1997
Adjustable rate mortgage loans, weighted average interest rates of 6.39% and 6.36%	$ 15.1	$ 51.6
Fixed rate 5 year through 25 year mortgage loans, weighted average interest rates of 7.10 and 7.68%	240.0	60.4
Fixed rate 30 year mortgage loans, weighted average interest rates of 7.33% and 7.76%	420.3	405.0
Total principal amount	675.4	517.0
Net premiums	.9	2.3
Total mortgage loans held for sale	$676.3	$ 519.3

Dollars in Millions	December 31, Principal balance 1998	Principal balance 1997	Number of loans 1998	Number of loans 1997
Loan type: FHA	$119.6	$103.1	1,640	1,781
VA	45.3	43.3	550	669
Conventional	.1	3.4	4	45
Total pool loan purchases	$165.0	$149.8	2,194	2,495

NOTE 8. DEBT

SHORT-TERM DEBT

Short-term debt outstanding consisted of the following:

Millions	December 31, 1998	December 31, 1997
White Mountains: Credit facility	$ 50.0	$ -
Charter: Notes payable and lease obligations	1.5	2.0
Source One:		
Credit agreement borrowings	697.3	569.5
Less net discounts	(.3)	(.1)
Total Source One	697.0	569.4
Total short-term debt	$748.5	$ 571.4

The weighted average interest rates of short-term debt outstanding during the year ended December 31, 1998 and 1997 were as follows:

	Year Ended December 31, 1998	Year Ended December 31, 1997
White Mountains: Credit facility	6.20%	6.04%
Charter: Notes payable	6.50%	6.50%
Source One:		
Credit agreement borrowings	5.79%	6.34%
Commercial paper and short-term borrowings	- %	5.81%

In August 1998 the Company entered into a $35.0 million revolving credit agreement with a syndicate of banks which served to replace an expiring arrangement in the same amount. Under the agreement, through August 12, 1999 the Company may borrow up to $35.0 million at short-term market interest rates. The credit agreement contains certain customary covenants and conditions. At December 31, 1998 the Company was in compliance with all covenants under the facility and had no borrowings outstanding under the agreement. At December 31, 1997 the Company had no outstanding borrowings under the former facility.

In November 1996 White Mountains entered into a five year revolving credit facility under which it may borrow up to $50.0 million at market interest rates. At December 31, 1998 White Mountains had $50.0 million of borrowings outstanding under the facility which was used to partially fund White Mountains additional investment in MSA and its acquisition of Folksamerica during 1998. White Mountains had no borrowings outstanding at December 31, 1997 under the facility.

During 1996 Charter extended $3.2 million of notes payable to be repaid in three equal installments in 1997, 1998 and 1999. As of December 31, 1998 $1.1 million of the notes remained outstanding. The notes are collateralized by certain assets of Charter.

In July 1998 Source One amended and restated its $600.0 million secured revolving credit agreement to increase its borrowing capacity and flexibility. The provisions of the amended agreement increased Source One's borrowing capacity to $800.0 million. The facility expires on July 9, 1999. At December 31, 1998, Source One was in compliance with all covenants under the agreement and had $650.5 million of borrowings outstanding under this agreement.

During the second quarter of 1998 Source One entered into two additional secured credit agreements whereby it may borrow up to $35.0 million and $175.0 million through July 1999 and April 1999, respectively. At December 31, 1998, Source One had a total of $21.6 million in borrowings outstanding under these agreements.

In April 1998 Source One replaced its existing $15.0 million unsecured revolving credit agreement under which it can borrow up to $40.0 million through April 15, 1999. As of December 31, 1998, there was $25.2 million outstanding under the revolving credit agreement.

In July 1997 Source One amended and restated its secured revolving credit agreement to reflect a reduction in its borrowing requirements resulting from the 1997 servicing sale. The provisions of the amended agreement decreased Source One's revolving credit facility from $750.0 million to $600.0 million and reduced Source One's borrowing costs by lowering the facility fee. At December 31, 1997, Source One was in compliance with all covenants and had $559.0 million of borrowing outstanding under this facility.

In May 1997 Source One entered a unsecured revolving credit agreement under which it can borrow up to $15.0 million through June 1, 1998. As of December 31, 1997, there was $10.5 million outstanding under the revolving credit agreement.

Source One must comply with certain financial covenants provided in its secured and unsecured revolving credit facilities, including restrictions relating to tangible net worth and leverage. In addition, the secured facility contains certain covenants which limit Source One's ability to pay dividends or make distributions of its capital in excess of preferred stock dividends and subordinated debt interest requirements each year. Source One is currently in compliance with all such covenants.

LONG-TERM DEBT

Long-term debt outstanding consisted of the following:

Millions	December 31, 1998	1997
Parent Company:		
Medium-term notes	$116.3	$116.3
Less net discounts	(.6)	(.7)
Total Parent Company	115.7	115.6
Folksamerica: Medium-term notes	55.6	-
Valley: Medium-term notes	15.0	15.0
Charter: Notes payable in 1999	-	1.1
Source One:		
Medium-term notes, 8.875% due in 2001	18.7	18.7
Debentures, 9.0% due in 2012	100.0	100.0
Subordinate debentures, 9.375% due in 2025	56.0	56.0
Less net discounts	(1.3)	(2.1)
Total Source One	173.4	172.6
Total long-term debt	$359.7	$304.3

At December 31, 1998, the Parent Company had $116.3 million of outstanding medium-term notes with an average maturity of 4.4 years and a yield to maturity of 7.82%.

Folksamerica has $55.6 million of medium-term notes outstanding which are guaranteed by one of the European Mutuals. As part of the August 18, 1998 Folksamerica acquisition, Fund American guaranteed Folksamerica's debt to the former owner and agreed to repay or refinance the obligation during the 1999 first quarter. The Folksamerica medium-term notes had scheduled maturities from 2001 to 2005 and had a weighted average interest rate of approximately 5.65% from August 18, 1998 to December 31, 1998.

Valley has a five year credit facility under which it may borrow up to $15.0 million at market interest rates. During 1998 and 1997 Valley had $15.0 million of borrowings outstanding under the facility with a weighted average interest rate of 6.14% and 6.09%, respectively.

In 1991 Source One issued $160.0 million of 8.875% medium-term notes due in 2001 of which $138.4 million remained outstanding at December 31, 1996. During 1997 Source One repurchased and retired in principal amount $119.7 million of these notes leaving $18.7 million outstanding at December 31, 1997 and 1998.

In 1992 Source One issued $100.0 million of 9% debentures due in 2012 pursuant to a $250.0 million shelf registration statement. The debentures may not be redeemed by Source One prior to maturity. The proceeds from issuance were used for general corporate purposes.

In December 1995, Source One exchanged and retired 2,239,061 shares Source One Preferred Stock for $56.0 million in principal amount of 9.375% subordinated debentures. The subordinated debentures are due in

2025 but are redeemable at the option of Source One, in whole or part, at any time on or after May 1, 1999.

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 amortizes down to $15.0 million as mortgage loans serviced under agreement are repaid. During 1998, the Company permitted the third party to include an additional $2.9 billion of mortgage servicing rights that it purchased from Source One during 1998 to be included in the guaranty, however, the inclusion of the 1998 servicing rights sold did not serve to change the maximum amount of the guarantee or the original term of the agreement.

Total interest paid by Fund American for both short-term and long-term debt was $83.5 million, $51.9 million and $51.5 million in 1998, 1997 and 1996, respectively.

Fund American's long-term debt maturities, including the current portion of long-term debt, for 1999, 2000, 2001, 2002, 2003 and beyond are $57.7 million, $6.0 million, $20.7 million, $10.0 million, $102.3 million and $166.0 million, respectively.

NOTE 9. INCOME TAXES

The Company and its 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 consisted of the following:

Millions	Year Ended December 31, 1998	1997	1996
Tax on pretax earnings:			
Federal	$ 45.2	$26.7	$ 18.1
State and local	2.6	2.7	.8
Income tax provision on pretax earnings	47.8	29.4	18.9
Tax benefit from loss on early extinguishment of debt	-	3.2	-
Total income tax provision	$ 47.8	$32.6	$ 18.9
Net income tax payments	$ 35.7	$24.9	$ 7.0
Tax provision recorded directly to shareholders' equity related to:			
Changes in net unrealized investment gains and losses	$(4.3)	$22.5	$ 29.4
Changes in net foreign currency translation gains and losses	$ (.5)	$ -	$ -

The components of the income tax provision (benefit) on pretax earnings follow:

Millions	Year Ended December 31, 1998	1997	1996
Current provision	$ 49.0	$33.5	$ 22.5
Deferred benefit	(1.2)	(4.1)	(3.6)
Total income tax provision on pretax earnings	$ 47.8	$29.4	$ 18.9

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. Fund American recorded a net deferred Federal income tax asset of $7.8 million as of December 31, 1998 and a net deferred Federal income tax liability of $19.6 million as of December 31, 1997. Significant components of Fund American's net deferred Federal income tax asset and liability follow:

Millions	December 31, 1998	1997
Deferred tax assets related to:		
Employee compensation and benefit accruals	$ 51.1	$ 39.1
Discounting of loss reserves	40.1	2.9
Capitalized mortgage servicing	21.1	26.2
Unearned insurance premiums	10.5	5.3
Allowance for mortgage loan losses	4.3	4.8
Other items	15.8	10.1
Total deferred tax assets	$ 142.9	$ 88.4

Millions	December 31, 1998	1997
Deferred tax liabilities related to:		
Net unrealized investment holding gains	$ 83.0	$ 71.4
Earnings from insurance affiliates	17.5	11.8
Deferred acquisition costs	12.4	5.0
Purchase accounting adjustments	4.8	5.5
Unrealized gains on financial instruments	4.3	4.6
Other items	13.1	9.7
Total deferred tax liabilities	$135.1	$108.0

A reconciliation of taxes calculated using the 35% Federal statutory rate to the income tax provision on pretax earnings follows:

Millions	Year Ended December 31, 1998	1997	1996
Tax provision at Federal statutory rate	$45.4	$27.4	$ 9.6
Differences in taxes resulting from:			
Dividends received deduction	(2.6)	(3.1)	(2.3)
Nonconventional fuel source tax credits	(1.1)	(2.4)	-
Tax reserve adjustments	5.4	5.1	4.2
State income taxes	1.7	1.8	.5
Write-off of goodwill and other intangible assets	-	-	8.1
Other, net	(1.0)	.6	(1.2)
Total income tax provision on pretax earnings	$47.8	$29.4	$18.9

The Company believes that it is more likely than not that results of future operations will generate sufficient taxable income to realize the deferred tax asset balances carried as of December 31, 1998 and 1997.

NOTE 10. RETIREMENT AND POST-RETIREMENT PLANS

The Company has an unfunded, nonqualified defined contribution plan for a select group of management employees for the purpose of providing retirement benefits (the "Deferred Benefit Plan"). The amount of annual contribution to the Deferred Benefit Plan is determined using actuarial assumptions. At December 31, 1998 and 1997, Fund American's liability to participants pursuant to the Deferred Benefit Plan was $4.8 million and $3.9 million, respectively.

The Company also has an unfunded, nonqualified plan for a select group of management employees for the purpose of deferring current compensation for retirement savings (the "Deferred Compensation Plan"). Pursuant to the Deferred Compensation Plan, participants may voluntarily defer all or a portion of qualifying remuneration payable by Fund American. At December 31, 1998 and 1997, Fund American's liability to participants pursuant to the Deferred Compensation Plan was $65.1 million and $37.6 million, respectively.

Source One, Folksamerica and Valley have defined contribution employee savings plans for the benefit of substantially all their employees. The costs of these plans are not material to Fund American's financial statements.

Fund American also has various defined benefit pension plans for the benefit of the majority of its employees. Benefits under these plans are based on years of service and each employee's highest average eligible compensation over five consecutive years in his or her last ten years of employment. Cash contributions made by Fund American totalled less than $1.0 million for the years ended December 31, 1998 and 1997 and the projected benefit obligation of such plans totalled $11.0 million and $11.3 million, respectively, as of those dates.

Fund American's postretirement benefit costs, included in accounts payable and other liabilities, were $3.8 million and $3.7 million at December 31, 1998 and 1997, respectively.

NOTE 11. EMPLOYEE STOCK PLANS

Fund American's Long-Term Incentive Plan (the "Incentive Plan") provides for granting to executive officers and other key employees of the Company (and certain of its subsidiaries) various types of stock-based incentive awards including stock options and performance shares. At December 31, 1998, 329,200 Shares remained available for grants under the Incentive Plan.

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 after tax return on equity at the end of a three year period or as otherwise determined by the Compensation Committee of the Board. The Compensation Committee consists solely of disinterested, non-management directors.

Pursuant to the Incentive Plan 47,800, 50,000 and 73,000 performance shares were granted in 1998, 1997 and 1996, respectively, of which 5,150, 4,300 and 14,000 of the performance shares granted, respectively, remain unallocated to participants as of December 31, 1998 and are not deemed to be outstanding. During 1998, 1997 and 1996, 47,129, 22,944 and 0 performance shares were paid in cash, respectively. At December 31, 1998, 147,350 performance shares were outstanding. The financial goal for full payment of the performance shares is the achievement of a 13% annual after tax return on equity as measured over the applicable performance periods.

As of December 31, 1998, 1997 and 1996 there were 2,000, 2,000 and 3,000 stock options outstanding, respectively, which had exercise prices ranging from $24.82 to $32.60 per Share. All Fund American stock options outstanding during the three year period ended December 31, 1998, were fully vested and exercisable. No new stock options have been issued to Fund American employees since 1990.

In 1985 the Company's Chairman purchased warrants (the "Warrants") from American Express Company ("American Express") entitling him to buy 1,700,000 Shares for $25.75 per Share. Warrants to purchase 420,000 Shares, 130,000 Shares and 150,000 Shares were exercised by the Chairman during 1992, 1994 and 1995, respectively, leaving Warrants to purchase 1,000,000 Shares outstanding at December 31, 1995. Pursuant to a proposal approved by shareholders at the Company's 1995 Annual Meeting, the expiration date with respect to the Warrants was extended from January 2, 1996, to January 2, 2002. In accordance with APB No. 25, the

extension of the Warrants resulted in a $46.2 million pretax charge to compensation expense which was recorded in the second quarter of 1995. No Warrants were exercised by the Chairman during 1998 and 1997. Pursuant to certain anti-dilution adjustments related to the distribution of White River Shares to the Company's shareholders, the exercise price for the Warrants to purchase Fund American Shares was reduced to $21.66 per Share.

All employees (other than employees of Source One, FAE and Folksamerica are eligible to participate in an employee savings plan qualified under Section 401(k) of the Internal Revenue Code ("IRC") (the "Valley 401(k) Plan"). Contributions to the Valley 401(k) Plan can be invested in various investment options including Shares. There is an employer match provision to the Valley 401(k) Plan which is equal to 50% of the first 6% of employee compensation contributed to the plan, subject to IRC limits. Fund American added Shares to the investment options offered under the Valley 401(k) Plan as of July 1, 1997. As of December 31, 1998 participants of the Valley 401(k) Plan owned a total of 3,949 Shares.

All employees of Folksamerica are eligible to participate in an employee savings plan qualified under Section 401(k) of the Internal Revenue Code ("IRC") (the "Folksamerica 401(k) Plan"). Contributions to the Folksamerica 401(k) Plan can be invested in various investment options. The Folksamerica 401(k) Plan does not currently provide for investments in Shares. There is an employer match provision to the Folksamerica 401(k) Plan which is equal to 100% of the first 6% of employee compensation contributed to the plan, subject to IRC limits.

Source One also has a qualified employee savings plan (the "Source One 401(k) Plan"). Contributions to the Source One 401(k) Plan can be invested in various investments including Shares. In 1997, Source One added a matching contribution feature to the Source One 401(k) Plan which is equal to a certain percentage of employee contributions, up to a maximum of 5%, dependent upon Source One's return on equity. As of December 31, 1998, participants of the Source One 401(k) Plan owned a total of 38,046 Shares.

SFAS No. 123, "Accounting for Stock Based Compensation," requires disclosure regarding all employee stock options and encourages companies to recognize compensation expense for stock-based awards based on the fair value of such awards on the date of grant. Alternatively, companies may continue following existing accounting standards provided that disclosures are made regarding the net income and earnings per share impact as if the value recognition and measurement criteria of SFAS No. 123 had been adopted. Fund American has not adopted the recognition and measurement criteria of SFAS No. 123 and alternatively has chosen to disclose the pro forma effects of SFAS No. 123 as it relates to outstanding Warrants and performance shares granted in 1998, 1997 and 1996, as follows:

Millions, except per share amounts	Year Ended December 31, 1998	1997	1996
Net income:			
As reported	$ 82.2	$43.0	$ 8.6
Pro forma	77.4	39.4	-
Basic net income per share:			
As reported	$13.38	$5.98	$ .66
Pro forma	12.56	5.99	-
Diluted net income per share:			
As reported	$11.94	$5.40	$ .60
Pro forma	11.20	5.41	-

SFAS No. 123 provides for the expense of Warrants, stock options and performance shares over the life of the award using the Black Scholes option pricing model. Significant assumptions used include a 5.0% risk-free interest rate, an expected Share volatility of .167 and an expected life of five years for Warrants and three years for performance shares. In determining the pro forma effects of SFAS No. 123, the Company recognizes the pro forma expense of the Warrants over time. The pro forma net income figures disclosed above may not be representative of the effects on reported net income to be reported in future years.

NOTE 12. MINORITY INTEREST - PREFERRED STOCK OF SUBSIDIARY

In 1994 Source One issued 4,000,000 shares of 8.42% Source One Preferred Stock, having a liquidation preference of $25.00 per share, for net cash proceeds of $96.8 million. On December 8, 1995, Source One exchanged and retired 2,239,061 shares of Source One Preferred Stock for $56.0 million in principal amount of subordinated debentures. The Source One Preferred Stock is not redeemable prior to May 1, 1999.

NOTE 13. SHAREHOLDERS' EQUITY

COMMON SHARE REPURCHASES

During 1998, 1997 and 1996 the Company repurchased 151,916 Shares, 924,739 Shares and 779,077 Shares, respectively, for $19.8 million, $103.7 million and $66.3 million, respectively. All Shares repurchased during 1998, 1997 and 1996 have been retired. At December 31, 1998, the Company had outstanding authorization to purchase an additional 41,501 Shares.

CAPITAL STOCK DIVIDENDS

During 1998 and 1997 the Company declared and paid quarterly cash dividends of $.40 per Share and $.20 per Share, respectively. During 1998 and 1997 Source One declared and paid quarterly cash dividends of $2.105 per share of Source One Preferred Stock.

NOTE 14. SEGMENT INFORMATION

Fund American has determined that its reportable segments include Mortgage Banking (Source One), Property and Casualty Insurance (Valley, Charter and WMIC), Reinsurance (Folksamerica), Investments in Unconsolidated Insurance Affiliates and other (primarily the Company, FAE and White Mountains, all on a stand-alone basis). This determination was based on the provisions of SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information" which was adopted by Fund American in December 1998. Prior year segment information has been restated to conform to the current presentation under SFAS No. 131. Investment results are included within the segment to which the investments relate. The Company has made this determination based on consideration of the following criteria: (i) the nature of the business activities of each of the Company's subsidiaries and affiliates; (ii) the manner in which the Company's subsidiaries and affiliates are organized; (iii) the existence of primary managers responsible for specific subsidiaries and affiliates; and (iv) the organization of information provided to the Board. There are no significant intercompany transactions among Fund American's segments.

Revenues, pretax earnings and ending assets for Fund American's segments are shown below:

Millions	Mortgage Banking	Property and Casualty Insurance	Reinsurance	Investments in Unconsolidated Affiliates	Other	Total
1998						
Revenues for external customers	$212.0	$170.0	$ 85.4	$ -	$ -	$467.4
Net investment income	81.6	8.2	18.1	3.8	6.7	118.4
Equity in earnings of unconsolidated affiliates	-	-	-	24.3	-	24.3
Amortization of deferred credit	-	-	2.7	-	-	2.7
Other	(34.8)(a)	-	-	-	.1	(34.7)
Total revenues	258.8	178.2	106.2	28.1(b)		6.8578.1
1997						
Revenues for external customers	127.5	153.1	-	-	-	280.6
Net investment income	43.5	8.9	-	3.8	8.9	65.1
Equity in earnings of unconsolidated affiliates	-	-	-	21.3	-	21.3
Other	(56.7)(a)	-	-	-	-	(56.7)
Total revenues	114.3	162.0	-	25.1(b)		8.9310.3
1996						
Revenues for external customers	206.2	119.1	-	-	-	325.3
Net investment income	40.8	7.5	-	3.7(a)		5.2 57.2
Equity in earnings of unconsolidated affiliates	-	-	-	12.0	-	12.0
Other	(69.3)(a)	-	-	-	-	(69.3)
Total revenues	$177.7	$126.6	$ -	$15.7(b)		$5.2$325.2

(a) Represents amortization and impairment of capitalized mortgage servicing of $55.2 million, $68.0 million and $79.2 million for 1998, 1997 and 1996, respectively, partially offset of net gains on financial instruments of $20.4 million, $11.3 million and $9.9 million, respectively.

(b) Includes interest income on Fund American's investment in MediaOne preferred stock (considered to be related to Fund American's investment in FSA) of $3.8 million for 1998, 1997 and 1996.

Millions	Mortgage Banking	Property and Casualty Insurance	Reinsurance	Investments in Unconsolidated Affiliates	Other	Total
1998						
Income (loss) before realized gains, taxes and certain other expenses	$123.7	$ 5.3	$ 8.9	$28.1	$(16.6)	$149.4
Net realized investment gains (losses)	2.2	5.4	(.8)	-	64.2	71.0
Interest expense	(70.2)	(1.1)	(1.4)	-	(11.2)	(83.9)
Depreciation and amortization	(3.1)	(3.0)	-	-	(.4)	(6.5)
Pretax earnings	52.6	6.6	6.7	28.1	36.0	130.0
Income tax expense	(19.3)	(1.8)	(1.2)	(7.6)	(17.9)	(47.8)
1997						
Income (loss) before realized gains, taxes and certain other expenses	18.2	11.5	-	25.1	(18.7)	36.1
Net realized investment gains (losses)	(.7)	4.1	-	-	93.3	96.7
Interest expense	(35.4)	(1.2)	-	-	(9.4)	(46.0)
Depreciation and amortization	(5.0)	(3.0)	-	-	(.4)	(8.4)
Pretax earnings (loss)	(22.9)	11.4	-	25.1	64.8	78.4
Income tax (expense) benefit	7.0	(4.3)	-	(6.1)	(26.0)	(29.4)
Loss on early extinguishment of debt	(6.0)	-	-	-	-	(6.0)
1996						
Income (loss) before realized gains, taxes and certain other expenses	44.1	(2.7)	-	15.7	(9.3)	47.8
Net realized investment gains (losses)	(.2)	(.3)	-	-	39.0	38.5
Interest expense	(36.0)	(.7)	-	-	(9.6)	(46.3)
Depreciation and amortization	(6.5)	(3.2)	-	-	(2.8)	(12.5)
Pretax earnings (loss)	1.4	(6.9)	-	15.7	17.3	27.5
Income tax (expense) benefit	$ (9.5)	$ 3.4	$ -	$(3.5)	$ (9.3)	$ (18.9)

Millions Ending assets:	Mortgage Banking	Property and Casualty Insurance	Reinsurance	Investments in Unconsolidated Affiliates	Other	Total
December 31, 1998	$1,234.1	$311.5	$1,220.5	$404.1	$110.5	$3,280.7
December 31, 1997	1,063.1	288.8	-	409.6	248.8	2,010.3

NOTE 15. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

INVESTMENT IN FSA

Fund American owned 3,460,200 shares of FSA Common Stock at December 31, 1998, 1997 and 1996. This represented approximately 11.6%, 12.1% and 11.5%, respectively, of the total shares of FSA Common Stock outstanding at those times. Fund American had voting rights to an additional 3,893,940 shares of FSA Common Stock at December 31, 1998, 1997 and 1996, raising Fund American's voting control of FSA to approximately 23.1%, 24.0% and 23.0%, respectively. At December 31, 1998, 1997 and 1996, Fund American also owned FSA Options and Preferred Stock which, in total, give Fund American the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of $125.7 million. As of December 31, 1998, 1997 and 1996, Fund American's economic interest in FSA was 25.1%, 26.2% and 25.1%, respectively.

Fund American's investment in FSA Common Stock is accounted for using the equity method. FSA Common Stock is publicly traded on the NYSE. The market value of the FSA Common Stock as of December 31, 1998 and 1997, as quoted on the NYSE, exceeded Fund American's carrying value of

the FSA Common Stock on the equity method. Fund American's investments in FSA Options and Preferred Stock are accounted for under the provisions of SFAS No. 115 whereby the investments are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses, after tax, reported as a net amount in a separate component of shareholders' equity and reported on the income statement as a component of comprehensive net income.

The following table summarizes financial information for FSA:

Millions	1998	1997	1996
FSA BALANCE SHEET DATA:			
Total investments	$ 1,874.8	$ 1,431.6	$1,154.4
Total assets	2,405.5	1,900.6	1,537.7
Deferred premium revenue	721.7	595.2	511.2
Loss and loss adjustment expense reserve	63.9	75.4	72.1
Preferred shareholder's equity	.7	.7	.7
Common shareholders' equity	1,072.7	881.7	800.6
FSA INCOME STATEMENT DATA:			
Gross premiums written	$ 319.3	$ 236.4	$ 177.0
Net premiums written	219.9	172.9	121.0
Net premiums earned	137.9	109.5	90.4
Net investment income	78.8	72.1	65.1
Net income	117.0	100.5	80.8
AMOUNTS RECORDED BY FUND AMERICAN:			
Investment in FSA Common Stock	$ 119.7	$ 104.3	$ 92.3
Investment in FSA Options and Preferred Stock	114.4	87.8	19.8
Total Investment in FSA	$ 234.1	$ 192.1	$ 112.1
Equity in earnings from FSA Common Stock (a)	$ 13.8	$ 11.4	$ 7.8
Equity in net unrealized investment gains (losses) from FSA's investment portfolio, before tax (b)	3.1	2.1	(1.0)
Unrealized investment gains on FSA Options and Preferred Stock, before tax (b)	26.6	68.0	17.3

(a) Recorded net of related amortization of goodwill.

(b) Recorded directly to shareholders' equity (after tax) with related changes in net unrealized investment gains and losses (after tax) reported on the income statement as a component of comprehensive net income.

At December 31, 1998 and 1997, Fund American's consolidated retained earnings included $35.9 million and $23.6 million, respectively, of

accumulated undistributed earnings of FSA (net of related amortization of goodwill).

INVESTMENT IN MSA

At December 31, 1998, 1997 and 1996, Fund American owned 222,093, 90,606 and 90,606 shares of MSA Common Stock. This represented approximately 50.0%, 33.1% and 33.1% of the total shares of MSA Common Stock outstanding at those times. Fund American's investment in MSA is accounted for using the equity method. The following tables summarize financial information for MSA:

Millions	1998	1997	1996
MSA BALANCE SHEET DATA:			
Total investments	$ 465.9	$280.1	$ 249.4
Total assets	588.6	337.2	316.2
Unearned premium reserve	113.0	71.8	64.0
Loss and loss adjustment expense reserves	212.2	123.7	120.1
Shareholders' equity	232.5	120.6	101.4
MSA INCOME STATEMENT DATA:			
Net premiums written	$ 258.5	$156.6	$ 147.2
Net premiums earned	226.3	148.7	141.6
Net investment income	22.1	15.4	14.9
Net income	13.4	11.9	9.7
AMOUNTS RECORDED BY FUND AMERICAN:			
Investment in MSA Common Stock	$ 120.2	$ 40.9	$ 34.7
Equity in earnings from MSA Common Stock (a)	4.9	3.8	1.5
Equity in net unrealized investment gains (losses) from MSA's investment portfolio, before tax (b)	4.1	2.4	(.5)

(a) Recorded net of related amortization of goodwill.

(b) Recorded directly to shareholders' equity (after tax) with related changes in net unrealized investment gains and losses (after tax) reported on the income statement as a component of comprehensive net income.

At December 31, 1998 and 1997, Fund American's consolidated retained earnings included $14.2 million and $9.3 million, respectively, of

accumulated undistributed earnings of MSA (net of related amortization of goodwill).

INVESTMENT IN FOLKSAMERICA

On August 18, 1998, Fund American acquired all of the remaining outstanding shares of the common stock of Folksamerica for $169.1 million which resulted in Folksamerica becoming a consolidated subsidiary of the Company as of that date. As of December 31, 1997 and 1996, Folksamerica was an unconsolidated subsidiary of Fund American.

Prior to the consolidation of Folksamerica in 1998, White Mountains owned 6,920,000 shares of Folksamerica Preferred Stock at December 31, 1997 and 1996 and owned 1,563,907 shares of Folksamerica Common Stock at December 31, 1997. White Mountains ownership percentage of Folksamerica at December 31, 1997 and 1996 represented 50.0% of the total Folksamerica voting shares outstanding at those times. At December 31, 1997 and 1996, White Mountains also owned ten year Folksamerica Warrants to purchase up to 6,920,000 shares of Folksamerica Common Stock for aggregate consideration of $79.4 million. Fund American acquired its investment in Folksamerica Preferred Stock and Folksamerica Warrants on June 19, 1996. White Mountains acquired its investment in Folksamerica Common Stock on November 20, 1997.

Prior to the consolidation of Folksamerica in 1998, White Mountains' investment in Folksamerica Common Stock was accounted for using the equity method and Fund American's investment in Folksamerica Preferred Stock and Folksamerica Warrants were accounted for under the provisions of SFAS No. 115 whereby the investments were reported at fair value as of the balance sheet date, with related unrealized investment gains and losses, after tax, reported as a net amount in a separate component of shareholders' equity and reported on the income statement as a component of comprehensive net income. Dividends earned on Folksamerica Preferred Stock were recorded as earnings from unconsolidated insurance affiliates on the income statement.

The following table summarizes financial information for Folksamerica:

Millions	1997	1996
FOLKSAMERICA BALANCE SHEET DATA:		
Total investments	$ 926.2	$ 711.4
Total assets	1,213.6	994.8
Unearned premium reserve	96.5	61.5
Loss and loss adjustment expense reserve	739.1	628.9
Preferred shareholder's equity	79.4	79.4
Common shareholders' equity	175.6	88.2
FOLKSAMERICA INCOME STATEMENT DATA:		
Gross premiums written	$ 251.0	$ 187.2
Net premiums written	232.4	171.9
Net premiums earned	238.0	181.4
Net investment income	46.7	32.4
Net income	35.9	17.1
AMOUNTS RECORDED BY FUND AMERICAN:		
Investment in Folksamerica Common Stock	$ 23.5	$ -
Investment in Folksamerica Preferred Stock and Warrants	80.0	80.0
Total Investment in Folksamerica	$ 103.5	$ 80.0
Equity in earnings from Folksamerica Common Stock (a)	$ .9	$ -
Dividends from Folksamerica Preferred Stock (a)	5.2	2.7
Equity in net unrealized investment gains from Folksamerica's investment portfolio, before tax (b)	1.8	.2

(a) Recorded net of related amortization of goodwill and accretion of discount.

(b) Recorded directly to shareholders' equity (after tax) with related changes in net unrealized investment gains and losses (after tax) reported on the income statement as a component of comprehensive net income.

At December 31, 1997, Fund American's consolidated retained earnings included $1.0 million of accumulated undistributed earnings of Folksamerica.

INVESTMENT IN AMLIN (FORMERLY MURRAY LAWRENCE)

At December 31, 1997 White Mountains owned 38,651,270 shares of the common stock of Murray Lawrence which it had acquired on December 8, 1997 for $23.6 million. This represented approximately 15.8% of the total shares of Murray Lawrence common stock outstanding at that time. At December 31, 1997 White Mountains carried its investment in Murray Lawrence as an "investment in unconsolidated insurance affiliate" and valued the investment at its original cost of $23.6 million which approximated its fair value at that date..

During 1998 Murray Lawrence merged with Angerstein Underwriting which resulted in the creation of Amlin. White Mountains owns 13,980,861 shares of the common stock of Amlin, which represents an approximate 6.5% ownership stake as of December 31, 1998 . As a result of White Mountains' decreased ownership percentage of this investment resulting from the merger, White Mountains recharacterized its investment in Amlin as an "other investment" and carried the investment at its fair value of $25.1 million at December 31, 1998.

NOTE 16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

Source One utilizes derivative financial instruments in the management of interest rate risk. Source One's use of derivative financial instruments is primarily limited to (i) commitments to extend credit, (ii) mandatory forward commitments and (iii) interest rate floor contracts, interest rate swap agreements and principal-only swap agreements. Although SFAS No. 115 requires that these financial instruments be classified as held for trading purposes, Fund American does not consider these investments to be speculative holdings.

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 to 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 in 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 for commitments to extend credit is represented by the contractual notional amount of those commitments. Source One's locked mortgage loan commitments expected to close totalled $608.3 million and $284.5 million at December 31, 1998 and 1997, respectively. Fixed rate commitments result in Source One having market interest rate risk as well as credit risk. Variable rate commitments result primarily in 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 a substantial portion of the Pipeline that is expected to close and all mortgage loans receivable. At December 31, 1998 and 1997, Source One had $1,805.3 million and $776.8 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 Pipeline 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 sells loans through mortgage-backed securities issued pursuant to programs of GNMA, FNMA and FHLMC, or through 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. 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. Prior to December 1992, substantially all conventional securities were sold with recourse to Source One, to the extent of insufficient proceeds from private mortgage insurance, foreclosure and other recoveries. Since December 1992 all conventional loans have been sold without recourse to Source One.

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 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 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. Source One is subject to limited amounts of risk with respect to these loans since the insurer has the option to reimburse the servicer for the lower of fair value of the property or the mortgage loan outstanding, in addition to the VA guarantee on the loan. 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 pass-thru rate from the date of loan payoff through the end of the calendar month without reimbursement.

At December 31, 1998 and 1997, Source One serviced approximately $4.0 billion and $5.4 billion of GNMA loans (without substantial recourse), respectively, and $1.7 billion and $2.5 billion of conventional loans (with recourse), respectively. To cover loan losses that may result from these servicing arrangements and other losses, Source One has provided an allowance for loan losses of $11.5 million and $12.8 million at December 31, 1998 and 1997, respectively. In addition, the valuation allowance for Source One's capitalized servicing asset related to its principal recourse portfolio includes a $5.3 million and $8.2 million reserve for estimated losses at December 31, 1998 and 1997, respectively. Source One's management believes the allowance for loan losses is adequate to cover unreimbursed foreclosure advances and principal losses, including losses on loans with recourse.

In order to offset changes in the value of Source One's capitalized servicing asset and to mitigate the effect on earnings of higher amortization and impairment of such rights which results from increased prepayment activity, Source One invests in various financial instruments. As interest rates decline, prepayment activity increases, thereby reducing the value of the capitalized servicing asset, while the value of the financial instrument increases. Conversely, as interest rates increase, the value of the capitalized servicing asset increases while the value of the financial instrument decreases. The financial instruments utilized by Source One include interest rate floor contracts, interest rate swap agreements and principal-only swap agreements.

Source One's interest rate floor contracts derive their value from differences between the floor strike rate specified in the contract and prevailing market interest rates and are not subject to total losses in excess of their original cost. As of December 31, 1998, Source One's open interest rate contracts had a fair value of $9.9 million, an original cost of $5.3 million and a total notional value of $1.1 billion. The interest rate contracts have remaining terms ranging from 5 to 10 years with floor rates ranging from 3.54% to 5.05%. Source One's interest rate swap agreements, which were entered into in the 1998 third quarter, entitle Source One to receive interest at fixed rates and pay interest at variable rates based on a contracted notional amount. As of December 31, 1998, Source One's open interest rate swap agreements had a fair value of $4.8 million and had remaining terms ranging from 5 to 10 years. Source One's exposure to losses on the interest rate swap agreements is related to the differences between the contracted fixed interest rates assumed and the contracted variable interest rates ceded over the life of the contract. Source One's principal-only swap agreements derive their value from changes in the value of referenced principal-only securities. As of December 31, 1998, Source One's open principal-only swap agreements had a fair value of $2.7 million, a notional value of $50.0 million and had a remaining term of 5 years. Source One's exposure to losses on the principal-only swap agreements is related to changes in the market value of the underlying principal-only securities over the life of the contract.

Contingent liabilities exist with respect to reinsurance ceded, which would become an ultimate liability of Folksamerica in the event that the

assuming companies were unable to meet their obligations under reinsurance agreements in force. Folksamerica evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar activities or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31, 1998, reinsurance recoverables with a carrying value of $41.7 million were associated with a single reinsurer. Folksamerica holds collateral from this reinsurer in the form of a letter of credit totalling $21.4 million and funds withheld totalling $23.4 million that can be drawn on for amounts that remain unpaid.

White Mountains' insurance subsidiaries extend credit to their policyholders in the normal course of business, perform credit evaluations and maintain allowances for potential credit losses. Concentration of credit risk with respect to receivables is limited due to the large number of policyholders and their dispersion across a multi-state area.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of Fund American's financial instruments have been determined by using appropriate market information and valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Therefore, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange. Carrying value equals or approximates fair value for FIXED MATURITY INVESTMENTS, COMMON EQUITY SECURITIES, FINANCIAL INSTRUMENTS (DERIVATIVES), SHORT-TERM INVESTMENTS, CASH, OTHER FINANCIAL ASSETS 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. Mortgage loans held for investment are carried at fair value. Financial instruments are carried at fair value which is estimated based on quoted market prices for those or similar investments. For all other securities classified as other investments, fair values have been determined using quoted market values or internal appraisal techniques.

MORTGAGE LOANS HELD FOR SALE. Fair values are estimated using quoted market prices for securities backed by similar loans.

POOL LOAN PURCHASES. Fair values are estimated based on discounted cash flow analyses using Source One's short-term incremental borrowing rate, quoted market prices for securities backed by similar loans or actual prices at which the loans were subsequently sold.

MORTGAGE CLAIMS RECEIVABLE. Fair values are estimated by discounting anticipated future cash flows using Source One's short-term incremental borrowing rate.

DEBT. Fair value is estimated by discounting future cash flows using incremental borrowing rates for similar types of borrowing arrangements or quoted market prices.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS. Fair value for commitments to sell mortgage loans is based on current settlement values for those commitments, net of the face amounts of the commitments. Fair value for commitments to extend credit is based on current quoted market prices for securities backed by similar loans, net of the principal amounts of the commitments.

The carrying amounts and estimated fair values of Fund American's financial instruments were as follows:

	DECEMBER 31, 1998		December 31, 1997	
Millions	CARRYING AMOUNT	FAIR VALUE	Carrying amount	Fair value
FINANCIAL ASSETS:				
Fixed maturity investments	$929.6	$929.6	$168.3	$168.3
Common equity securities	241.7	241.7	104.2	104.2
Other investments (excluding derivative instruments)	79.4	85.9	147.2	156.7
Derivative instruments:				
Interest rate floor contracts	9.9	9.9	8.2	8.2
Interest rate swaps	4.9	4.9	-	-
Principal-only swaps	2.7	2.7	12.5	12.5
Short-term investments	79.0	79.0	62.8	62.8
Cash	22.4	22.4	7.0	7.0
Mortgage loans held for sale	676.3	680.0	519.3	529.3
Pool loan purchases	165.0	165.1	149.8	150.2
Mortgage claims receivable, net (a)	27.2	26.5	35.6	34.9
Receivables from sales of servicing	73.8	73.8	27.3	27.3
Other financial assets	39.6	39.6	43.4	43.4
FINANCIAL LIABILITIES:				
Short-term debt	748.5	748.5	571.4	571.4
Long-term debt	359.7	370.0	304.3	326.5
Other financial liabilities	5.9	5.9	22.3	22.3
OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS:				
Mandatory forward commitments	-	.6	-	1.6
Commitments to extend credit expected to close	-	11.1	-	6.5

(a) Excludes $5.9 million and $5.6 million of real estate owned in 1998 and 1997, respectively.

OTHER FINANCIAL ASSETS includes investment income receivable, accounts receivable from securities sales, notes receivable and, for 1997, White River Shares held for delivery upon exercise of existing employee stock options.

OTHER FINANCIAL LIABILITIES includes accrued interest payable, accounts payable on securities purchases, dividends payable to

shareholders and, for 1997, liability for existing employee stock options to purchase White River Shares.

Fund American's investments in FSA Options and Preferred Stock, Folksamerica Preferred Stock and Folksamerica Warrants are not presented in the table above. These financial instruments are accounted for under the provisions of SFAS No. 115 and are carried on the balance sheet at fair value. See Note 15.

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 would be potentially realized in a current market exchange.

NOTE 18. RELATED PARTY TRANSACTIONS

For corporate travel purposes Fund American jointly owns two short-range aircraft with Haverford Utah, LLC ("Haverford"). Messrs. Jack Byrne, Patrick M. Byrne, a director of the Company and White Mountains, and Kemp are principals of Haverford. Both aircraft were acquired from unaffiliated third parties during 1996. In exchange for Haverford's 20% ownership interest in the aircraft, Haverford contributed capital equal to 20% of the total initial cost of the aircraft and Haverford bears the full costs of its usage and maintenance of the aircraft pursuant to a Joint Ownership Agreement dated September 16, 1996.

Prior to the Joint Ownership Agreement, Fund American was a party to a "dry lease" agreement dated January 2, 1995, for the use of aircraft owned by Haverford Transportation Inc. ("HTI") for corporate travel purposes. Messrs. Jack Byrne and Kemp are the sole shareholders of HTI. During 1996 Fund American paid HTI a total of $279,739 pursuant to the dry lease arrangement. The terms of the agreement provided for the use of HTI's aircraft (excluding pilot and fuel) for a fixed hourly charge of $200 for a single engine piston aircraft and $800 to $1,000 for a twin engine turbine aircraft. Based on the Company's experience in operating comparable aircraft, the hourly operating charges incurred pursuant to the HTI dry lease are considered to be representative of the actual hourly costs of operating HTI's aircraft.

In September 1998 Fund American sold its 25% joint ownership interest in a private jet operated by a third party to Haverford for cash proceeds of $500,000. The purchase price received from Haverford represented a payment of $437,500 for Fund American's joint ownership interest (which resulted in Fund American recognizing a pretax gain on sale of approximately $75,000) and $62,500 for reimbursement of prepaid aircraft expenses which were required to be paid to the operator prior to the sale to Haverford.

Mr. Howard Clark, Jr., a director of the Company, is Vice Chairman of Lehman Brothers Inc. Lehman Brothers Inc. has, 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.

Mr. George J. Gillespie, III, a director of the Company, is a Partner in the firm Cravath, Swaine & Moore, which has been retained by Fund American from time to time to perform legal 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.

NOTE 19. SUBSEQUENT EVENT - SALE OF VGI

On February 11, 1999, White Mountains entered into a definitive agreement to sell VGI (which includes Valley, Charter and WMIC but excludes Valley National) to Unitrin, Inc.

The transaction is expected to close during the 1999 second quarter and is subject to state regulatory approvals.

NOTE 20. SUBSEQUENT EVENT - SALE OF MORTGAGE BANKING ASSETS

On March 25, 1999 Fund American and Citicorp reached a definitive agreement under which Citicorp will acquire a substantial amount of Fund American's mortgage-banking related assets and certain of its mortgage banking liabilities. Fund American will retain the Source One legal entity which will continue to own all of Fund American's investments in FSA and certain other mortgage-related and other assets and liabilities.

The transaction is expected to close during the 1999 second quarter and is subject to various Federal, state and other regulatory approvals.

REPORT ON MANAGEMENT'S 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 report is consistent with that shown in the financial statements.

Fund American maintains internal financial and accounting 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.

KPMG LLP have audited the consolidated financial statements of Fund American as of December 31, 1998 and 1997 and for each of the two years in the period ended December 31, 1998, and issued their unqualified report thereon dated February 12, 1999, which appears on page F-49. Ernst & Young LLP served as Fund American's independent auditors as of December 31, 1996 and for the year then ended, and issued their unqualified report thereon dated March 21, 1997, which appears on page F-51. PricewaterhouseCoopers LLP served as the independent auditors of Folksamerica during 1998 and Valley during 1996. The unqualified reports issued with respect to 1998 audit of Folksamerica and the 1996 audit of Valley have been included as exhibits to this report.

In connection with their audits, the independent auditors provide an objective, independent review and evaluation of the structure of internal controls to the extent they consider necessary. Management reviews all recommendations of the independent auditors concerning the structure of internal controls and responds to such recommendations with corrective actions, as appropriate.

The Audit Committee of the Board, which is comprised solely of 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, 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.

K. Thomas Kemp Director, President and Chief Executive Officer	Raymond Barrette Executive Vice President and Chief Financial Officer	Michael S. Paquette Senior Vice President and Controller

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Fund American Enterprises Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Fund American Enterprises Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated income statements, statements of shareholders' equity , and cash flows for the years then ended (collectively, the "consolidated financial statements"). In connection with our audits of the consolidated financial statements, we also have audited the 1998 and 1997 financial information in Schedule I Summary of investments other than investments in related parties, Schedule II Condensed financial information of the registrant, Schedule III Reinsurance, Schedule IV Valuation and qualifying accounts, and Schedule VI Supplementary insurance information (collectively, the "financial statement schedules"). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits. We did not audit the consolidated financial statements of Folksamerica Holding Company, Inc. ("Folksamerica"), a wholly-owned subsidiary and Financial Security Assurance Holdings, Ltd. ("FSA"), an 11.6 percent owned equity investee company. The financial statements of Folksamerica reflect total assets constituting 37.2 percent and total revenues of 18.4 percent in 1998 of the related consolidated totals. The Company's equity investment in FSA at December 31, 1998 and 1997 was $119.7 million and $104.3 million, respectively, and its equity in earnings of FSA were $13.8 million and $11.4 million for the years 1998 and 1997 respectively. The financial statements of Folksamerica and FSA were audited by other auditors, PricewaterhouseCoopers LLP, whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for Folksamerica

and FSA, is based solely on the reports of other auditors.

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 and the reports other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fund American Enterprises Holdings, Inc. and Subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. Also in our opinion, based on our audits and the reports of other auditors, the 1998 and 1997 information in the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

February 12, 1999
Providence, Rhode Island
except for Note 20
which is as of
March 25, 1999

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Fund American Enterprises Holdings, Inc.

We have audited the accompanying consolidated income statement of Fund American Enterprises Holdings, Inc. and the related statements of shareholders' equity and cash flows for the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our audit also included the financial statement schedules listed at Item 14(d). Our responsibility is to express an opinion on these financial statements and schedules based on our audits. We did not audit the consolidated financial statements of Valley Group, Inc., a wholly-owned subsidiary, representing substantially all of the Company's consolidated insurance operations, which statements reflected total revenues of $126.9 million for the year ended December 31, 1996, and the consolidated financial statements of Financial Security Assurance Holdings Ltd. ("FSA"), an equity method investee. The Company's equity in FSA's earnings represents $7.8 million of total revenues for the year ended December 31, 1996. Those statements were audited by other auditors, PricewaterhouseCoopers LLP, whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Valley Group, Inc. and FSA, with respect to the amounts in the two preceding sentences, is based solely on the reports of the other auditors.

We conducted our audit 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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, Fund American Enterprises Holdings, Inc.'s consolidated results of operations and its cash flows for the year ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules when considered in relation to the basic financial statements taken as a whole presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York
March 21, 1997

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1998 and 1997 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. Certain 1998 and 1997 items have been restated as a result of the Folksamerica transaction, see Note 2.

	1998 Three Months Ended (a)				1997 Three Months Ended (b)			
Millions, except per share amounts	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$197.2	$ 153.6	$ 117.6	$109.7	$ 81.9	$78.0	$ 69.5	$ 80.9
Expenses	187.2	130.0	106.7	95.2	91.0	76.4	80.9	80.3
Pretax operating earnings (loss)	10.0	23.6	10.9	14.5	(9.1)	1.6	(11.4)	.6
Net realized investment gains	5.2	61.6	1.7	2.5	49.1	21.8	16.2	9.6
Pretax earnings	15.2	85.2	12.6	17.0	40.0	23.4	4.8	10.2
Income tax provision	5.5	30.1	5.0	7.2	14.7	7.1	3.2	4.4
AFTER TAX EARNINGS	9.7	55.1	7.6	9.8	25.3	16.3	1.6	5.8
Loss on early extinguishment of debt, after tax	-	-	-	-	-	-	(6.0)	-
NET INCOME (LOSS)	9.7	55.1	7.6	9.8	25.3	16.3	(4.4)	5.8
Other comprehensive net income, after tax	26.7	(73.1)	11.2	26.3	(20.1)	30.1	39.6	(7.9)
COMPREHENSIVE NET INCOME (LOSS)	$ 36.4	$(18.0)	$ 18.8	$ 36.1	$ 5.2	$46.4	$ 35.2	$(2.1)
BASIC EARNINGS PER COMMON SHARE:								
After tax earnings	$ 1.51	$ 9.28	$ 1.13	$ 1.50	$ 3.89	$2.41	$ .09	$ .71
Net income (loss)	1.51	9.28	1.13	1.50	3.89	2.41	(.80)	.71
Comprehensive net income (loss)	6.08	(3.22)	3.02	5.94	.68	7.12	5.10	(.43)
DILUTED EARNINGS PER COMMON SHARE:								
After tax earnings	1.33	8.31	1.00	1.33	3.50	2.18	.08	.65
Net income (loss)	1.33	8.31	1.00	1.33	3.50	2.18	(.73)	.65
Comprehensive net income (loss)	5.44	(2.90)	2.70	5.32	.61	6.44	4.63	(.40)

(a) The quarterly amounts for the three month periods ended September 30, 1998 and December 31, 1998 reflect the consolidation of Folksamerica which became a wholly-owned subsidiary on August 18, 1998. The quarterly amounts for the three month period ended September 30, 1998 include $61.6 million of pretax realized investment gains which served to increase third quarter 1998 net income by $40.0 million.

(b) The quarterly amounts for the three month period ended June 30, 1997 include a $9.2 million pretax loss on early extinguishment of Source One's debt which served to decrease second quarter 1997 net income by $6.0 million. The quarterly amounts for the three month period ended December 31, 1997 include $49.1 million of pretax realized investment gains which served to increase fourth quarter 1997 net income by $31.9 million.

SCHEDULE I

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

SUMMARY OF INVESTMENTS -- OTHER THAN
INVESTMENTS IN RELATED PARTIES
AT DECEMBER 31, 1998

Millions	Cost	Fair Value
Fixed maturities:		
Bonds:		
United States Government and government agencies and authorities	$ 217.6	$ 222.0
States, municipalities and political subdivisions	189.1	191.8
Foreign governments	26.7	26.9
All other (primarily corporate bonds)	430.8	437.1
Redeemable preferred stock	51.8	51.8
Total fixed maturities	916.1	929.6
Common equity securities:		
Banks, trust and insurance companies	28.3	35.5
All other	167.1	206.2
Total common equity securities	195.4	241.7
Other investments	88.5	96.9
Short-term investments	79.0	79.0
Total investments	$ 1,279.0	$ 1,347.2

NOTE - fair value was equal to carrying value at December 31, 1998.

SCHEDULE II

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
(PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS

Millions	December 31, 1998	1997
Assets:		
Common equity securities and other investments	$ -	$ 49.2
Short-term investments, at amortized cost	10.8	2.3
Other assets	37.8	40.4
Investments in consolidated affiliates	972.2	843.1
Total assets	$ 1,020.8	$ 935.0
Liabilities:		
Long-term debt with third parties	$ 115.7	$ 115.6
Intercompany borrowings	53.0	30.0
Accounts payable and other liabilities	149.6	130.5
Total liabilities	318.3	276.1
Shareholders' equity	702.5	658.9
Total liabilities and shareholders' equity	$ 1,020.8	$ 935.0

CONDENSED INCOME STATEMENTS

Millions	Year Ended December 31, 1998	1997	1996
Revenues	$ 2.2	$ 8.5	$ 11.7
Expenses	23.2	21.2	15.5
Pretax operating loss	(21.0)	(12.7)	(3.8)
Net realized investment gains (losses)	26.7	44.2	(3.1)
Pretax earnings (loss)	5.7	31.5	(6.9)
Income tax provision (benefit)	8.3	16.3	.5
Parent company only operating income (loss)	(2.6)	15.2	(7.4)
Earnings from consolidated affiliates	84.8	27.8	16.0
Consolidated net income	82.2	43.0	8.6
Consolidated change in net unrealized investment gains, after tax	(8.9)	41.7	54.6
Consolidated comprehensive net income	$ 73.3	$ 84.7	$ 63.2

SCHEDULE II
(CONTINUED)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1998		
Millions	1998	1997	1996
Net income	$ 82.2	$ 43.0	$ 8.6
Reconciliation of net income to net cash from operating activities:			
Net realized investment (gains) losses	(26.7)	(44.2)	3.1
Undistributed earnings from consolidated subsidiaries	(78.0)	(24.1)	(12.3)
Undistributed earnings from unconsolidated insurance affiliates	-	(.4)	(1.1)
Changes in current income taxes receivable and payable	8.5	5.1	28.4
Deferred income tax provision (benefit)	.1	(3.7)	.1
Dividends and return of capital distributions received from subsidiaries	-	-	65.0
Other, net	1.7	(1.3)	(19.6)
Net cash (used for) provided from operating activities	(12.2)	(25.6)	72.2
Cash flows from investing activities:			
Net (increase) decrease in short-term investments	(8.5)	(2.0)	28.2
Sales of investment securities	-	119.4	134.4
Purchases of investment securities	-	-	(108.9)
Investments in consolidated affiliates	-	(12.7)	(25.2)
Investments in unconsolidated affiliates	-	-	(27.7)
Sale of securities carried in other assets	26.8	-	-
Purchases of fixed assets	-	-	(.8)
Net cash (used for) provided from investing activities	18.3	104.7	-
Cash flows from financing activities:			
Purchases of common stock retired	(19.5)	(103.8)	(66.3)
Intercompany borrowings from subsidiaries	23.0	30.0	-
Cash dividends paid to common shareholders	(9.4)	(5.3)	(5.9)
Net cash used for financing activities	(5.9)	(79.1)	(72.2)
Net increase in cash during year	.2	-	-
Cash balance at beginning of year	-	-	-
Cash balance at end of year	$ .2	$ -	$ -

SCHEDULE III

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

REINSURANCE

Column A	Column B	Column C	Column D	Column E	Column F
Premiums earned (Dollars in millions)	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
Years ended:					
December 31, 1998:					
Property and casualty insurance	$ 153.9	$ (6.7)	$ --	$ 160.6	-- %
Reinsurance (a)	2.4	(8.7)	91.7	85.4	107.4%
December 31,1997:					
Property and casualty insurance	152.1	(6.8)	--	145.3	-- %
December 31,1996:					
Property and casualty insurance	116.7	(7.0)	--	109.7	-- %

(a) Amounts shown in columns B through F represent activity for Folksamerica from August 18, 1998 through December 31,1998.

SCHEDULE IV

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions			
Millions	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions described	Balance at end of period
Years ended:					
December 31,1998:					
Reinsurance recoverable:					
Allowance for reinsurance balances (a)	$ 1.2	$ --	$ --	$ -- (b)	$ 1.2
Property and casualty insurance:					
Allowance for uncollectible accounts	.3	1.9	--	(1.8)(b)	.4
Mortgage banking:					
Allowance for mortgage loan losses	12.8	3.8	.1	(5.2)(b)	11.5
Impairment allowance for mortgage servicing	45.1	14.8	--	(24.3)(c)	35.6
December 31,1997:					
Property and casualty insurance:					
Allowance for uncollectible accounts	.4	1.1	--	(1.2)(b)	.3
Mortgage banking:					
Allowance for mortgage loan losses	15.4	4.7	--	(7.3)(b)	12.8
Impairment allowance for mortgage servicing	28.9	22.4	--	(6.2)(c)	45.1
December 31,1996:					
Property and casualty insurance:					
Allowance for uncollectible accounts	.8	.7	--	(1.1)(b)	.4
Mortgage banking:					
Allowance for mortgage loan losses	13.5	3.0	1.7	(2.8)(b)	15.4
Impairment allowance for mortgage servicing	28.0	8.2	--	(7.3)(c)	28.9

(a) Represents allowances acquired from Folksamerica on August 18, 1998.

(b) Represents charge-offs of balances receivable.

(c) Represents charge-offs of balances receivable relating to recourse mortgage loans and allowance reductions for mortgage servicing sales.

SCHEDULE V

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

SUPPLEMENTARY INSURANCE INFORMATION
MILLIONS

Column A	Column B	Column C	Column D	Column E	Column F
Segment	Deferred policy acquisition cost	Future policy benefits, losses, and loss expenses	Unearned premiums	Other policy claims benefits payable	Premiums earned
Years ended:					
December 31, 1998:					
Reinsurance (a)	$20.7	$723.2	$71.2	$ --	$ 85.4
Property casualty insurance	14.7	88.5	81.9	--	160.6
December 31, 1997:					
Property and casualty insurance	14.3	71.9	78.0	--	145.3
December 31, 1996:					
Property and casualty insurance	13.2	65.4	72.6	--	109.7

Column A	Column G	Column H	Column I	Column J	Column K
Segment	Net investment income (b)	Benefits, claims, losses, and settlement expenses	Amortization of deferred acquisition costs	Other operating expenses	Premiums written
Years ended:					
December 31, 1998:					
Reinsurance (a)	$18.1	$ 59.7	29.1	$36.0	$ 73.7
Property casualty insurance	8.3	115.1	30.0	62.3	164.9
December 31, 1997:					
Property and casualty insurance	9.0	97.1	27.5	58.9	150.8
December 31, 1996:					
Property and casualty insurance	7.8	85.9	19.9	53.9	147.0

(a) The amounts shown for Reinsurance in columns F through K represent activity for Folksamerica from August 18, 1998 through December 31, 1998.

(b) The amounts shown exclude net investment income relating to non-insurance operations of $92.0 million, $56.1 million and $49.5 million for the twelve months ended December 31,1 998, 1997 and 1996,respectively.

Exhibit 10a

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- ---

$35,000,000

AMENDED AND RESTATED CREDIT AGREEMENT

AMONG

FUND AMERICAN ENTERPRISES HOLDINGS, INC.,

as Borrower,

THE LENDERS NAMED HEREIN

and

THE FIRST NATIONAL BANK OF CHICAGO,

as Agent

DATED AS OF

August 14, 1998

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EXHIBITS

SCHEDULES

AMENDED AND RESTATED CREDIT AGREEMENT

This Amended and Restated Credit Agreement, dated as of August 14, 1998, is among FUND AMERICAN ENTERPRISES HOLDINGS, INC., a Delaware corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrower, the Lenders and the Agent are party to that certain $35,000,000 credit agreement, dated as of July 31, 1997 (the "Existing Credit Agreement").

B. The Borrower has requested that the Existing Credit Agreement be amended and restated in order to extend the maturity and to make certain other amendments to the Existing Credit Agreement.

C. The Borrower, the Lenders and the Agent desire to amend and restate the Existing Credit Agreement on the terms and conditions set forth below to accomplish such amendments.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Lenders and the Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement:

"ABR Advance" means an Advance which bears interest at the Alternate Base Rate.

"Advance" means a borrowing pursuant to SECTION 2.1 consisting of the aggregate amount of the several Loans made on the same Borrowing Date by the Lenders to the Borrower of the same Type and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 20% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means First Chicago in its capacity as agent for the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to ARTICLE X.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders hereunder. The initial Aggregate Commitment is $35,000,000.

"Agreement" means this Amended and Restated Credit Agreement, as it may be amended, modified or restated and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time; PROVIDED, HOWEVER, that if any changes in accounting principles from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of generally accepted accounting principles in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the financial statements furnished to the Lenders pursuant to SECTION 5.5 hereof.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day, and (b) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum, in each case changing when and as the Corporate Base Rate and the Federal Funds Effective Rate, as the case may be, changes.

"Applicable Credit Rating" shall mean the highest rating level assigned by S&P or Moody's, as the case may be, to any long-term senior debt of the Borrower which ranks on parity, as to payment and security, with the Loans and the obligations of the Borrower under ARTICLE XIV.

"Applicable Eurodollar Margin" means the applicable percentage set forth below based upon the Level then in effect:

Level	Margin
Level I	.175%
Level II	.190%
Level III	.230%
Level IV	.270%
Level V	.300%
Level VI	.375%
Level VII	.550%

"Applicable Facility Fee Margin" means the applicable percentage set forth below based upon the Level then in effect:

Level	Margin
Level I	.050%
Level II	.060%
Level III	.070%
Level IV	.080%
Level V	.100%
Level VI	.125%
Level VII	.200%

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means, with respect to the Borrower, any of the chief executive officer, president, chief financial officer, treasurer or controller thereof, acting singly.

"Bankruptcy Code" means Title 11, United States Code, sections 1 ET SEQ., as the same may be amended from time to time, and any successor thereto or replacement therefor which may be hereafter enacted.

"Benefit Plan" means any deferred benefit plan for the benefit of present, future or former employees, whether or not such benefit plan is a Plan.

"Borrower" means Fund American Enterprises Holdings, Inc., a Delaware corporation, and its successors and assigns.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in SECTION 2.7.

"Business Day" means (a) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market, and (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Equivalents" means Investments maturing within one (1) year from the date of investment (in the case of Investments referenced in CLAUSES (A) through (E)) in (a) certificates of deposit, Eurodollar time deposits and other interest bearing deposits or accounts with United States commercial banks having a combined capital and surplus of at least $500,000,000 and rated C or better by Keefe Bruyette and Associates or with any Lender, (b) certificates of deposit, other interest bearing accounts or deposits and demand deposits with other United States commercial banks, which deposits and accounts are in amounts fully insured by the Federal Deposit Insurance Corporation, (c) obligations issued or unconditionally guaranteed by the United States government or issued by an agency thereof and backed by the full faith and credit of the United States, (d) direct obligations issued by any state of the United States or any political subdivision thereof which have the highest rating obtainable from S&P on the date of investment, (e) commercial paper rated A-1 or better by S&P and P-1 or better by Moody's, (f) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a credit quality comparable to any of the Investments described in CLAUSES (A) through (E) above and a dollar weighted average maturity of not more than one (1) year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate and (g) money market mutual funds identified by the valuation office of the NAIC as requiring no investment reserve.

"Change" is defined in SECTION 3.2.

"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than John J. Byrne or any Plan or any Benefit Plan of the Borrower or any of its Subsidiaries), including without limitation any acquisition effected by means of any transaction contemplated by SECTION 6.12, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of the Borrower, or (b) during any period of twelve (12) consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "CONTINUING DIRECTORS") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower, or (c) during any period of twelve (12) consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower on the first day of each such period to constitute a majority of the Senior Management of the Borrower.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Commitment" means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite its signature below and as set forth in any Notice of Assignment relating to any assignment which has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

"Consolidated" or "consolidated", when used in connection with any calculation, means a calculation to be determined on a consolidated basis for a Person and its Subsidiaries in accordance with Agreement Accounting Principles.

"Consolidated Person" means, for the taxable year of reference, each Person which is a member of the affiliated group of the Borrower if Consolidated returns are or shall be filed for such affiliated group for federal income tax purposes or any combined or unitary group of which the Borrower is a member for state income tax purposes.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement or take-or-pay contract or application for a Letter of Credit, excluding however (a) insurance policies and insurance contracts issued in the ordinary course of business and (b) any financial guarantees issued by FSA.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is defined in SECTION 2.8.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest publicly announced by First Chicago from time to time, changing when and as said corporate base rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. First Chicago may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate.

"Default" means an event described in ARTICLE VII.

"Environmental Laws" is defined in SECTION 5.18.

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

"Eurodollar Advance" means an Advance which bears interest at the Eurodollar Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the rate determined by the Agent to be the rate at which deposits in U.S. dollars are offered by First Chicago to first-class banks in the London interbank market at approximately 11 a.m. (London time) two (2) Business Days prior to the first day of such Interest Period, in the approximate amount of First Chicago's relevant Eurodollar Advance and having a maturity approximately equal to such Interest Period.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (a) the quotient of (i) the Eurodollar Base Rate applicable to such Interest Period, divided by (ii) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (b) the Applicable Eurodollar Margin. The Eurodollar Rate shall be rounded to the next higher multiple of 1/100 of 1% if the rate is not such a multiple.

"Existing Credit Agreement" is defined in the recitals to this Agreement.

"Facility Fee" is defined in SECTION 2.4(A).

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Financial Statements" is defined in SECTION 5.5.

"First Chicago" means The First National Bank of Chicago in its individual capacity, and its successors.

"Fiscal Quarter" means one of the four three-month accounting periods comprising a Fiscal Year.

"Fiscal Year" means the twelve-month accounting period ending December 31 of each year.

"Folksamerica" means Folksamerica Holding Company, Inc., a New York corporation.

"Folksamerica Assumption" is defined in the definition of Folksamerica Transaction.

"Folksamerica Transaction" means that certain transaction by which (a) White Mountains and/or Fund American Enterprises, Inc. (formerly known as Fund American Enterprises II, Inc.), a Delaware corporation, acquires all of the outstanding capital stock of Folksamerica not already owned by White Mountains, (b) the Borrower assumes the obligations of each of Folksam Omsesidig Sakforsakring (Sweden) and Samvirke Skadeforsikring AS (Norway) (collectively, the "Folksamerica Guarantors") to guarantee the obligations of Folksamerica (the "Folksamerica Guaranty") under a certain $70,000,000 ($56,000,000 of which is outstanding on the date hereof) loan agreement with Swedbank (Sparbanken Sverige AB (publ)), New York branch, dated as of November 12, 1991, as amended, and (c) the Borrower indemnifies the Folksamerica Guarantors and their respective affiliates, successors and assigns with respect to various matters relating to the Folksamerica Guaranty. "Folksamerica Assumption" means the obligations of the Borrower under CLAUSES (B) and (C).

"FSA" means Financial Security Assurance Holdings Ltd., a New York corporation.

"FSA Amount" means an amount equal to that which is ultimately utilized by SOMSC on or before May 13, 1999 to excercise certain options, in existence on the date hereof, on the capital stock of FSA, such amount not to exceed $18,000,000.

"Funded Indebtedness" means Indebtedness of the type described in clauses (a), (d), (e) and (h) of the definition "Indebtedness".

"Governmental Authority" means any government (foreign or domestic) or any state or other political subdivision thereof or any governmental body, agency, authority, department or commission (including without limitation any taxing authority or political subdivision) or any instrumentality or officer thereof (including without limitation any court or tribunal) exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any corporation, partnership or other entity directly or indirectly owned or controlled by or subject to the control of any of the foregoing.

"Guaranteed Obligations" means, collectively, (i) the Obligations and (ii) all Rate Hedging Obligations owing to one or more Lenders.

"Hazardous Materials" is defined in SECTION 5.18.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) Capitalized Lease Obligations, (f) Rate Hedging Obligations, (g) Contingent Obligations, (h) obligations for which such Person is obligated pursuant to or in respect of a Letter of Credit and (i) repurchase obligations or liabilities of such Person with respect to accounts or notes receivable sold by such Person.

"Insurance Subsidiaries" means Subsidiaries which are engaged in the insurance business as an issuer or underwriter of insurance policies and/or insurance contracts.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one, two, three or six months thereafter; PROVIDED, HOWEVER, that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day; PROVIDED, HOWEVER, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade) or contribution of capital by such Person; stocks, bonds, mutual funds, partnership interests, notes, debentures or other securities owned by such Person; any deposit accounts and certificate of deposit owned by such Person; and structured notes, derivative financial instruments and other similar instruments or contracts owned by such Person.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender or the Agent, any office, branch, subsidiary or affiliate of such Lender or the Agent.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Level" means, and includes, Level I, Level II, Level III, Level IV, Level V, Level VI or Level VII, whichever is in effect at the relevant time.

"Level I" shall exist at any time the Applicable Credit Rating of S&P is equal to or greater than A+ OR the Applicable Credit Rating of Moody's is equal to or greater than A1.

"Level II" shall exist at any time (a) the Applicable Credit Rating of S&P is equal to or greater than A OR the Applicable Credit Rating of Moody's is equal to or greater than A2 and (b) Level I does not exist.

"Level III" shall exist at any time (a) the Applicable Credit Rating of S&P is equal to or greater than A- OR the Applicable Credit Rating of Moody's is equal to or greater than A3 and (b) Levels I and II do not exist.

"Level IV" shall exist at any time (a) the Applicable Credit Rating of S&P is equal to or greater than BBB+ OR the Applicable Credit Rating of Moody's is equal to or greater than Baa1 and (b) Levels I, II and III do not exist.

"Level V" shall exist at any time (a) the Applicable Credit Rating of S&P is equal to or greater than BBB OR the Applicable Credit Rating of Moody's is equal to or greater than Baa2 and (b) Levels I, II, III and IV do not exist.

"Level VI" shall exist at any time the Applicable Credit Rating of S&P is BBB- AND the Applicable Credit Rating of Moody's is Baa3.

"Level VII" shall exist at any time the Applicable Credit Rating of S&P is less than BBB- OR the Applicable Credit Rating of Moody's is less than Baa3 OR at any time neither S&P nor Moody's assigns an Applicable Credit Rating.

"Lien" means any security interest, lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement), save in respect of liabilities and obligations arising out of the underwriting of insurance policies and contracts of insurance.

"Loan" means, with respect to a Lender, such Lender's portion of any Advance and "Loans" means, with respect to the Lenders, the aggregate of all Advances.

"Loan Documents" means this Agreement, the Notes and the other documents and agreements contemplated hereby and executed by the Borrower in favor of the Agent or any Lender.

"Margin Stock" has the meaning assigned to that term under Regulation U.

"Material Adverse Effect" means a material adverse effect on (a) the business, Property, condition (financial or other), performance, results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower or any Subsidiary to perform its obligations under the Transaction Documents, or (c) the validity or enforceability of any of the Transaction Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Maturity Date" means February 12, 2000.

"Moody's" means Moody's Investors Services, Inc., and any successor thereto.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance commissioners and similar Governmental Authorities of the various states of the United States toward the promotion of uniformity in the practices of such Governmental Authorities.

"Net Worth" means, with respect to any Person, at any date the consolidated shareholders' equity of such Person and its Consolidated Subsidiaries determined in accordance with Agreement Accounting Principles (but excluding the effect of Statement of Financial Accounting Standards No. 115).

"Non-Excluded Taxes" is defined in SECTION 2.17(A).

"Note" means a promissory note in substantially the form of EXHIBIT A hereto, with appropriate insertions, duly executed and delivered to the Agent by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

"Notice of Assignment" is defined in SECTION 12.3.2.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party hereunder arising under any of the Transaction Documents.

"Participants" is defined in SECTION 12.2.1.

"Payment Date" means the last day of each March, June, September and December.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto.

"Person" means any natural person, corporation, firm, joint venture, partnership, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan, as defined in Section 3(2) of ERISA, as to which the Borrower or any member of the Controlled Group may have any liability.

"Proceeding" is defined in SECTION 5.18.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"pro-rata" means, when used with respect to a Lender, and any described aggregate or total amount, an amount equal to such Lender's pro-rata share or portion based on its percentage of the Aggregate Commitment or if the Aggregate Commitment has been terminated, its percentage of the aggregate principal amount of outstanding Advances.

"Purchase" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (a) acquires any going business or all or substantially all of the assets of any firm, corporation or division or line of business thereof, whether through purchase of assets, merger or otherwise, or (b) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership or membership interests of a limited liability company.

"Purchasers" is defined in SECTION 12.3.1.

"Rate Hedging Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to depositary institutions.

"Regulation T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of such Board of Governors relating to the extension of credit by securities brokers and dealers for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation

of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by the specified lenders for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 ET SEQ.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty (30) days of the occurrence of such event; PROVIDED, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Required Lenders" means Lenders in the aggregate having at least 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66-2/3% of the aggregate unpaid principal amount of the outstanding Loans.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Revolver Termination Date" means August 13, 1999.

"Risk-Based Capital Guidelines" is defined in SECTION 3.2.

"S&P" means Standard & Poor's Ratings Group, and any successor thereto.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Significant Subsidiary" shall mean and include, at any time, each Subsidiary of the Borrower to the extent that the Net Worth of such Subsidiary is equal to or greater than $5,000,000.

"Single Employer Plan" means a Plan subject to Title IV of ERISA maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group, other than a Multiemployer Plan.

"Solvent" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with Agreement Accounting Principles and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "Solvency" shall have a correlative meaning.

"SOMSC" means Source One Mortgage Services Corporation, a Delaware corporation.

"SOMSC Credit Agreements" means the credit agreement or credit agreements from time to time in effect among SOMSC, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented, restated, replaced or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, association, joint venture, limited liability company or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Termination Event" means, with respect to a Plan which is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of the Borrower or any other member of the Controlled Group from such Plan during a plan year in which the Borrower or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Plan, the filing of a notice of intent to terminate such Plan or the treatment of an amendment of such Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Plan or (e) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Plan.

"Transaction Documents" means, collectively, the Loan Documents and the White Mountains Guaranty.

"Transferee" is defined in SECTION 12.4.

"Type" means, with respect to any Advance, its nature as an ABR Advance or Eurodollar Advance.

"Unfunded Liability" means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Unrestricted Subsidiary" means SOMSC and any Subsidiary thereof.

"Valley Credit Agreement" means the Second Amended and Restated Credit Agreement, dated as of August 14, 1998 among Valley Group, Inc., the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"White Mountains" means White Mountains Holdings, Inc., a Delaware corporation formerly known as Fund American Enterprises, Inc. and the survivor of a merger with White Mountains Holdings, Inc., a New Hampshire corporation.

"White Mountains Credit Agreement" means the Second Amended and Restated Credit Agreement, dated as of August 14, 1998, among White Mountains, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"White Mountains Guaranty" means a guaranty of the Guaranteed Obligations in form and substance satisfactory to the Agent and the Lenders, dated as of the date hereof and duly executed and delivered to the Agent by White Mountains, as the same may be amended or modified and in effect from time to time.

"Wholly-Owned Subsidiary" of a Person means (a) any Subsidiary all of the outstanding voting securities of which (other than directors' qualifying or similar shares) shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (b) any partnership, association, joint venture, limited liability company or similar business organization 100% of the ownership interests having ordinary voting power of which (other than directors' qualifying shares) shall at the time be so owned or controlled.

"Year 2000 Issues" means anticipated costs, problems and uncertainties associated with the inability of certain computer applications and hardware to effectively function on and after January 1, 2000, as such inability affects the business, operations and financial condition of the Borrower and its Subsidiaries and of the Borrower's and its Subsidiaries' material customers, suppliers and vendors.

"Year 2000 Program" is defined in SECTION 5.20.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

2.1. ADVANCES. (a) From and including the date hereof to but excluding the Revolver Termination Date, each Lender severally (and not jointly) agrees, on the terms and conditions set forth in this Agreement, to make Advances to the Borrower from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its pro-rata share of the Aggregate Commitment existing at such time. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Advances at any time prior to the Revolver Termination Date. The Commitments to lend hereunder shall expire on the Revolver Termination Date. Principal payments made after the Revolver Termination Date may not be reborrowed.

(b) The Borrower hereby agrees that if at any time, prior to the Revolver Termination Date, as a result of reductions in the Aggregate Commitment pursuant to SECTION 2.4 or otherwise, the aggregate balance of the Loans exceeds the Aggregate Commitment, it shall repay, or cause to be repaid, immediately outstanding Loans in such amount as may be necessary to eliminate such excess.

(c) The Borrower's obligation to pay the principal of, and interest on, the Loans shall be evidenced by the Notes. Although the Notes shall be dated the date of this Agreement, interest in respect thereof shall be payable only for the periods during which the Loans evidenced thereby are outstanding and, although the stated amount of each Note shall be equal to the applicable Lender's Commitment, each Note shall be enforceable, with respect to the Borrower's obligation to pay the principal amount thereof, only to the extent of the unpaid principal amount of the Loans at the time evidenced thereby.

(d) All Advances and all Loans shall mature, and the principal amount thereof and the unpaid accrued interest thereon shall be due and payable in full, on the Maturity Date.

2.2. RATABLE LOANS. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment.

2.3. TYPES OF ADVANCES. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with SECTIONS 2.7 and 2.8.

2.4. FACILITY FEE; REDUCTIONS IN AGGREGATE COMMITMENT. (a) The Borrower agrees to pay to the Agent for the account of each Lender a facility fee ("Facility Fee") in an amount equal to the Applicable Facility Fee Margin per annum times the daily average Commitment (or, on and after the Revolver Termination Date, times the aggregate outstanding principal amount of the Loans) of such Lender from the date hereof to and including the Maturity Date, payable on each Payment Date hereafter and on the Maturity Date. All accrued Facility Fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Loans hereunder.

(b) The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in a minimum aggregate amount of $2,000,000, upon at least three (3) Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction; PROVIDED, HOWEVER, that the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances.

2.5. MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the minimum amount of $2,000,000 (and in integral multiples of $500,000 if in excess thereof), PROVIDED, HOWEVER, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

2.6. OPTIONAL PRINCIPAL PAYMENTS. The Borrower may from time to time pay, without penalty or premium, all outstanding ABR Advances, or, in a minimum aggregate amount of $2,000,000, any portion of the outstanding ABR Advances, upon two (2) Business Days' prior notice to the Agent. Subject to SECTION 3.4 and upon like notice, a Eurodollar Advance may be paid prior to the last day of the applicable Interest Period in a minimum amount of $2,000,000 or an integral multiple of $500,000 in excess thereof.

2.7. METHOD OF SELECTING TYPES AND INTEREST PERIODS FOR NEW ADVANCES. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; PROVIDED, HOWEVER, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "BORROWING NOTICE") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

(a) the Borrowing Date of such Advance, which shall be a Business Day;

(b) the aggregate amount of such Advance;

(c) the Type of Advance selected;

(d) in the case of each Eurodollar Advance, the Interest Period applicable thereto, which shall end on or prior to the Maturity Date; and

(e) any changes to money transfer instructions previously delivered to the Agent.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago, to the Agent at its address specified pursuant to ARTICLE XIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address or at such account at such other institution in the United States of America as the Borrower may indicate in the Borrowing Notice.

2.8. CONVERSION AND CONTINUATION OF OUTSTANDING ADVANCES. ABR Advances shall continue as ABR Advances unless and until such ABR Advances are converted into Eurodollar Advances. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an ABR Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of SECTION 2.5, the Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; PROVIDED, HOWEVER, that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "CONVERSION/ CONTINUATION NOTICE") of each conversion of an ABR Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) on the conversion date, in the case of a conversion into an ABR Advance, or at least three (3) Business Days, in the case of a conversion into or continuation of a Eurodollar Advance, prior to the date of the requested conversion or continuation, specifying:

(a) the requested date of such conversion or continuation, which shall be a Business Day;

(b) the aggregate amount and Type of the Advance which is to be converted or continued; and

(c) the amount and Type(s) of Advance(s) into which such Advance is to be converted or continued and, in the case of a conversion into or continuation of a Eurodollar Advance, the duration of the Interest Period applicable thereto, which shall end on or prior to the Maturity Date.

2.9. CHANGES IN INTEREST RATE, ETC. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined as applicable to such Eurodollar Advance plus the Applicable

Eurodollar Margin. Changes in the Applicable Eurodollar Margin will take effect simultaneously with each change in a Level. No Interest Period may end after the Revolver Termination Date.

2.10. RATES APPLICABLE AFTER DEFAULT. Notwithstanding anything to the contrary contained in SECTIONS 2.7 or 2.8, no Advance may be made as, converted into or continued as a Eurodollar Advance (except with the consent of the Agent and the Required Lenders) when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of SECTION 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that each Eurodollar Advance and ABR Advance shall bear interest (for the remainder of the applicable Interest Period in the case of Eurodollar Advances) at a rate per annum equal to the rate otherwise applicable plus two percent (2%) per annum; PROVIDED, HOWEVER, that such increased rate shall automatically and without action of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in SECTIONS 7.6 or 7.7.

2.11. METHOD OF PAYMENT. All payments of the Obligations hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to ARTICLE XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower (at least two (2) Business Days in advance), by noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to ARTICLE XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with the Agent for each payment of principal, interest and fees as it becomes due hereunder.

2.12. NOTES. Each Lender is hereby authorized to record the principal amount of each of its Loans and each repayment on the schedule attached to its Note; PROVIDED, HOWEVER, that neither the failure to so record nor any error in such recordation shall affect the Borrower's obligations under such Note.

2.13. INTEREST PAYMENT DATES; INTEREST AND FEE BASIS. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three (3) months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is

received prior to noon (Chicago time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.14. NOTIFICATION OF ADVANCES, INTEREST RATES, PREPAYMENTS AND COMMITMENT REDUCTIONS. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.15. LENDING INSTALLATIONS. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Notes shall be deemed held by each Lender for the benefit of such Lending Installation. Each Lender may, by written or telex notice to the Agent and the Borrower, designate a Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

2.16. NON-RECEIPT OF FUNDS BY THE AGENT. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrower has not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, 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 Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrower shall, on demand by the Agent, 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 (a) in the case of payment by a Lender, the Federal Funds Effective Rate for such day, or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.17. TAXES. (a) Any payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax based upon any income imposed on the Agent or any Lender by the jurisdiction in which the Agent or such Lender is incorporated or has its principal place of business or maintains its Lending Installation.

If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Agreement; PROVIDED, HOWEVER, that the Borrower shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this SECTION 2.17. Whenever any Non-Excluded Taxes are payable by the Borrower, as promptly as practicable thereafter the Borrower shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this SECTION 2.17 shall survive the termination of this Agreement and the payment of all other amounts payable hereunder.

(b) At least five (5) Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Lender, each Lender that is not incorporated under the laws of the United States of America, or a state thereof, agrees that it will deliver to the Borrower and the Agent two (2) duly completed and properly executed copies of United States Internal Revenue Service Form 1001 or 4224 (or a successor form), certifying in either case that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Lender which so delivers a Form 1001 or 4224 (or a successor form) further undertakes to deliver to the Borrower and the Agent two (2) additional duly completed and properly executed copies of such form (or a successor form) on or before the date that such form expires (currently, three (3) successive calendar years for Form 1001 and each tax year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

2.18. AGENT'S FEES. The Borrower shall pay to the Agent those fees, in addition to the Facility Fees referenced in SECTION 2.4(A), in the amounts and at the times separately agreed to between the Agent and the Borrower.

ARTICLE III

CHANGE IN CIRCUMSTANCES

3.1. YIELD PROTECTION. If, after the date hereof, the adoption of or any change in any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any new interpretation thereof, or the compliance of any Lender with such adoption, change or interpretation.

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding taxation of the overall net income of any Lender or applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending Installation is incorporated or has its principal place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(c) imposes any other condition the result of which is to increase the cost to any Lender or any applicable Lending Installation of making, funding or maintaining Loans or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with any Loans, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of Loans held, or interest received by it, by an amount deemed material by such Lender,

then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender that portion of such increased expense incurred or resulting in an amount received which such Lender determines is attributable to making, funding and maintaining its Loans and its Commitment.

3.2. CHANGES IN CAPITAL ADEQUACY REGULATIONS. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "CHANGE" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines, or (b)

any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "RISK-BASED CAPITAL GUIDELINES" means (a) the risk-based capital guidelines in effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. AVAILABILITY OF TYPES OF ADVANCES. If any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (a) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available, or (b) the interest rate applicable to a Eurodollar Advance does not accurately or fairly reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of Eurodollar Advances until such circumstance no longer exists and require any Eurodollar Advances to be repaid.

3.4. FUNDING INDEMNIFICATION. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify the Agent and each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Advance.

3.5. LENDER STATEMENTS; SURVIVAL OF INDEMNITY. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to such Lender under SECTIONS 2.17, 3.1 and 3.2 or to avoid the unavailability of a Type of Advance under SECTION 3.3, so long as such designation is not disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under SECTIONS 3.1, 3.2 or 3.4. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advance shall be calculated as though each Lender funded its Eurodollar Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under SECTIONS 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. EFFECTIVENESS. This Agreement shall not become effective (in which case the Existing Credit Agreement shall remain in full force and effect) unless and until Borrower has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) CHARTER DOCUMENTS; GOOD STANDING CERTIFICATES. Copies of the certificate of incorporation of the Borrower and White Mountains, together with all amendments thereto, both certified by the appropriate governmental officer in their respective jurisdictions of incorporation, together with a good standing certificate issued by the Secretary of State of their respective jurisdictions of incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) BY-LAWS AND RESOLUTIONS. Copies, certified by the Secretary or Assistant Secretary of the Borrower and White Mountains, of their respective by-laws and of their respective Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which the Borrower and White Mountains are a party.

(c) SECRETARY'S CERTIFICATE. An incumbency certificate, executed by the Secretary or Assistant Secretary of each of the Borrower and White Mountains, which shall identify by name and title and bear the signature of the officers of the Borrower and White Mountains authorized to sign the Loan Documents and to make borrowings hereunder, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower and White Mountains.

(d) OFFICER'S CERTIFICATE. A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the date hereof (both before and after giving effect to the consummation of the other transactions contemplated hereby and the making of any Loans hereunder on such date): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of the Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the Borrower has obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and warranties set forth in

ARTICLE V of this Agreement is true and correct on and as of the date hereof; and (v) since December 31, 1997, no event or change has occurred that has caused or evidences a Material Adverse Effect.

(e) LEGAL OPINION. (i) A written opinion of Brobeck, Phleger & Harrison LLP, counsel to the Borrower, addressed to the Agent and the Lenders in form and substance acceptable to the Agent and its counsel.

(f) NOTES. Notes payable to the order of each of the Lenders duly executed by the Borrower.

(g) LOAN DOCUMENTS. Executed originals of this Agreement and each of the Loan Documents, which shall be in full force and effect, together with all schedules, exhibits, certificates, instruments, opinions, documents and financial statements required to be delivered pursuant hereto and thereto.

(h) LETTERS OF DIRECTION. Written money transfer instructions with respect to the initial Advances and to future Advances in form and substance acceptable to the Agent and its counsel addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested.

(i) SOLVENCY CERTIFICATE. A written solvency certificate from the chief financial officer of the Borrower and White Mountains in form and content satisfactory to the Agent with respect to the value, Solvency and other factual information of, or relating to, as the case may be, the Borrower, on a consolidated basis, and White Mountains, on a consolidated basis.

(j) WHITE MOUNTAINS GUARANTY. The White Mountains Guaranty duly executed by White Mountains, in the form substantially delivered to the Lenders.

(k) OTHER. Such other documents as the Agent, any Lender or their counsel may have reasonably requested.

4.2. EACH FUTURE ADVANCE. The Lenders shall not be required to make any Advance unless on the applicable Borrowing Date:

(a) There exists no Default or Unmatured Default and none would result from such Advance;

(b) The representations and warranties contained in ARTICLE V are true and correct as of such Borrowing Date (except to the extent such representations and warranties are expressly made as of a specified date, in which event such representations and warranties shall be true and correct as of such specified date);

(c) A Borrowing Notice shall have been properly submitted; and

(d) All legal matters incident to the making of such Advance shall be satisfactory to the Lenders and their counsel.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in SECTIONS 4.2 (a), (b) and (c) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of EXHIBIT B hereto as a condition to making an Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1. CORPORATE EXISTENCE AND STANDING. The Borrower and each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect. As of the date of this Agreement, White Mountains is a Wholly-Owned Subsidiary of the Borrower.

5.2. AUTHORIZATION AND VALIDITY. The Borrower has all requisite power and authority (corporate and otherwise) and legal right to execute and deliver each of the Loan Documents and to perform its obligations thereunder. The execution and delivery by the Borrower of the Loan Documents and the performance of its respective obligations thereunder has been duly authorized by proper corporate proceedings and the Loan Documents constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. COMPLIANCE WITH LAWS AND CONTRACTS. The Borrower and its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by the Borrower of the Loan Documents, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations T, U and

X), order, writ, judgment, injunction, decree or award binding on the Borrower or any Subsidiary or the Borrower's or any Subsidiary's charter, articles or certificate of incorporation or by-laws, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which the Borrower or any Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the Loan Documents) in, of or on the property of the Borrower or any Subsidiary pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on SCHEDULE 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. GOVERNMENTAL CONSENTS. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents. Neither the Borrower nor any Subsidiary is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to the Borrower or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. FINANCIAL STATEMENTS. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1997 audited consolidated financial statements of the Borrower and its Subsidiaries, and (b) the unaudited consolidated financial statements of the Borrower and its Subsidiaries through March 31, 1998 (collectively, the "FINANCIAL STATEMENTS"). Each of the Financial Statements was prepared in accordance with Agreement Accounting Principles and fairly presents the consolidated financial condition and operations of the Borrower and its Subsidiaries at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. MATERIAL ADVERSE CHANGE. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries has occurred since December 31, 1997.

5.7. TAXES. The Borrower and its Subsidiaries have filed or caused to be filed on a timely basis and in correct form all United States federal and applicable foreign, state and local tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles and as to which no Lien exists. As of the date hereof, the United States income tax returns of the Borrower on a consolidated basis have

been audited by the Internal Revenue Service through its fiscal period ending December 31, 1988, and all tax years beginning on or after January 1, 1989 are currently being audited or are subject to audit. No tax liens have been filed and no claims are being asserted with respect to any such taxes which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of any taxes or other governmental charges are in accordance with Agreement Accounting Principles.

5.8. LITIGATION AND CONTINGENT OBLIGATIONS. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any Subsidiary or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. Neither the Borrower nor any Subsidiary has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on SCHEDULE 5.8 or disclosed in the Financial Statements or in financial statements required to be delivered under SECTIONS 6.1(A) and (B) and as permitted under this Agreement.

5.9. CAPITALIZATION. SCHEDULE 5.9 hereto contains (a) an accurate description of the Borrower's capitalization as of March 31, 1998 and (b) an accurate list of all of the existing Subsidiaries as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of the Borrower and of each Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens.

5.10. ERISA. Except as disclosed on SCHEDULE 5.10, neither the Borrower nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability. Neither the Borrower nor any other member of the Controlled Group maintains, or is obligated to contribute to, any Multiemployer Plan or has incurred, or is reasonably expected to incur, any withdrawal liability to any Multiemployer Plan. Each Plan complies in all material respects with all applicable requirements of law and regulations other than any such failure to comply which could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any member of the Controlled Group has, with respect to any Plan, failed to make any contribution or pay any amount required under Section 412 of the Code or Section 302 of ERISA or the terms of such Plan. There are no pending or, to the knowledge of the Borrower, threatened claims, actions, investigations or lawsuits against any Plan, any fiduciary thereof, or the Borrower or any member of the Controlled Group with respect to a Plan. Neither the Borrower nor any member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which would subject such Person to any material liability. Within the last five years neither the Borrower nor any member of the Controlled Group has engaged in a transaction which resulted in a Single Employer Plan with an Unfunded Liability being transferred out of the Controlled Group which could reasonably be expected to have a Material Adverse Effect. No Termination Event has

occurred or is reasonably expected to occur with respect to any Plan which is subject to Title IV of ERISA which could reasonably be expected to have a Material Adverse Effect.

5.11. DEFAULTS. No Default or Unmatured Default has occurred and is continuing.

5.12. FEDERAL RESERVE REGULATIONS. Neither the Borrower nor any Subsidiary is engaged, directly or indirectly, principally, or as one of its important activities, in the business of extending, or arranging for the extension of, credit for the purpose of purchasing or carrying Margin Stock. No part of the proceeds of any Loan will be used in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X. Neither the making of any Advance hereunder nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulation T, Regulation U or Regulation X.

5.13. INVESTMENT COMPANY. Neither the Borrower nor any Subsidiary is, or after giving effect to any Advance will be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

5.14. CERTAIN FEES. No broker's or finder's fee or commission was, is or will be payable by the Borrower or any Subsidiary with respect to any of the transactions contemplated by this Agreement, except as described in SECTION 9.5. The Borrower hereby agrees to indemnify the Agent and the Lenders against, and agrees that it will hold each of them harmless from, any claim, demand or liability for broker's or finder's fees or commissions alleged to have been incurred by the Borrower in connection with any of the transactions contemplated by this Agreement and any expenses (including, without limitation, attorneys' fees and time charges of attorneys for the Agent or any Lender, which attorneys may be employees of the Agent or any Lender) arising in connection with any such claim, demand or liability. No other similar fee or commissions will be payable by the Borrower or any Subsidiary for any other services rendered to the Borrower or any Subsidiary ancillary to any of the transactions contemplated by this Agreement.

5.15. SOLVENCY. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by the Borrower or its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the Loans incurred by the Borrower under this Agreement, the Borrower on a consolidated basis is Solvent.

5.16. MATERIAL AGREEMENTS. Except as set forth in SCHEDULE 5.16 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries or agreements of any Unrestricted Subsidiary, neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes conditions upon the ability of any Subsidiary to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to the Borrower, (c) repay loans or advances from Borrower or (d) grant Liens to the Agent to secure the Obligations. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or

conditions contained in any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect.

5.17. ENVIRONMENTAL LAWS. There are no claims, investigations, litigation, administrative proceedings, notices, requests for information (each a "PROCEEDING"), whether pending or threatened, or judgments or orders asserting violations of applicable federal, state and local environmental, health and safety statutes, regulations, ordinances, codes, rules, orders, decrees, directives and standards ("ENVIRONMENTAL LAWS") or relating to any toxic or hazardous waste, substance or chemical or any pollutant, contaminant, chemical or other substance defined or regulated pursuant to any Environmental Law, including, without limitation, asbestos, petroleum, crude oil or any fraction thereof ("HAZARDOUS MATERIALS") asserted against the Borrower or any of its Subsidiaries other than in connection with an insurance policy issued in the ordinary course of business to any Person (other than the Borrower or any Subsidiary of the Borrower) which, in any case, could reasonably be expected to have a Material Adverse Effect. As of the date hereof, the Borrower and its Subsidiaries do not have liabilities exceeding $500,000 in the aggregate for all of them with respect to compliance by them with applicable Environmental Laws or related to the generation, treatment, storage, disposal, release, investigation or cleanup by them of Hazardous Materials, and no facts or circumstances exist which could give rise to such liabilities with respect to compliance with applicable Environmental Laws and the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials.

5.18. INSURANCE. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is consistent with sound business practice.

5.19. DISCLOSURE. No information, exhibit or report furnished by either Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading. There is no fact known to the Borrower (other than matters of a general economic or political nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated by this Agreement.

5.20. YEAR 2000. The Borrower has made a reasonable assessment of the Year 2000 Issues and has a realistic and achievable program for remediating the Year 2000 Issues on a timely basis (the "Year 2000 Program"). Based on such assessment and on the Year 2000 Program the Borrower does not reasonably anticipate that Year 2000 Issues will have a Material Adverse Effect.

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. FINANCIAL REPORTING. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and furnish to the Lenders:

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows.

(b) As soon as practicable and in any event within sixty (60) days after the close of each of the first three Fiscal Quarters of each of its Fiscal Years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating statements of income, retained earnings and cash flows for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its chief financial officer.

(c) Together with the financial statements required by CLAUSES (A) and (B) above, a compliance certificate in substantially the form of EXHIBIT B hereto signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(d) Promptly after available after the close of each Fiscal Year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(e) As soon as possible and in any event within ten (10) days after the Borrower knows that any Termination Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Termination Event and the action which the Borrower proposes to take with respect thereto.

(f) As soon as possible and in any event within ten (10) days after receipt by either Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release

by the Borrower or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or Environmental Permit by the Borrower or any of its Subsidiaries. Within ten (10) days of the Borrower or any Subsidiary having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, the Borrower shall provide the Agent with written notice thereof.

(g) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.

(h) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission.

(i) Promptly and in any event within ten (10) days after learning thereof, notification of (i) any tax assessment, demand, notice of proposed deficiency or notice of deficiency received by the Borrower or any other Consolidated Person or (ii) the filing of any tax Lien or commencement of any judicial proceeding by or against any such Consolidated Person, if any such assessment, demand, notice, Lien or judicial proceeding relates to tax liabilities in excess of ten percent (10%) of the net worth (determined according to generally accepted accounting standards and without reduction for any reserve for such liabilities) of the Borrower and its Subsidiaries taken as a whole.

(j) Promptly after the same becomes available, any management letter prepared by the accountants conducting the audit of the financial statements delivered pursuant to SECTION 6.1 (A).

(k) As soon as possible and in any event within two (2) Business Days after either Borrower obtains knowledge thereof, notice of any change in the Applicable Credit Rating of S&P or Moody's.

(l) Such other information (including non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. USE OF PROCEEDS. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including, but not limited to, the consummation of the Folksamerica Transaction and the making of other Investments permitted by SECTION 6.15. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X, or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. NOTICE OF DEFAULT. The Borrower will give prompt notice in writing to the Lenders of the occurrence of (a) any Default or Unmatured Default and (b) of any other event or development, financial or other, relating specifically to the Borrower or any of its Subsidiaries (and not of a general economic or political nature) which could reasonably be expected to have a Material Adverse Effect.

6.4. CONDUCT OF BUSINESS. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of as it is presently conducted, to not conduct any significant business except for financial services, and to do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted. The Borrower shall cause White Mountains to remain a Wholly-Owned Subsidiary until the Borrower shall have repaid all outstanding Advances and other Obligations and the Lenders' Commitments hereunder have terminated.

6.5. TAXES. The Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside.

6.6. INSURANCE. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to the Agent and any Lender upon request full information as to the insurance carried.

6.7. COMPLIANCE WITH LAWS. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, the failure to comply with which could reasonably be expected to have a Material Adverse Effect.

6.8. MAINTENANCE OF PROPERTIES. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. INSPECTION. The Borrower will, and will cause each Subsidiary to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate.

The Borrower will keep or cause to be kept, and cause each Subsidiary to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles.

6.10. DIVIDENDS. The Borrower will not declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock or any options or other rights in respect thereof at any time outstanding, except that so long as no Default or Unmatured Default exists before or after giving effect to the declaration or payment of such dividends or distributions or repurchase or redemption of such stock or other transaction, the Borrower may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock and any options or other rights in respect thereof.

6.11. INDEBTEDNESS. The Borrower will not, nor will it permit any Subsidiary (other than an Unrestricted Subsidiary) to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and any renewals, extensions, refundings or refinancings of such Indebtedness (including any necessary pre-payment premium payments on such Indebtedness); PROVIDED that the amount thereof is not increased and the maturity or scheduled amortization of principal thereof is not shortened (unless to a maturity or scheduled amortization occurring after the Maturity Date);

(c) Indebtedness owing by (x) the Borrower to any Wholly-Owned Subsidiary and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary or the Borrower;

(d) Indebtedness permitted under the White Mountains Credit Agreement and the Valley Credit Agreement;

(e) Indebtedness of the Borrower, the proceeds of which are used directly or indirectly to refund or refinance Indebtedness of Wholly-Owned Subsidiaries of the Borrower (other than any Unrestricted Subsidiaries); PROVIDED, however that the amount thereof is not increased, the maturity or scheduled amortization of principal thereof is not set to a maturity or scheduled amortization occurring before the Maturity Date hereunder and the terms of the proposed Indebtedness are not otherwise, in the reasonable judgment of the Required Lenders, disadvantageous (relative to the terms of the Indebtedness refunded or refinanced) to the interests of the Lenders hereunder;

(f) Contingent Obligations permitted by SECTION 6.13; and

(g) other Indebtedness, so long as such other Indebtedness does not at any time exceed $10,000,000 in aggregate principal amount.

6.12. MERGER. The Borrower will not, nor will it permit any Significant Subsidiary to, merge or consolidate with or into any other Person, except that:

(a) a Wholly-Owned Subsidiary may merge into the Borrower or any Wholly-Owned Subsidiary of the Borrower;

(b) a Significant Subsidiary (other than White Mountains) may merge or consolidate with any Person so long as either (x) (i) no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger or consolidation and (ii) such Significant Subsidiary is the continuing or surviving corporation or (y) neither the Borrower nor any Subsidiaries hold any capital stock of such Significant Subsidiary after giving effect to such merger or consolidation; and

(c) the Borrower or White Mountains may merge or consolidate with any other Person, so long as immediately thereafter (and after giving effect thereto), (i) no Default or Unmatured Default exists, (ii) the Borrower or White Mountains, as applicable, is the continuing or surviving corporation and (iii) the covenants contained in SECTION 6.20 shall be complied with on a PRO FORMA basis on the date of, and after giving effect to, such merger or consolidation.

6.13. CONTINGENT OBLIGATIONS. The Borrower will not, nor will it permit any Subsidiary (other than an Unrestricted Subsidiary) to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (a) the issuance of financial guarantees in the ordinary course of business and consistent with past practices, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business, (d) the issuance of intercompany guarantees so long as the primary obligation is permitted pursuant to this Agreement and (e) Contingent Obligations which are (i) permitted pursuant to the White Mountains Credit Agreement and the Valley Credit Agreement or (ii) created by the Folksamerica Assumption.

6.14. LIENS. The Borrower will not, nor will it permit any Subsidiary to, create, incur, or suffer to exist any Lien in, of or on the Property (other than Margin Stock) of the Borrower or any of its Subsidiaries (other than an Unrestricted Subsidiary), except:

(a) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with generally accepted principles of accounting shall have been set aside on its books;

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment

of obligations not more than sixty (60) days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or its Subsidiaries;

(e) Liens existing on the date hereof and described in SCHEDULE 6.14 hereto;

(f) Liens in, of or on Property acquired after the date of this Agreement (by purchase, construction or otherwise), each of which Liens either (1) existed on such Property before the time of its acquisition and was not created in anticipation thereof, or (2) was created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinance or refund, the cost (including the cost of construction) of such Property; PROVIDED that no such Lien shall extend to or cover any Property of the Borrower or such Subsidiary other than the Property so acquired and improvements thereon; and PROVIDED, FURTHER, that the principal amount of Indebtedness secured by any such Lien shall at the time the Lien is incurred not exceed 75% of the fair market value (as determined in good faith by a financial officer of the Borrower and, in the case of such Property having a fair market value in excess of $500,000, certified by such officer to the Agent, with a copy for each Lender) of the Property at the time it was so acquired;

(g) Liens not otherwise permitted by the foregoing clauses (a) through (f) securing any Indebtedness of the Borrower, PROVIDED that the aggregate principal amount of Indebtedness secured by Liens permitted by this clause (g) shall not exceed $5,000,000 at any time; and

(h) Liens permitted under the White Mountains Credit Agreement and the Valley Credit Agreement.

6.15. INVESTMENTS AND PURCHASES. The Borrower will not, and will not permit any Subsidiary (other than any Unrestricted Subsidiary) to, make or suffer to exist any Investments (including, without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Purchases, except:

(a) Cash and Cash Equivalents;

(b) Investments or commitments therefor (such commitments being set forth on SCHEDULE 6.15) in existence as of the date hereof (including Investments in Subsidiaries as of the date hereof);

(c) Investments in debt securities rated BBB- or better by S&P, Baa-3 or better by Moody's or NAIC-2 or better by the NAIC; PROVIDED, that any such Investment which, at any time after which it is made, ceases to meet such rating requirements shall (A) cease to be permitted hereby if then permitted by SECTION 6.15(A)(VI) and (B) if not then permitted by SECTION 6.15(A)(VI) remain permitted hereby until the earlier of the time it is permitted under SECTION 6.15(A)(VI) and the date which is thirty (30) days after the date on which such rating requirement is no longer met;

(d) Purchases of or Investments in businesses or entities engaged in the insurance business and/or insurance services or businesses reasonably incident thereto (including holding companies, the Subsidiaries of which on a consolidated basis are primarily engaged in such businesses) which do not constitute hostile takeovers (including the creation of Subsidiaries in connection therewith) so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Purchase or Investment;

(e) Other Investments by the Borrower in any Person which is a Subsidiary (other than any Unrestricted Subsidiary) as of the date hereof, so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment;

(f) Investments by the Borrower (in addition to those permitted by CLAUSES (A) through (E) of this SECTION 6.15) in an amount not exceeding in aggregate $40,000,000 PLUS the FSA Amount (including the creation of Subsidiaries and Investments therein and Investments in any partnership or joint venture) so long as at the time of such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; PROVIDED, however, that any Investments pursuant to this CLAUSE (F) are made from net proceeds traceable to either (i) dividends, sales, transfers or other distributions of equity interests in SOMSC or (ii) the sale or issuance of equity securities of the Borrower after the date hereof.

(g) Investments by the Borrower (in addition to those permitted by the other clauses of this SECTION 6.15) in an amount not exceeding $10,000,000 (including the creation of Subsidiaries and Investments therein and Investments in any partnership or joint venture) so long as at the time of such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; and

(h) With respect to White Mountains and its Subsidiaries, Investments permitted under the White Mountains Credit Agreement and the Valley Credit Agreement.

6.16. AFFILIATES. The Borrower will not, and will not permit any Subsidiary to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or

service) with, or make any payment or transfer to, any Affiliate (other than a Wholly-Owned Subsidiary), except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction, except that any Unrestricted Subsidiary may make loans to the Borrower.

6.17. ENVIRONMENTAL MATTERS. The Borrower shall and shall cause each of its Subsidiaries to (a) at all times comply in all material respects with all applicable Environmental Laws and (b) promptly take any and all necessary remedial actions in response to the presence, storage, use, disposal, transportation or Release of any Hazardous Materials on, under or about any real property owned, leased or operated by the Borrower or any of its Subsidiaries.

6.18. CHANGE IN CORPORATE STRUCTURE; FISCAL YEAR. The Borrower shall not, nor shall it permit any Subsidiary to, (a) permit any amendment or modification to be made to its certificate or articles of incorporation or by-laws which is materially adverse to the interests of the Lenders or (b) change its Fiscal Year to end on any date other than December 31 of each year.

6.19. INCONSISTENT AGREEMENTS. The Borrower shall not, nor shall it permit any Subsidiary (other than an Unrestricted Subsidiary) to, enter into any indenture, agreement, instrument or other arrangement which by its terms, (a) other than pursuant to the White Mountains Credit Agreement or the Valley Credit Agreement or pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay dividends or make other distributions on its capital stock, (ii) make loans or advances to the Borrower or (iii) repay loans or advances from the Borrower or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by the Borrower or any Subsidiary of any of its obligations under any Loan Document.

6.20. FINANCIAL COVENANTS - MINIMUM NET WORTH. The Borrower shall, at all times after the date hereof, maintain a minimum Net Worth at least equal to (a) the sum of (i) $537,870,000, PLUS (ii) an amount equal to 90% of the cash and non-cash proceeds of any equity securities issued by the Borrower after June 30, 1998, MINUS (b) an amount equal to the lesser of (i) $30,000,000 or (ii) the aggregate amount expended by the Borrower after the date hereof to repurchase its capital stock in compliance with SECTION 6.10.

6.21. TAX CONSOLIDATION. The Borrower will not and will not permit any of its Subsidiaries to (a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than the Borrower and its Subsidiaries or (b) amend, terminate or fail to enforce any existing tax sharing agreement or similar arrangement if such action would cause a Material Adverse Effect.

6.22. ERISA COMPLIANCE.

With respect to any Plan, neither the Borrower nor any Subsidiary shall:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code in excess of $500,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of $500,000, whether or not waived, or permit any Unfunded Liability to exceed $500,000;

(c) permit the occurrence of any Termination Event which could result in a liability to the Borrower or any other member of the Controlled Group in excess of $500,000;

(d) be an "employer" (as such term is defined in Section 3(5) of ERISA) required to contribute to any Multiemployer Plan or a "substantial employer" (as such term in defined in Section 4001(a)(2) of ERISA) required to contribute to any Multiple Employer Plan; or

(e) permit the establishment or amendment of any Plan or fail to comply with the applicable provisions of ERISA and the Code with respect to any Plan which could result in liability to the Borrower or any other member of the Controlled Group which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.23. YEAR 2000. The Borrower will take and will cause each of its Subsidiaries to take all such actions as are reasonably necessary to successfully implement the Year 2000 Program and to assure that Year 2000 Issues will not have a Material Adverse Effect. At the request of the Agent or any Lender, the Borrower will provide a description of the Year 2000 Program, together with any updates or progress reports with respect thereto.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any other Loan Document, any Loan, or any certificate or information delivered in connection with this Agreement or any other Transaction Document shall be false in any material respect on the date as of which made.

7.2. Nonpayment of (a) any principal of any Note when due, or (b) any interest upon any Note or any commitment fee or other fee or obligations under any of the Loan Documents within five (5) days after the same becomes due.

7.3. The breach by the Borrower of any of the terms or provisions of SECTION 6.2, SECTION 6.3(A) or SECTIONS 6.10 through 6.16 or SECTIONS 6.18 through 6.22.

7.4. The breach by the Borrower (other than a breach which constitutes a Default under SECTIONS 7.1, 7.2 or 7.3) of any of the terms or provisions of this Agreement which is not remedied within twenty (20) days after written notice from the Agent or any Lender.

7.5. The default by the Borrower or any of its Subsidiaries in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of $10,000,000 ($20,000,000, or such lower cross-default threshold amount as is provided in the SOMSC Credit Agreements, in the case of SOMSC) was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of the Borrower or any of its Subsidiaries shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

7.6. The Borrower or any of its Significant Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial portion of its Property, (d) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this SECTION 7.6, (f) fail to contest in good faith any appointment or proceeding described in SECTION 7.7 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.7. Without the application, approval or consent of the Borrower or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Significant Subsidiaries or any substantial portion of its Property, or a proceeding described in SECTION 7.6(D) shall be instituted against the Borrower or any of its Significant Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty (60) consecutive days.

7.8. The Borrower or any of its Subsidiaries shall fail within thirty (30) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $2,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $10,000,000), which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced.

7.9. The occurrence of any "default", as defined in any Transaction Document (other than this Agreement or the Notes), or the breach of any of the terms or provisions of any Transaction Document (other than this Agreement or the Notes), which default or breach continues beyond any period of grace therein provided.

7.10. The White Mountains Guaranty shall fail, after its execution, to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the White Mountains Guaranty, or White Mountains shall fail to comply with any of the terms or provisions of the White Mountains Guaranty within any applicable grace period provided therein.

7.11. Any Change in Control shall occur.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1. ACCELERATION. If any Default described in SECTIONS 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may terminate or suspend the obligations of the Lenders to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

If, within ten (10) Business Days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in SECTIONS 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. AMENDMENTS. Subject to the provisions of this ARTICLE VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or

waiving any Default hereunder; PROVIDED, HOWEVER, that no such supplemental agreement shall, without the consent of each Lender:

(a) Extend the final maturity of any Loan or Note or reduce the principal amount thereof, or reduce the rate or, subject to SECTION 2.10, extend the time of payment of interest or fees thereon;

(b) Reduce the percentage specified in the definition of Required Lenders;

(c) Increase the amount of the Commitment of any Lender hereunder;

(d) Extend the Revolver Termination Date or the Maturity Date;

(e) Amend this SECTION 8.2;

(f) Permit any assignment by the Borrower of its Obligations or its rights hereunder; or

(g) Release the White Mountains Guaranty.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. The Agent may waive payment of the fee required under SECTION 12.3.2 without obtaining the consent of any other party to this Agreement.

8.3. PRESERVATION OF RIGHTS. No delay or omission of the Lenders or the Agent to exercise any right under the Transaction Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Transaction Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to SECTION 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1. SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower or any Subsidiary contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

9.2. GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. TAXES. Any stamp, documentary or similar taxes, assessments or charges payable or ruled payable by any governmental authority in respect of the Loan Documents shall be paid by the Borrower, together with interest and penalties, if any.

9.4. HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5. ENTIRE AGREEMENT. The Transaction Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated August 14, 1998, in favor of First Chicago.

9.6. SEVERAL OBLIGATIONS; BENEFITS OF THIS AGREEMENT. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. EXPENSES; INDEMNIFICATION. The Borrower shall reimburse the Agent for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Transaction Documents. The Borrower also agrees to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Transaction Documents. The Borrower further agrees to indemnify the Agent and each Lender, its directors,

officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Transaction Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

9.8. NUMBERS OF DOCUMENTS. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. NONLIABILITY OF LENDERS. The relationship between the Borrower and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to the Borrower by the Agent or the Lenders is for the protection of the Agent and the Lenders and neither the Borrower nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Transaction Documents or the transactions contemplated thereby or the relationship established by the Transaction Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY TRANSACTION DOCUMENT AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY TRANSACTION DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY TRANSACTION DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. DISCLOSURE. The Borrower and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with the Borrower, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to the Borrower or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. TREATMENT OF CERTAIN INFORMATION: CONFIDENTIALITY.

(a) The Borrower acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Lender or by one or more Subsidiaries or Affiliates of such Lender and (ii) information delivered to each Lender by the 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 Lender hereunder.

(b) Each Lender 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 the Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statue, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender 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 Lender to keep such information confidential on substantially the terms set forth in this SECTION 9.17(B), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of either Borrower or any of its Subsidiaries at any time during the continuance of a Default; PROVIDED that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by the Borrower.

ARTICLE X

THE AGENT

10.1. APPOINTMENT. First Chicago is hereby appointed Agent hereunder and under each other Transaction Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this ARTICLE X. The Agent shall not have a fiduciary relationship in respect of the Borrower or any Lender by reason of this Agreement or any other Transaction Document.

10.2. POWERS. The Agent shall have and may exercise such powers under the Transaction Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided by the Transaction Documents to be taken by the Agent.

10.3. GENERAL IMMUNITY. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Transaction Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. NO RESPONSIBILITY FOR LOANS, RECITALS, ETC. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Transaction Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Transaction Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in ARTICLE IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Transaction Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. ACTION ON INSTRUCTIONS OF LENDERS. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Transaction Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by SECTION 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Transaction Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. EMPLOYMENT OF AGENTS AND COUNSEL. The Agent may execute any of its duties as Agent hereunder and under any other Transaction Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Transaction Document.

10.7. RELIANCE ON DOCUMENTS; COUNSEL. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. AGENT'S REIMBURSEMENT AND INDEMNIFICATION. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination)

(a) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Transaction Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Transaction Documents, and (c) for any 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 in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents; PROVIDED, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this SECTION 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. NOTICE OF DEFAULT. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. RIGHTS AS A LENDER. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Transaction Document as any Lender, including, without limitation, pursuant to ARTICLE XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Transaction Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. LENDER CREDIT DECISION. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Transaction Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Transaction Documents.

10.12. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five (45) days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor

Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $50,000,000 and with a Lending Installation in the United States of America. 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 resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Transaction Documents. After the effectiveness of the resignation of an Agent, the provisions of this ARTICLE X 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 hereunder and under the other Transaction Documents.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. SETOFF. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. RATABLE PAYMENTS. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to SECTIONS 2.17, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender, other than Indebtedness evidenced by any

of the Notes held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. SUCCESSORS AND ASSIGNS. The terms and provisions of the Transaction Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (a) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in compliance with SECTION 12.3. Notwithstanding CLAUSE (B) of the preceding sentence, any Lender may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; PROVIDED, HOWEVER, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with SECTION 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Transaction Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. PARTICIPATIONS.

12.2.1. PERMITTED PARTICIPANTS; EFFECT. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("PARTICIPANTS") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Transaction Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Transaction Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Transaction Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Transaction Documents.

12.2.2. VOTING RIGHTS. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the

Transaction Documents other than any amendment, modification or waiver which effects any of the modifications referenced in clauses (a) through (h) of SECTION 8.2.

12.2.3. BENEFIT OF SETOFF. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in SECTION 11.1 in respect of its participating interest in amounts owing under the Transaction Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Transaction Documents; PROVIDED, that each Lender shall retain the right of setoff provided in SECTION 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in SECTION 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with SECTION 11.2 as if each Participant were a Lender.

12.3. ASSIGNMENTS.

12.3.1. PERMITTED ASSIGNMENTS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("PURCHASERS") all or any part of its rights and obligations under the Transaction Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a lender, such assignment shall be in a minimum amount of $5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of EXHIBIT C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Agent and, so long as no Default under SECTIONS 7.2, 7.6 or 7.7 is continuing, the Borrower, shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof. Such consent shall not be unreasonably withheld.

12.3.2. EFFECT; EFFECTIVE DATE. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to EXHIBIT C hereto (a "NOTICE OF ASSIGNMENT"), together with any consents required by SECTION 12.3.1, and (b) payment of a $3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Transaction Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Transaction Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or action by the Borrower, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this SECTION 12.3.2, the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. DISSEMINATION OF INFORMATION. Subject to SECTION 9.17, the Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in

the Transaction Documents by operation of law (each a "TRANSFEREE") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries.

12.5. TAX TREATMENT. If any interest in any Transaction Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of SECTION 2.17.

ARTICLE XIII

NOTICES

13.1. GIVING NOTICE. All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3) Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. CHANGE OF ADDRESS. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

[signature pages to follow]

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire 03755
Attn: Reid T. Campbell
Vice President and
Director of Finance
Fax No.: (603) 640-2203
Tel. No.: (603) 643-4562

COMMITMENTS

Commitment	$21,000,000	THE FIRST NATIONAL BANK OF CHICAGO, Individually and as Agent By: --- Print Name: --- Title: --- Address: 153 West 51st Street New York, NY 10019 Attn: Samuel W. Bridges First Vice President Fax No.: (212) 373-1393 Tel. No.: (212) 373-1142
Commitment	$14,000,000	FLEET NATIONAL BANK By: --- Print Name: --- Title: --- Address: One Federal Street -MAOFD06H Boston, MA 02110-2010 Attn: David A. Bosselait --- Fax No.: (617) 346-5825 Tel. No.: (617) 346-5823
Aggregate Initial Commitment	$35,000,000	

Exhibit 10.B

EXECUTION COPY

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- ---

$50,000,000

SECOND AMENDED AND RESTATED

CREDIT AGREEMENT

AMONG

WHITE MOUNTAINS HOLDINGS, INC.,

as Borrower,

THE LENDERS NAMED HEREIN

and

THE FIRST NATIONAL BANK OF CHICAGO,

as Agent

DATED AS OF

August 14, 1998

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EXHIBITS

SCHEDULES

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This Second Amended and Restated Credit Agreement, dated as of August 14, 1998, is among WHITE MOUNTAINS HOLDINGS, INC., a Delaware corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrower, the Lenders and the Agent are party to that certain $50,000,000 amended and restated credit agreement, dated as of July 30, 1997, as amended by a certain First Amendment to Credit Agreement, dated as of November 20, 1997 (the "Existing Credit Agreement").

B. The Borrower has requested that the Existing Credit Agreement be amended and restated in order to make certain amendments to the Existing Credit Agreement.

C. The Borrower, the Lenders and the Agent desire to amend and restate the Existing Credit Agreement on the terms and conditions set forth below to accomplish such amendments.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Lenders and the Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement:

"ABR Advance" means an Advance which bears interest at the Alternate Base Rate.

"Adjusted Net Worth" means, with respect to the Borrower, Net Worth of the Borrower (on a consolidated basis) on the date of determination (without duplication for amounts already excluded), MINUS the aggregate book value of the Borrower's equity interest in SOMSC at such time, MINUS any intercompany loans or receivables owing from the Parent that are assets of the Borrower or its Subsidiaries at such time.

"Advance" means a borrowing pursuant to SECTION 2.1 consisting of the aggregate amount of the several Loans made on the same Borrowing Date by the Lenders to the Borrower of the same Type and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 20% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means First Chicago in its capacity as agent for the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to ARTICLE X.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders hereunder. The initial Aggregate Commitment is $50,000,000.

"Agreement" means this Second Amended and Restated Credit Agreement, as it may be amended, modified or restated and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time; PROVIDED, HOWEVER, that if any changes in accounting principles from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of generally accepted accounting principles in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5 hereof.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day, and (b) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum, in each case changing when and as the Corporate Base Rate and the Federal Funds Effective Rate, as the case may be, changes.

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing annual statutory financial statements and shall contain the type of information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Eurodollar Margin" has the meaning ascribed to it by, and shall be determined in accordance with, SCHEDULE 1.

"Applicable Facility Fee Margin" has the meaning ascribed to it by, and shall be determined in accordance with, SCHEDULE 1.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Asset Disposition" means any sale, transfer or other disposition (outside the ordinary course of business) of any material asset of the Borrower in a single transaction or in a series of related transactions (other than the sale of a Money Market Investment, the Borrower's equity interests in SOMSC or FAE's equity interest in San Juan Basin Trust, the net proceeds of which are utilized within one hundred eighty (180) days to pay dividends permitted by SECTION 6.10), including any such sale, transfer or disposition by means of a transaction permitted by SECTION 6.12.

"Authorized Officer" means any of the chief executive officer, president, chief financial officer, treasurer or controller of the Borrower, acting singly.

"Bankruptcy Code" means Title 11, United States Code, sections 1 ET SEQ., as the same may be amended from time to time, and any successor thereto or replacement therefor which may be hereafter enacted.

"Benefit Plan" means any deferred benefit plan for the benefit of present, future or former employees, whether or not such benefit plan is a Plan.

"Borrower" means White Mountains Holdings, Inc., a Delaware corporation, and its successors and assigns.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in SECTION 2.8.

"Business Day" means (a) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market, and (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Change" is defined in SECTION 3.2.

"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than Parent, any Wholly-Owned Subsidiary of Parent, John J. Byrne or any Plan or any Benefit Plan of Parent, the Borrower or any of their Subsidiaries), including without limitation any acquisition effected by means of any transaction contemplated by SECTION 6.12, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of the Borrower; or (b) during any period of twelve (12) consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "CONTINUING DIRECTORS") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower; or (c) during any period of twelve (12) consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower on the first day of each such period to constitute a majority of the Senior Management of the Borrower.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Commitment" means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite its signature below and as set forth in any Notice of Assignment relating to any assignment which has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

"Consolidated" or "consolidated", when used in connection with any calculation, means a calculation to be determined on a consolidated basis for a Person and its Subsidiaries in accordance with Agreement Accounting Principles.

"Consolidated Person" means, for the taxable year of reference, each Person which is a member of the affiliated group of the Borrower if Consolidated returns are or shall be filed for such affiliated group for federal income tax purposes or any combined or unitary group of which the Borrower is a member for state income tax purposes.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement or take-or-pay contract or

application for a Letter of Credit, excluding however (a) insurance policies and insurance contracts issued in the ordinary course of business and (b) any financial guarantees issued by FSA.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is defined in SECTION 2.9.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest publicly announced by First Chicago from time to time, changing when and as said corporate base rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. First Chicago may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate.

"Default" means an event described in ARTICLE VII.

"Environmental Laws" is defined in SECTION 5.19.

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

"Eurodollar Advance" means an Advance which bears interest at the Eurodollar Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the rate determined by the Agent to be the rate at which deposits in U.S. dollars are offered by First Chicago to first-class banks in the London interbank market at approximately 11 a.m. (London time) two (2) Business Days prior to the first day of such Interest Period, in the approximate amount of First Chicago's relevant Eurodollar Advance and having a maturity approximately equal to such Interest Period.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (a) the quotient of (i) the Eurodollar Base Rate applicable to such Interest Period, divided by (ii) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus the Applicable Eurodollar Margin. The Eurodollar Rate shall be rounded to the next higher multiple of 1/100 of 1% if the rate is not such a multiple.

"Existing Credit Agreement" is defined in the recitals to this Agreement.

"Facility Fee" is defined in Section 2.4(a).

"Facility Termination Date" means July 30, 2002.

"FAE" means Fund American Enterprises, Inc. (f/k/a Fund American Enterprises II, Inc.), a Delaware corporation and direct Wholly-Owned Subsidiary of the Borrower.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Financial Statements" is defined in SECTION 5.5.

"First Chicago" means The First National Bank of Chicago in its individual capacity, and its successors.

"First-Tier Insurance Subsidiary" means any Insurance Subsidiary that is either (a) a direct Wholly-Owned Subsidiary of the Borrower or (b) a Wholly-Owned Subsidiary of a Subsidiary of the Borrower and there exists no Insurance Subsidiary in the chain of ownership between the Borrower and such Insurance Subsidiary.

"Fiscal Quarter" means one of the four three-month accounting periods comprising a Fiscal Year.

"Fiscal Year" means the twelve-month accounting period ending December 31 of each year.

"Fixed Charges Coverage Ratio" means, as of the end of any Fiscal Quarter, the ratio of:

(a) the sum, without duplication, of,

(i) investments of the Borrower, Valley, FAE, Charter Group, Inc., Charter General Agency, Inc., NCM Management Corporation and Folksamerica (but only after it becomes a Wholly-Owned Subsidiary of the Borrower) in cash and Money Market Investments as of the end of such Fiscal Quarter, PLUS

(ii) an amount equal to the maximum amount of dividends and intercompany fees available to be paid to the Borrower, Valley, FAE and Folksamerica (but only after it becomes a Wholly-Owned Subsidiary of the Borrower) without approval of any Governmental Authority by each present and future Wholly-Owned Subsidiary of the Borrower that is a First-Tier Insurance Subsidiary of either the Borrower or any of its Subsidiaries that is not an Insurance Subsidiary pursuant to applicable insurance statutes, rules and regulations of

the applicable Governmental Authority during the succeeding four Fiscal Quarters, to

(b) Fixed Charges.

"Fixed Charges" means, with respect to Parent and the Borrower, as of the end of any Fiscal Quarter, the sum, without duplication and after giving effect to consolidation, of (a) the sum of all interest expense on outstanding Indebtedness (determined by adjusting the principal amount of such Indebtedness for scheduled amortization payments and assuming that the applicable interest rate in effect as of the date of determination would remain constant during the succeeding four Fiscal Quarter period) payable by Parent, the Borrower and any of Borrower's Wholly-Owned Subsidiaries (other than any Unrestricted Subsidiary), (b) dividends payable on preferred stock by Parent, the Borrower and any of Borrower's Wholly-Owned Subsidiaries (other than any Unrestricted Subsidiary), (c) Indebtedness payable pursuant to the scheduled amortization of such Indebtedness by Parent, the Borrower and any of Borrower's Wholly-Owned Subsidiaries (other than any Unrestricted Subsidiary), (d) Loans payable pursuant to SECTION 2.1(b) as a result of reductions in the Aggregate Commitment occurring in any such period pursuant to SECTION 2.7(a) (subject to the last sentence of this definition with respect to the July 30, 2002 reduction), and Loans (as defined in the Valley Credit Agreement) payable pursuant to Section 2.1(b) of the Valley Credit Agreement as a result of reductions in the Aggregate Commitment (as determined in the Valley Credit Agreement) occurring in any such period pursuant to Section 2.7(a) of the Valley Credit Agreement (subject to the last sentence of this definition with respect to the July 30, 2002 reduction), in each case for the period of four Fiscal Quarters immediately following the date of determination. Solely for purposes of computing Fixed Charges under the preceding CLAUSE (c), the scheduled principal payment of approximately $56,000,000 due on or before March 31, 1999 under the Folksamerica Loan Agreement shall not be included. Solely for purposes of computing Fixed Charges under the preceding CLAUSE (d) for any period on or after June 30, 2001, the "Reduction Amount" on July 30, 2002 stated in SECTION 2.7(a) shall be deemed to be $4,000,000 and the "Reduction Amount" on July 30, 2002 stated in Section 2.7(a) of the Valley Credit Agreement shall be deemed to be $2,000,000.

"Folksamerica" means Folksamerica Holding Company, Inc., a New York corporation.

"Folksamerica Loan Agreement " means that certain $70,000,000 loan agreement between Folksamerica and Swedbank (Sparbanken Sverige AB (publ)), New York Branch, dated as of November 12, 1991, as amended.

"Folksamerica Transaction" means that certain transaction by which (a) the Borrower and/or FAE acquires all of the outstanding capital stock of Folksamerica not already owned by the Borrower, (b) Parent assumes the obligations of each of Folksam Omsesidig Sakforsakring (Sweden) and Samvirke Skadeforsikring AS (Norway) (collectively, the "Folksamerica Guarantors") to guarantee the obligations of Folksamerica (the "Folksamerica Guaranty") under the Folksamerica Loan Agreement and (c) the Parent indemnifies the Folksamerica Guarantors and their respective affiliates, successors and assigns with respect to various matters relating to the Folksamerica Guaranty.

"FSA" means Financial Security Assurance Holdings Ltd., a New York corporation.

"FSA Amount" means an amount equal to that immediately utilized by SOMSC to excercise certain options, in existence on the date hereof, on the capital stock of FSA, such amount not to exceed $18,000,000.

"Funded Indebtedness" means Indebtedness of the type described in clauses (a), (d), (e) and (h) of the definition "Indebtedness".

"Governmental Authority" means any government (foreign or domestic) or any state or other political subdivision thereof or any governmental body, agency, authority, department or commission (including without limitation any board of insurance, insurance department or insurance commissioner and any taxing authority or political subdivision) or any instrumentality or officer thereof (including without limitation any court or tribunal) exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any corporation, partnership or other entity directly or indirectly owned or controlled by or subject to the control of any of the foregoing.

"Hazardous Materials" is defined in SECTION 5.19.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) Capitalized Lease Obligations, (f) Rate Hedging Obligations, (g) Contingent Obligations, (h) obligations for which such Person is obligated pursuant to or in respect of a Letter of Credit and (i) repurchase obligations or liabilities of such Person with respect to accounts or notes receivable sold by such Person.

"Insurance Subsidiary" means any Subsidiary which is engaged in the insurance business as an issuer or underwriter of insurance policies and/or insurance contracts.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one, two, three or six months thereafter; PROVIDED, HOWEVER, that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day; PROVIDED, HOWEVER, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, partnership interests, notes, debentures or other securities of any other Person made by such Person.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender or the Agent, any office, branch, subsidiary or affiliate of such Lender or the Agent.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Leverage Ratio" means, at any time, the ratio of (a) the consolidated Funded Indebtedness of Parent (excluding SOMSC) at such time to (b) the sum of the consolidated Funded Indebtedness of the Borrower and its Subsidiaries, other than SOMSC, at such time PLUS Adjusted Net Worth at such time, in all cases determined in accordance with Agreement Accounting Principles.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance business.

"Lien" means any security interest, lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement), save in respect of liabilities and obligations arising out of the underwriting of insurance policies and contracts of insurance.

"Loan" means, with respect to a Lender, such Lender's portion of any Advance and "Loans" means, with respect to the Lenders, the aggregate of all Advances.

"Loan Documents" means this Agreement, the Notes and the other documents and agreements contemplated hereby and executed by the Borrower in favor of the Agent or any Lender.

"Margin Stock" has the meaning assigned to that term under Regulation U.

"Material Adverse Effect" means a material adverse effect on (a) the business, Property, condition (financial or other), performance, results of operations, or prospects of the Borrower and

its Subsidiaries taken as a whole, (b) the ability of the Borrower or any Subsidiary to perform its obligations under the Loan Documents, or (c) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Money Market Investments" means (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 ninety (90) days from the date of acquisition thereof; (c) commercial paper rated A-1 or better P-1 or better by Standard & Poor's Ratings Group or Moody's Investors Services, Inc., respectively, maturing not more than ninety (90) days from the date of acquisition thereof; and (d) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a dollar weighted average maturity of not more than one year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance commissioners and similar Governmental Authorities of the various states of the United States toward the promotion of uniformity in the practices of such Governmental Authorities.

"Net Available Proceeds" means (a) with respect to any Asset Disposition, the sum of cash or readily marketable cash equivalents received (including by way of a cash generating sale or discounting of a note or account receivable) therefrom, whether at the time of such disposition or subsequent thereto, in excess in the case of any Asset Disposition of any amounts derived from such sale used (and permitted by this Agreement to be used) within one hundred eighty (180) days after such sale to make a Permitted Reinvestment, or (b) with respect to any sale or issuance of equity securities of the Borrower, cash or readily marketable cash equivalents received therefrom, whether at the time of such sale or issuance or subsequent thereto, net, in the case of either CLAUSE (a) or CLAUSE (b), of all legal, title and recording tax expenses, commissions and other fees and all costs and expenses incurred, including, without limitation, incremental income taxes resulting from such transaction.

"Net Worth" means, with respect to any Person, at any date the consolidated shareholders' equity of such Person and its Consolidated Subsidiaries determined in accordance with Agreement

Accounting Principles (but excluding the effect of Statement of Financial Accounting Standards No. 115).

"Non-Excluded Taxes" is defined in SECTION 2.18(a).

"Note" means a promissory note in substantially the form of EXHIBIT A hereto, with appropriate insertions, duly executed and delivered to the Agent by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

"Notice of Assignment" is defined in SECTION 12.3.2.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent or any indemnified party hereunder arising under any of the Loan Documents.

"Parent" means Fund American Enterprises Holdings, Inc., a Delaware corporation.

"Parent Credit Agreement" means the Amended and Restated Credit Agreement dated as of August 14, 1998, among Parent, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time.

"Participants" is defined in SECTION 12.2.1.

"Payment Date" means the last day of each March, June, September and December.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto.

"Permitted Reinvestment" means an Investment in Subsidiaries (other than any Unrestricted Subsidiary) in existence on the date hereof, an Investment in Main Street America Holdings, Inc., or any other Investment approved by the Required Lenders.

"Person" means any natural person, corporation, firm, joint venture, partnership, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan, as defined in Section 3(2) of ERISA, as to which the Borrower or any member of the Controlled Group may have any liability.

"Proceeding" is defined in SECTION 5.19.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"pro-rata" means, when used with respect to a Lender, and any described aggregate or total amount, an amount equal to such Lender's pro-rata share or portion based on its percentage of the Aggregate Commitment or if the Aggregate Commitment has been terminated, its percentage of the aggregate principal amount of outstanding Advances.

"Purchase" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (a) acquires any going business or all or substantially all of the assets of any firm, corporation or division or line of business thereof, whether through purchase of assets, merger or otherwise, or (b) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership.

"Purchasers" is defined in SECTION 12.3.1.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing quarterly statutory financial statements and shall contain the type of financial information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Rate Hedging Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to depositary institutions.

"Regulation T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of such Board of Governors relating to the extension of credit by securities brokers and dealers for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by the specified lenders for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 ET SEQ.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty (30) days of the occurrence of such event; PROVIDED, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Required Lenders" means Lenders in the aggregate having at least 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66-2/3% of the aggregate unpaid principal amount of the outstanding Loans.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Restatement Effective Date" means the date on which all conditions precedent set forth in SECTION 4.1 are satisfied or waived by all of the Lenders.

"Risk-Based Capital Guidelines" is defined in SECTION 3.2.

"SAP" means, with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the insurance commissioner (or other similar authority) in the jurisdiction of such Person for the preparation of annual statements and other financial reports by insurance companies of the same type as such Person in effect from time to time; PROVIDED, HOWEVER, that if

any changes in statutory accounting practices from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of statutory accounting practices in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5 (j) AND (k) hereof.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Significant Subsidiary" shall mean and include, at any time, each Subsidiary of the Borrower to the extent that the Net Worth of such Subsidiary is equal to or greater than $5,000,000.

"Single Employer Plan" means a Plan subject to Title IV of ERISA maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group, other than a Multiemployer Plan.

"Solvent" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with Agreement Accounting Principles and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "Solvency" shall have a correlative meaning.

"SOMSC" means Source One Mortgage Services Corporation, a Delaware corporation.

"SOMSC Credit Agreements" means the credit agreement or credit agreements from time to time in effect among SOMSC, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented, restated, replaced or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"Statutory Surplus" means, with respect to any Insurance Subsidiary at any time, the statutory capital and surplus of such Insurance Subsidiary at such time, as determined in accordance with SAP ("Liabilities, Surplus and Other Funds" statement, page 3, line 25 of the Annual Statement for the 1995 Fiscal Year entitled "Surplus as Regards Policyholders").

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly

or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, association, joint venture, limited liability company or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Termination Event" means, with respect to a Plan which is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of the Borrower or any other member of the Controlled Group from such Plan during a plan year in which the Borrower or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Plan, the filing of a notice of intent to terminate such Plan or the treatment of an amendment of such Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Plan or (e) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Plan.

"Transferee" is defined in SECTION 12.4.

"Type" means, with respect to any Advance, its nature as an ABR Advance or Eurodollar Advance.

"Unfunded Liability" means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Unrestricted Subsidiary" means SOMSC and its Subsidiaries.

"Valley Credit Agreement" means the Second Amended and Restated Credit Agreement, dated as of August 14, 1998, among Valley, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time.

"Valley" means Valley Group, Inc., an Oregon corporation.

"Wholly-Owned Subsidiary" of a Person means (a) any Subsidiary all of the outstanding voting securities of which (other than directors' qualifying or similar shares) shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (b) any partnership, association, joint venture, limited liability company or similar

business organization 100% of the ownership interests having ordinary voting power of which (other than directors' qualifying or similar shares) shall at the time be so owned or controlled.

"Year 2000 Issues" means anticipated costs, problems and uncertainties associated with the inability of certain computer applications and hardware to effectively function on and after January 1, 2000, as such inability affects the business, operations and financial condition of the Borrower and its Subsidiaries and of the Borrower's and its Subsidiaries' material customers, suppliers and vendors.

"Year 2000 Program" is defined in SECTION 5.22.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. References herein to particular columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding column, line or section of such Person's Quarterly Statement, or if no such corresponding column, line or section exists or if any report form changes, then to the corresponding item referenced thereby. In the event that the columns, lines or sections of the Annual Statement referenced herein are changed or renumbered, all such references shall be deemed references to such column, line or section as so renumbered or changed. Each accounting term used herein which is not otherwise defined herein shall be defined in accordance with Agreement Accounting Principles or SAP, as applicable, unless otherwise specified.

ARTICLE II

THE CREDITS

2.1.ADVANCES. (a) From and including the date hereof to but excluding the Facility Termination Date, each Lender severally (and not jointly) agrees, on the terms and conditions set forth in this Agreement, to make Advances to the Borrower from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its pro-rata share of the Aggregate Commitment existing at such time. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Advances at any time prior to the Facility Termination Date.

(b) The Borrower hereby agrees that if at any time, as a result of reductions in the Aggregate Commitment pursuant to SECTION 2.7 or otherwise, the aggregate balance of the Loans exceeds the Aggregate Commitment, the Borrower shall repay immediately its then outstanding Loans in such amount as may be necessary to eliminate such excess.

(c) The Borrower's obligation to pay the principal of, and interest on, the Loans shall be evidenced by the Notes. Although the Notes shall be dated the date of this Agreement, interest in respect thereof shall be payable only for the periods during which the Loans evidenced thereby are outstanding and, although the stated amount of each Note shall be equal to the applicable Lender's Commitment, each Note shall be enforceable, with respect to the Borrower's obligation to

pay the principal amount thereof, only to the extent of the unpaid principal amount of the Loans at the time evidenced thereby.

(d) All Advances and all Loans shall mature, and the principal amount thereof and the unpaid accrued interest thereon shall be due and payable, on the Facility Termination Date.

2.2. RATABLE LOANS. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment.

2.3. TYPES OF ADVANCES. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with SECTIONS 2.8 and 2.9.

2.4. FACILITY FEE; REDUCTIONS IN AGGREGATE COMMITMENT. (a) The Borrower agrees to pay to the Agent for the account of each Lender a facility fee ("Facility Fee") in an amount equal to the Applicable Facility Fee Margin per annum times the daily average Commitment of such Lender from the date hereof to and including the Facility Termination Date, payable on each Payment Date hereafter and on the Facility Termination Date. All accrued Facility Fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Loans hereunder.

(b) The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in a minimum aggregate amount of $2,000,000 upon at least three (3) Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction; PROVIDED, HOWEVER, that the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances. Such reductions shall be in addition to reductions occurring pursuant to SECTION 2.7(b). Voluntary commitment reductions pursuant to this SECTION 2.4(b) shall be applied to the mandatory commitment reductions required to be made pursuant to SECTION 2.7(a) in direct order of maturity.

2.5. MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the minimum amount of $2,000,000 (and in integral multiples of $500,000 if in excess thereof); PROVIDED, HOWEVER, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

2.6. OPTIONAL PRINCIPAL PAYMENTS. The Borrower may from time to time pay, without penalty or premium, all outstanding ABR Advances, or, in a minimum aggregate amount of $2,000,000 any portion of the outstanding ABR Advances upon two (2) Business Days' prior notice to the Agent. Subject to SECTION 3.4 and upon like notice, a Eurodollar Advance may be paid prior to the last day of the applicable Interest Period in a minimum amount of $2,000,000 or an integral multiple of $500,000 in excess thereof.

2.7. MANDATORY COMMITMENT REDUCTIONS. (a) The Aggregate Commitment shall be automatically and permanently reduced by the following amounts (or such lesser amount as a result of reductions pursuant to SECTION 2.7(c)) on the following dates:

Date	Reduction Amount
June 30, 1999	$3,000,000
June 30, 2000	$3,000,000
June 30, 2001	$4,000,000
July 30, 2002	$40,000,000

(b) The Aggregate Commitment shall also be automatically and permanently reduced in the amounts and at the times set forth below:

(i) within one hundred eighty (180) days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 100% of the aggregate Net Available Proceeds in excess of $1,000,000 realized upon all Asset Dispositions in any Fiscal Year of the Borrower; and

(ii) within five (5) Business Days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 85% of the Net Available Proceeds realized upon the sale by the Borrower of any equity securities issued by it after the date of this Agreement in excess of an aggregate amount of $1,000,000 (other than a sale of common stock of the Borrower to Parent).

(c) Mandatory commitment reductions under SECTION 2.7(b) shall be cumulative and in addition to reductions occurring pursuant to SECTION 2.4(b). Any mandatory commitment reductions under SECTION 2.7(b) shall be applied to the mandatory commitment reductions required to be made pursuant to SECTION 2.7(a) in the inverse order of maturity.

(d) Any reduction in the Aggregate Commitment pursuant to this SECTION 2.7 or otherwise shall ratably reduce the Commitment of each Lender.

2.8. METHOD OF SELECTING TYPES AND INTEREST PERIODS FOR NEW ADVANCES. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; PROVIDED, HOWEVER, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "BORROWING NOTICE") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

(a) the Borrowing Date of such Advance, which shall be a Business Day;

(b) the aggregate amount of such Advance;

(c) the Type of Advance selected;

(d) in the case of each Eurodollar Advance, the Interest Period applicable thereto, which shall end on or prior to the Facility Termination Date; and

(e) any changes to money transfer instructions previously delivered to the Agent.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago, to the Agent at its address specified pursuant to ARTICLE XIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address or at such account at such other institution in the United States of America as the Borrower may indicate in the Borrowing Notice.

2.9. CONVERSION AND CONTINUATION OF OUTSTANDING ADVANCES. ABR Advances shall continue as ABR Advances unless and until such ABR Advances are converted into Eurodollar Advances. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an ABR Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of SECTION 2.5, the Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; PROVIDED, HOWEVER, that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "CONVERSION/ CONTINUATION NOTICE") of each conversion of an ABR Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) on the conversion date, in the case of a conversion into an ABR Advance, or at least three (3) Business Days, in the case of a conversion into or continuation of a Eurodollar Advance, prior to the date of the requested conversion or continuation, specifying:

(a) the requested date of such conversion or continuation, which shall be a Business Day;

(b) the aggregate amount and Type of the Advance which is to be converted or continued; and

(c) the amount and Type(s) of Advance(s) into which such Advance is to be converted or continued and, in the case of a conversion into or continuation of a Eurodollar Advance, the duration of the Interest Period applicable thereto, which shall end on or prior to the Facility Termination Date.

2.10. CHANGES IN INTEREST RATE, ETC. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the

Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined as applicable to such Eurodollar Advance plus the Applicable Eurodollar Margin. No Interest Period may end after the Facility Termination Date. The Borrower shall select Interest Periods so that it is not necessary to repay any portion of a Eurodollar Advance prior to the last day of the applicable Interest Period in order to make a mandatory repayment required pursuant to SECTION 2.7(a).

2.11. RATES APPLICABLE AFTER DEFAULT. Notwithstanding anything to the contrary contained in SECTIONS 2.8 or 2.9, no Advance may be made as, converted into or continued as a Eurodollar Advance (except with the consent of the Agent and the Required Lenders) when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of SECTION 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that each Eurodollar Advance and ABR Advance shall bear interest (for the remainder of the applicable Interest Period in the case of Eurodollar Advances) at a rate per annum equal to the rate otherwise applicable plus two percent (2%) per annum; PROVIDED, HOWEVER, that such increased rate shall automatically and without action of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in SECTIONS 7.6 or 7.7.

2.12. METHOD OF PAYMENT. All payments of the Obligations hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to ARTICLE XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower (at least two (2) Business Days in advance) by noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to ARTICLE XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with the Agent for each payment of principal, interest and fees as it becomes due hereunder.

2.13. NOTES. Each Lender is hereby authorized to record the principal amount of each of its Loans and each repayment on the schedule attached to its Note; PROVIDED, HOWEVER, that neither the failure to so record nor any error in such recordation shall affect the Borrower's obligations under such Note.

2.14. INTEREST PAYMENT DATES; INTEREST AND FEE BASIS. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is

prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three (3) months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.15. NOTIFICATION OF ADVANCES, INTEREST RATES, PREPAYMENTS AND COMMITMENT REDUCTIONS. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.16. LENDING INSTALLATIONS. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Notes shall be deemed held by each Lender for the benefit of such Lending Installation. Each Lender may, by written or telex notice to the Agent and the Borrower, designate a Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

2.17. NON-RECEIPT OF FUNDS BY THE AGENT. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrower has not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, 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 Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrower shall, on demand by the Agent, 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 (a) in the case of payment by a Lender, the Federal Funds Effective Rate for such day, or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.18. TAXES. (a) Any payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or

future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax based upon any income imposed on the Agent or any Lender by the jurisdiction in which the Agent or such Lender is incorporated or has its principal place of business or maintains its Lending Installation. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Agreement; PROVIDED, HOWEVER, that the Borrower shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this SECTION 2.18. Whenever any Non-Excluded Taxes are payable by the Borrower, as promptly as practicable thereafter the Borrower shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this SECTION 2.18 shall survive the termination of this Agreement and the payment of all other amounts payable hereunder.

(b) At least five (5) Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Lender, each Lender that is not incorporated under the laws of the United States of America, or a state thereof, agrees that it will deliver to each of the Borrower and the Agent two (2) duly completed and properly executed copies of United States Internal Revenue Service Form 1001 or 4224 (or a successor form), certifying in either case that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Lender which so delivers a Form 1001 or 4224 (or a successor form) further undertakes to deliver to each of the Borrower and the Agent two (2) additional duly completed and properly executed copies of such form (or a successor form) on or before the date that such form expires (currently, three (3) successive calendar years for Form 1001 and each tax year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

2.19. AGENT'S FEES. The Borrower shall pay to the Agent those fees, in addition to the Facility Fees referenced in SECTION 2.4(A), in the amounts and at the times separately agreed to between the Agent and the Borrower.

ARTICLE III

CHANGE IN CIRCUMSTANCES

3.1. YIELD PROTECTION. If, after the date hereof, the adoption of or any change in any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any new interpretation thereof, or the compliance of any Lender with such adoption, change or interpretation,

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding taxation of the overall net income of any Lender or applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending Installation is incorporated or has its principal place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(c) imposes any other condition the result of which is to increase the cost to any Lender or any applicable Lending Installation of making, funding or maintaining Loans or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with any Loans, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of Loans held, or interest received by it, by an amount deemed material by such Lender,

then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender that portion of such increased expense incurred or resulting in an amount received which such Lender determines is attributable to making, funding and maintaining its Loans and its Commitment.

3.2. CHANGES IN CAPITAL ADEQUACY REGULATIONS. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender the amount

necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "CHANGE" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "RISK-BASED CAPITAL GUIDELINES" means (a) the risk-based capital guidelines in effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. AVAILABILITY OF TYPES OF ADVANCES. If any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (a) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available, or (b) the interest rate applicable to a Eurodollar Advance does not accurately or fairly reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of the Eurodollar Advances until such circumstance no longer exists and require any Eurodollar Advances to be repaid.

3.4. FUNDING INDEMNIFICATION. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify the Agent and each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Advance.

3.5. LENDER STATEMENTS; SURVIVAL OF INDEMNITY. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to such Lender under SECTIONS 2.18, 3.1 and 3.2 or to avoid the unavailability of a Type of Advance under SECTION 3.3, so long as such designation is not disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under SECTIONS 3.1, 3.2 or 3.4. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advance shall be calculated as though each Lender funded its Eurodollar Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any

Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under SECTIONS 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. EFFECTIVENESS. The Lenders shall not be required to make the initial Advance hereunder unless and until the Borrower has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) CHARTER DOCUMENTS; GOOD STANDING CERTIFICATES. Copies of the certificate of incorporation of the Borrower, together with all amendments thereto, both certified by the appropriate governmental officer in its jurisdiction of incorporation, together with a good standing certificate issued by the Secretary of State of the jurisdiction of its incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) BY-LAWS AND RESOLUTIONS. Copies, certified by the Secretary or Assistant Secretary of the Borrower, of its by-laws and of its Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party.

(c) SECRETARY'S CERTIFICATE. An incumbency certificate, executed by the Secretary or Assistant Secretary of the Borrower, which shall identify by name and title and bear the signature of the officers of the Borrower authorized to sign the Loan Documents and to make borrowings hereunder, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.

(d) OFFICER'S CERTIFICATE. A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the Restatement Effective Date (both before and after giving effect to the consummation of the transactions contemplated hereby and the making of the Loans hereunder, if any, being made on such date): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of any Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the Borrower has obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and

warranties set forth in ARTICLE V of this Agreement is true and correct on and as of the Restatement Effective Date; and (v) since December 31, 1997, no event or change has occurred that has caused or evidences a Material Adverse Effect.

(e) LEGAL OPINION. A written opinion of Brobeck, Phleger & Harrison LLP, counsel to the Borrower, addressed to the Agent and the Lenders in form and substance acceptable to the Agent and its counsel.

(f) NOTES. Notes payable to the order of each of the Lenders duly executed by the Borrower.

(g) LOAN DOCUMENTS. Executed originals of this Agreement and each of the Loan Documents, which shall be in full force and effect, together with all schedules, exhibits, certificates, instruments, opinions, documents and financial statements required to be delivered pursuant hereto and thereto.

(h) LETTERS OF DIRECTION. Written money transfer instructions with respect to the initial Advances and to future Advances in form and substance acceptable to the Agent and its counsel addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested.

(i) SOLVENCY CERTIFICATE. A written solvency certificate from the chief financial officer of the Borrower in form and content satisfactory to the Agent with respect to the value, Solvency and other factual information, or relating to, as the case may be of the Borrower on a consolidated basis.

(j) REGULATORY MATTERS. Receipt of any required regulatory approvals from any Governmental Authority.

(k) INVESTMENT POLICY GUIDELINES. Certified copy of the investment policy guidelines adopted by the finance committee of the board of directors of the Borrower.

(l) PAYMENT OF FEES. The Borrower shall have paid all fees due to First Chicago.

(m) FOLKSAMERICA LOAN AGREEMENT. A copy of the Folksamerica Loan Agreement, including all amendments thereto.

(n) OTHER. Such other documents as the Agent, any Lender or their counsel may have reasonably requested.

4.2. EACH FUTURE ADVANCE. The Lenders shall not be required to make any Advance unless on the applicable Borrowing Date:

(a) There exists no Default or Unmatured Default and none would result from such Advance;

(b) The representations and warranties contained in ARTICLE V are true and correct as of such Borrowing Date (except to the extent such representations and warranties are expressly made as of a specified date, in which event such representations and warranties shall be true and correct as of such specified date);

(c) A Borrowing Notice shall have been properly submitted; and

(d) All legal matters incident to the making of such Advance shall be satisfactory to the Lenders and their counsel.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in SECTIONS 4.2(A), (B) AND (C) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of EXHIBIT B hereto as a condition to making an Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1. CORPORATE EXISTENCE AND STANDING. Each of the Borrower and each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

5.2. AUTHORIZATION AND VALIDITY. The Borrower has all requisite power and authority (corporate and otherwise) and legal right to execute and deliver each of the Loan Documents and to perform its obligations thereunder. The execution and delivery by the Borrower of the Loan Documents and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings and the Loan Documents constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. COMPLIANCE WITH LAWS AND CONTRACTS. The Borrower and its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a

Material Adverse Effect. Neither the execution and delivery by the Borrower of the Loan Documents, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations T, U and X), order, writ, judgment, injunction, decree or award binding on the Borrower or any Subsidiary or the Borrower's or any Subsidiary's charter, articles or certificate of incorporation or by-laws, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which the Borrower or any Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the Loan Documents) in, of or on the property of the Borrower or any Subsidiary pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on SCHEDULE 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. GOVERNMENTAL CONSENTS. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents or the application of the proceeds of the Loans or any other transaction contemplated in the Loan Documents. Neither the Borrower nor any Subsidiary is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to the Borrower or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. FINANCIAL STATEMENTS. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1997 audited consolidated financial statements of the Borrower and its Subsidiaries, (b) the unaudited consolidated financial statements of the Borrower and its Subsidiaries as of March 31, 1998, (c) the December 31, 1997 audited financial statements of Charter Group, Inc. and its Subsidiaries, (d) the December 31, 1997 audited financial statements of Valley Insurance Co. and its Subsidiaries, (e) the December 31, 1997 audited financial statements of Valley and its Subsidiaries, (f) the December 31, 1997 audited financial statements of SOMSC and its Subsidiaries, (g) the December 31, 1997 audited financial statements of Parent and its Subsidiaries, (h) the December 31, 1997 audited financial statements of Folksamerica and its Subsidiaries, (i) the December 31, 1997 audited financial statements of Main Street America Holdings, Inc. and its Subsidiaries, (j) the March 31, 1998 unaudited balance sheets and income statements of Parent, the Borrower, Valley, SOMSC, Folksamerica and Main Street America Holdings, Inc., (k) the December 31, 1997 Annual Statement of each Insurance Subsidiary and Folksamerica Reinsurance Company and (l) the March 31, 1998 Quarterly Statement of each Insurance Subsidiary and

Folksamerica Reinsurance Company (collectively, the "FINANCIAL STATEMENTS"). Each of the Financial Statements (other than as described in CLAUSE (j)) was prepared in accordance with Agreement Accounting Principles or SAP, as applicable, and fairly presents the consolidated financial condition and operations of the Person which is the subject of such Financial Statements at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. MATERIAL ADVERSE CHANGE. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries has occurred since December 31, 1997, except as specifically disclosed in the Financial Statements.

5.7. TAXES. Neither the Borrower nor any of its Subsidiaries are required to file United States federal, foreign, state or local tax returns. As of the date hereof, the United States income tax returns of Parent on a consolidated basis have been audited by the Internal Revenue Service through its fiscal period ending December 31, 1988, and all tax years beginning on or after January 1, 1989 are currently being audited or are subject to audit. No tax liens have been filed and no claims are being asserted with respect to any taxes of Parent which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of Parent in respect of any taxes or other governmental charges of Parent are in accordance with Agreement Accounting Principles.

5.8. LITIGATION AND CONTINGENT OBLIGATIONS. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any Subsidiary or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. Neither the Borrower nor any Subsidiary has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on SCHEDULE 5.16 or disclosed in the Financial Statements or in financial statements required to be delivered under SECTIONS 6.1(a) and (b) and as permitted under this Agreement.

5.9. CAPITALIZATION. SCHEDULE 5.9 hereto contains (a) an accurate description of the Borrower's capitalization as of March 31, 1998 and (b) an accurate list of all of the existing Subsidiaries as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of the Borrower and of each Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens. No authorized but unissued or treasury shares of capital stock of the Borrower or any Subsidiary are subject to any option, warrant, right to call or commitment of any kind or character. Except as set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement, neither the Borrower nor any Subsidiary has any outstanding stock or securities convertible into or exchangeable for any shares of its capital stock, or any right issued to any Person (either preemptive or other) to subscribe for or to purchase, or any

options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to any of its capital stock or any stock or securities convertible into or exchangeable for any of its capital stock other than as expressly set forth in the certificate or articles of incorporation of the Borrower or such Subsidiary. Neither the Borrower nor any Subsidiary is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital stock or any convertible securities, rights or options of the type described in the preceding sentence except as otherwise set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement.

5.10. ERISA. Except as disclosed on SCHEDULE 5.10, neither the Borrower nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability. Neither the Borrower nor any other member of the Controlled Group maintains, or is obligated to contribute to, any Multiemployer Plan or has incurred, or is reasonably expected to incur, any withdrawal liability to any Multiemployer Plan. Each Plan complies in all material respects with all applicable requirements of law and regulations other than any such failure to comply which could not reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any member of the Controlled Group has, with respect to any Plan, failed to make any contribution or pay any amount required under Section 412 of the Code or Section 302 of ERISA or the terms of such Plan. There are no pending or, to the knowledge of the Borrower, threatened claims, actions, investigations or lawsuits against any Plan, any fiduciary thereof, or the Borrower or any member of the Controlled Group with respect to a Plan. Neither the Borrower nor any member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which would subject such Person to any material liability. Within the last five (5) years neither the Borrower nor any member of the Controlled Group has engaged in a transaction which resulted in a Single Employer Plan with an Unfunded Liability being transferred out of the Controlled Group which could reasonably be expected to have a Material Adverse Effect. No Termination Event has occurred or is reasonably expected to occur with respect to any Plan which is subject to Title IV of ERISA which could reasonably be expected to have a Material Adverse Effect.

5.11. DEFAULTS. No Default or Unmatured Default has occurred and is continuing.

5.12. FEDERAL RESERVE REGULATIONS. Neither the Borrower nor any Subsidiary is engaged, directly or indirectly, principally, or as one of its important activities, in the business of extending, or arranging for the extension of, credit for the purpose of purchasing or carrying Margin Stock. No part of the proceeds of any Loan will be used in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X. Neither the making of any Advance hereunder nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulation T, Regulation U or Regulation X.

5.13. INVESTMENT COMPANY. Neither the Borrower nor any Subsidiary is, or after giving effect to any Advance will be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

5.14. CERTAIN FEES. No broker's or finder's fee or commission was, is or will be payable by the Borrower or any Subsidiary with respect to any of the transactions contemplated by this Agreement, except as described in SECTION 9.5. The Borrower hereby agrees to indemnify the Agent and the Lenders against and agrees that it will hold each of them harmless from any claim, demand or liability for broker's or finder's fees or commissions alleged to have been incurred by the Borrower in connection with any of the transactions contemplated by this Agreement and any expenses (including, without limitation, attorneys' fees and time charges of attorneys for the Agent or any Lender, which attorneys may be employees of the Agent or any Lender) arising in connection with any such claim, demand or liability. No other similar fee or commissions will be payable by the Borrower or any Subsidiary for any other services rendered to the Borrower or any Subsidiary ancillary to any of the transactions contemplated by this Agreement.

5.15. SOLVENCY. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by the Borrower or its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date, each of the Borrower and each Subsidiary is Solvent.

5.16. INDEBTEDNESS. Attached hereto as SCHEDULE 5.16 is a complete and correct list of all Indebtedness of the Borrower and its Subsidiaries outstanding on the date of this Agreement (other than Indebtedness in a principal amount not exceeding $500,000 for a single item of Indebtedness and $2,000,000 in the aggregate for all such Indebtedness listed, it being understood and agreed that any such Indebtedness shall be permitted to exist pursuant to SECTION 6.11(b) notwithstanding the absence thereof on SCHEDULE 5.16), showing the aggregate principal amount which was outstanding on such date after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date.

5.17. INSURANCE LICENSES. SCHEDULE 5.17 hereto lists all of the jurisdictions in which any Insurance Subsidiary holds a License and is authorized to and does transact insurance business as of the date of this Agreement. No such License, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To the Borrower's knowledge, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.18. MATERIAL AGREEMENTS. Except as set forth in SCHEDULE 5.18 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes conditions upon the ability of any Subsidiary (other than an Unrestricted Subsidiary) to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to the Borrower, (c) repay loans or advances from Borrower or (d) grant Liens to the Agent to secure the Obligations. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions

contained in any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect.

5.19. ENVIRONMENTAL LAWS. There are no claims, investigations, litigation, administrative proceedings, notices, requests for information (each a "PROCEEDING"), whether pending or threatened, or judgments or orders asserting violations of applicable federal, state and local environmental, health and safety statutes, regulations, ordinances, codes, rules, orders, decrees, directives and standards ("ENVIRONMENTAL LAWS") or relating to any toxic or hazardous waste, substance or chemical or any pollutant, contaminant, chemical or other substance defined or regulated pursuant to any Environmental Law, including, without limitation, asbestos, petroleum, crude oil or any fraction thereof ("HAZARDOUS MATERIALS") asserted against the Borrower or any of its Subsidiaries, other than in connection with an insurance policy issued in the ordinary course of business to any Person (other than Parent or any Subsidiary of Parent), which, in any case, could reasonably be expected to have a Material Adverse Effect. As of the date hereof, the Borrower and its Subsidiaries do not have liabilities exceeding $100,000 in the aggregate for all of them with respect to compliance with applicable Environmental Laws or related to the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials, and no facts or circumstances exist which could give rise to such liabilities with respect to compliance with applicable Environmental Laws and the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials.

5.20. INSURANCE. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is consistent with sound business practice.

5.21. DISCLOSURE. No information, exhibit or report furnished by the Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading. There is no fact known to the Borrower (other than matters of a general economic or political nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated by this Agreement.

5.22. YEAR 2000. The Borrower has made a reasonable assessment of the Year 2000 Issues and has a realistic and achievable program for remediating the Year 2000 Issues on a timely basis (the "Year 2000 Program"). Based on such assessment and on the Year 2000 Program the Borrower does not reasonably anticipate that Year 2000 Issues will have a Material Adverse Effect.

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. FINANCIAL REPORTING. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and furnish to the Lenders:

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows accompanied by a certificate of said accountants that, in the course of the examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

(b) As soon as practicable and in any event within sixty (60) days after the close of each of the first three Fiscal Quarters of each of its Fiscal Years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating statements of income, retained earnings and cash flows for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its chief financial officer.

(c) (i) Upon the earlier of (A) fifteen (15) days after the regulatory filing date or (B) seventy-five (75) days after the close of each fiscal year of each Insurance Subsidiary, copies of the unaudited Annual Statement of such Insurance Subsidiary, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP and (ii) no later than each June 15, copies of financial statements prepared in accordance with SAP, or generally accepted accounting principles with a reconciliation to SAP, and certified by independent certified public accountants of recognized national standing.

(d) Upon the earlier of (i) ten (10) days after the regulatory filing date or (ii) sixty (60) days after the close of each of the first three (3) fiscal quarters of each fiscal year of each Insurance Subsidiary, copies of the unaudited Quarterly Statement of each of the Insurance Subsidiaries, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP.

(e) Promptly and in any event within ten (10) days after (i) learning thereof, notification of any changes after the date of this Agreement in the rating given by A.M. Best & Co. in respect of any Insurance Subsidiary and (ii) receipt thereof, copies of any ratings analysis by A.M. Best & Co. relating to any Insurance Subsidiary.

(f) Copies of any outside actuarial reports prepared with respect to any valuation or appraisal of any Insurance Subsidiary, promptly after the receipt thereof.

(g) Together with the financial statements required by CLAUSES (a) and (b) above, a compliance certificate in substantially the form of EXHIBIT B hereto signed by the Borrower's chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(h) Promptly after the same becomes available after the close of each Fiscal Year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(i) As soon as possible and in any event within ten (10) days after the Borrower knows that any Termination Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of the Borrower, describing said Termination Event and the action which the Borrower proposes to take with respect thereto.

(j) As soon as possible and in any event within ten (10) days after receipt by the Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or Environmental Permit by the Borrower or any of its Subsidiaries. Within ten (10) days of the Borrower or any Subsidiary having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, the Borrower shall provide the Agent with written notice thereof.

(k) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.

(l) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission, the National Association of Securities Dealers, any securities exchange, the NAIC or any insurance commission or department or analogous Governmental Authority (including any filing made by the Borrower or any Subsidiary pursuant to any insurance holding company act or related rules or regulations), but excluding routine or non-material filings with the NAIC, any insurance commissioner or department or analogous Governmental Authority.

(m) Promptly and in any event within ten (10) days after learning thereof, notification of (i) any material tax assessment, demand, notice of proposed deficiency or notice of deficiency received by Parent or any other Consolidated Person or (ii) the filing of

any tax Lien or commencement of any judicial proceeding by or against any such Consolidated Person, if any such assessment, demand, notice, Lien or judicial proceeding relates to tax liabilities in excess of ten percent (10%) of the net worth (determined according to generally accepted accounting standards and without reduction for any reserve for such liabilities) of the Borrower and its Subsidiaries taken as a whole.

(n) Promptly after available, any management letter prepared by the accountants conducting the audit of the financial statements delivered pursuant to Section 6.1(a).

(o) Promptly after reviewed by the board of directors of the Borrower, a copy of the Borrower's investment policy compliance report.

(p) Such other information (including, without limitation, the annual Best's Advance Report Service report prepared with respect to each Insurance Subsidiary rated by A.M. Best & Co. and non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. USE OF PROCEEDS. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including, but not limited to, the consummation of the Folksamerica Transaction and the making of any other Investments permitted by SECTION 6.13. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances in any manner which would violate, or result in the violation of, Regulation T, Regulation U or Regulation X or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. NOTICE OF DEFAULT. The Borrower will give prompt notice in writing to the Lenders of the occurrence of (a) any Default or Unmatured Default, (b) of any other event or development, financial or other, relating specifically to the Borrower or any of its Subsidiaries (and not of a general economic or political nature) which could reasonably be expected to have a Material Adverse Effect, (c) receipt by the Borrower or any Subsidiary of any notice from any Governmental Authority of the expiration without renewal, revocation or suspension of, or the institution of any proceedings to revoke or suspend, any License now or hereafter held by any Insurance Subsidiary which is required to conduct insurance business in compliance with all applicable laws and regulations and the expiration, revocation or suspension of which could reasonably be expected to have a Material Adverse Effect, (d) receipt by the Borrower or any Subsidiary of any notice from any Governmental Authority of the institution of any disciplinary proceedings against or in respect of any Insurance Subsidiary, or the issuance of any order, the taking of any action or any request for an extraordinary audit for cause by any Governmental Authority which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (e) any material judicial or administrative order of which the Borrower or any Subsidiary is aware limiting or controlling the insurance business of any Insurance Subsidiary (and not the insurance industry generally) which has been issued or adopted or (f) the commencement of any litigation of which the Borrower or any Subsidiary is aware which could reasonably be expected to create a Material Adverse Effect.

6.4. CONDUCT OF BUSINESS. The Borrower will, and will cause each Subsidiary to, (a) carry on and conduct its business in substantially the same manner as it is presently conducted, (b)

not conduct any significant business except for financial services, (c) do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except where the failure to maintain such authority could not reasonably be expected to have a Material Adverse Effect and (d) do all things necessary to renew, extend and continue in effect all Licenses which may at any time and from time to time be necessary for any Insurance Subsidiary to operate its insurance business in compliance with all applicable laws and regulations except for any License the loss of which could not reasonably be expected to have a Material Adverse Effect; PROVIDED, that any Insurance Subsidiary may withdraw from one or more states (other than its state of domicile) as an admitted insurer if such withdrawal is determined by the Borrower's Board of Directors to be in the best interest of the Borrower and could not reasonably be expected to have a Material Adverse Effect. The Borrower shall cause Folksamerica to remain a Wholly-Owned Subsidiary (but only after it becomes a Wholly-Owned Subsidiary) until the Borrower shall have repaid all outstanding Advances and other Obligations and the Lenders' Commitments hereunder have terminated.

6.5. TAXES. At any time on and after the date the Borrower or any of its Subsidiaries is required to do so, the Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with generally accepted accounting principles or SAP, as applicable.

6.6. INSURANCE. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to the Agent and any Lender upon request full information as to the insurance carried.

6.7. COMPLIANCE WITH LAWS. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, the failure to comply with which could reasonably be expected to have a Material Adverse Effect.

6.8. MAINTENANCE OF PROPERTIES. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. INSPECTION. The Borrower will, and will cause each Subsidiary to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs,

finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. The Borrower will keep or cause to be kept, and cause each Subsidiary to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles or SAP, as applicable.

6.10. DIVIDENDS. The Borrower will not declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock or any options or other rights in respect thereof at any time outstanding, except that so long as no Default or Unmatured Default exists before or after giving effect to the declaration or payment of such dividends or distributions or repurchase or redemption of such stock or other transaction, (a) the Borrower may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock and any options or other rights thereof in an aggregate amount not to exceed, when aggregated with the principal amount of loans (exclusive of loans described in SECTION 6.13(e)(II)) made during such Fiscal Year from the Borrower or its Subsidiaries to Parent, (i) during the Borrower's 1998 Fiscal Year, 2% of Adjusted Net Worth as of December 31, 1997, and (ii) during any Fiscal Year thereafter, 3% of Adjusted Net Worth as of the end of the Fiscal Year preceding the Fiscal Year during which such transaction is consummated and (b) in addition to any dividends, distributions, repurchases, redemptions, acquisitions or retirements which may be declared, paid or made pursuant to the preceding CLAUSE (a), the Borrower may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock, and any options or rights thereof, (x) in an amount equal to (1) the net proceeds received by the Borrower from dividends, sales, transfers or other dispositions of its equity interests in SOMSC or FAE's equity interest in San Juan Basin Trust, MINUS (2) the amount of loans made pursuant to SECTION 6.13(e)(II), PROVIDED, that such dividend is paid within one hundred eighty (180) days of receipt of such net proceeds, (y) its equity interests in SOMSC and (z) in an amount equal to that immediately utilized by Parent to repay all or a portion of a certain $40,000,000 loan from FAE to Parent.

6.11. INDEBTEDNESS. The Borrower will not, nor will it permit any Subsidiary (other than an Unrestricted Subsidiary) to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and described in SCHEDULE 5.16 hereto and any renewals, extensions, refundings or refinancings of such Indebtedness; PROVIDED that the amount thereof is not increased and the maturity or scheduled amortization of principal thereof is not shortened (unless to a maturity or scheduled amortization occurring after the Facility Termination Date);

(c) Indebtedness owing by (x) the Borrower to any Wholly-Owned Subsidiary and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary or the Borrower;

(d) Indebtedness permitted under the Valley Credit Agreement;

(e) Indebtedness of Folksamerica or its Subsidiaries in existence at the time of the Folksamerica Transaction; PROVIDED, however, such Indebtedness of Folksamerica or its Subsidiaries may not be renewed, extended, refunded or refinanced by Folksamerica without the prior written consent of the Required Lenders;

(f) Indebtedness of the Borrower, the proceeds of which are used directly or indirectly to refund or refinance the Indebtedness described in SECTION 6.11(e); PROVIDED, however that the amount thereof is not increased, the maturity or scheduled amortization of principal thereof is not set to a maturity or weighted average maturity occurring before the Facility Termination Date hereunder and the terms of the proposed Indebtedness are not otherwise, in the reasonable judgment of the Required Lenders, disadvantageous (relative to the terms of the Indebtedness refunded or refinanced) to the interests of the Lenders hereunder;

(g) Indebtedness secured by Liens permitted pursuant to SECTION 6.15(f);

(h) Contingent Obligations permitted under SECTION 6.14; and

(i) other Indebtedness of the Borrower or any Subsidiary to the extent not otherwise included in subparagraphs (a) through (h) of this SECTION 6.11 or in SECTION 6.14, in an aggregate amount outstanding at any one time not to exceed $5,000,000.

6.12. MERGER. The Borrower will not, nor will it permit any Significant Subsidiary to, merge or consolidate with or into any other Person, except that:

(a) a Wholly-Owned Subsidiary (other than any Unrestricted Subsidiary) may merge with (i) the Borrower, (ii) any Wholly-Owned Subsidiary of the Borrower or (iii) any other Person so long as no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and the surviving entity of such merger is the Borrower or a Wholly-Owned Subsidiary of the Borrower;

(b) a Significant Subsidiary (other than Valley) may merge or consolidate with any Person so long as neither the Borrower nor any of its Subsidiaries shall hold any capital stock of such Significant Subsidiary after giving effect to such merger or consolidation; and

(c) the Borrower or Valley may merge into any Person so long as (i) the Borrower or Valley, as the case may be, is the surviving entity of such merger, (ii) no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and (iii) the covenants contained in SECTION 6.20 shall be complied with on a PRO FORMA basis on the date of, and after giving effect to, such merger.

6.13. INVESTMENTS AND PURCHASES. The Borrower will not, and will not permit any Subsidiary (other than an Unrestricted Subsidiary) to, make or suffer to exist any Investments (including, without limitation, loans and advances to, and other Investments in, Parent or Subsidiaries), or commitments therefor, or create any Subsidiary or become or remain a partner in any partnership or joint venture, or make any Purchases, except:

(a) Investments or commitments therefor (such commitments being set forth on SCHEDULE 6.13) in existence on the date hereof (including a certain $40,000,000 loan from FAE to Parent);

(b) loans and advances to employees in the ordinary course of business and consistent with past practices;

(c) Investments made in Subsidiaries (other than any Unrestricted Subsidiary) and Main Street America Holdings, Inc.;

(d) Purchases of or Investments in businesses or entities engaged in the insurance and/or insurance services business or businesses reasonably incident thereto (including holding companies, the Subsidiaries of which on a consolidated basis are primarily engaged in such businesses) which do not constitute hostile takeovers (including the creation of Subsidiaries in connection therewith) so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Purchase or Investment;

(e) Investments by the Borrower made on or before May 13, 1999 directly in SOMSC in an amount equal to the FSA Amount so long as at the time of such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; PROVIDED, however, that any Investments pursuant to this CLAUSE (E) are made from net proceeds traceable to dividends, sales, transfers or other distributions of equity interests in SOMSC after the date hereof;

(f) loans made by the Borrower or its Subsidiaries to Parent (i) so long as at all times, after giving effect to the aggregate outstanding principal amount of such loans, the Borrower would be permitted to pay at least $1.00 in incremental dividends pursuant to SECTION 6.10(a) or (ii) that are made out of the net proceeds described in SECTION 6.10(b)(x) in lieu of utilizing such net proceeds to pay a dividend;

(g) other Investments (other than any direct or indirect Investments in Parent), so long as any such Investment is materially consistent with the Borrower's investment policy guidelines as approved from time to time by the finance committee of the board of directors of the Borrower (a copy of the current version of such guidelines having been delivered to each Lender); provided that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders; and

(h) other Investments (other than any direct or indirect Investments in Parent) by Folksamerica (but only after it becomes a Wholly-Owned Subsidiary of the Borrower) at any time prior to March 31, 1999, so long as any such Investment is permitted under the insurance laws of the State of New York and is materially consistent with Folksamerica's investment policy guidelines as approved from time to time by the board of directors of Folksamerica (a copy of the current version of such guidelines having been delivered to each Lender); provided that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders.

6.14. CONTINGENT OBLIGATIONS. The Borrower will not, nor will it permit any Subsidiary (other than an Unrestricted Subsidiary) to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (a) the issuance of financial guarantees in the ordinary course of business, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business, (d) the issuance of intercompany guarantees so long as the primary obligation is permitted under this Agreement and (e) issuance of financial guarantees to the holders of seller notes issues by ML (Bermuda) Holdings Ltd. or any of its Subsidiaries, provided that the aggregate principal amount of all such financial guarantees shall not at any time exceed 6,500,000 British Pounds.

6.15. LIENS. The Borrower will not, nor will it permit any Subsidiary (other than an Unrestricted Subsidiary) to, create, incur, or suffer to exist any Lien in, of or on the Property (other than Margin Stock) of the Borrower or any of its Subsidiaries (other than an Unrestricted Subsidiary), except:

(a) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with generally accepted principles of accounting shall have been set aside on its books;

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than sixty (60) days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties

of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or its Subsidiaries;

(e) Liens existing on the date hereof and described in SCHEDULE 6.15 hereto;

(f) Liens in, of or on Property acquired after the date of this Agreement (by purchase, construction or otherwise), each of which Liens either (1) existed on such Property before the time of its acquisition and was not created in anticipation thereof, or (2) was created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinance or refund, the cost (including the cost of construction) of such Property; PROVIDED that no such Lien shall extend to or cover any Property of the Borrower or such Subsidiary other than the Property so acquired and improvements thereon; and PROVIDED, FURTHER, that the principal amount of Indebtedness secured by any such Lien shall at the time the Lien is incurred not exceed 75% of the fair market value (as determined in good faith by a financial officer of the Borrower and, in the case of such Property having a fair market value in excess of $500,000, certified by such officer to the Agent, with a copy for each Lender) of the Property at the time it was so acquired;

(g) Liens on assets securing letters of credit issued on behalf of Insurance Subsidiaries in the ordinary course of business; and

(h) Liens not otherwise permitted by the foregoing clauses (a) through (g) securing any Indebtedness of the Borrower, provided that the aggregate principal amount of Indebtedness secured by Liens permitted by this clause (h) shall not exceed $3,000,000 at any time.

6.16. AFFILIATES. The Borrower will not, and will not permit any Subsidiary to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliates (other than a Wholly-Owned Subsidiary), except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transactions, except that any Unrestricted Subsidiary may make loans to Parent.

6.17. ENVIRONMENTAL MATTERS. The Borrower shall and shall cause each of its Subsidiaries to (a) at all times comply in all material respects with all applicable Environmental Laws and (b) promptly take any and all necessary remedial actions in response to the presence, storage, use, disposal, transportation or Release of any Hazardous Materials on, under or about any real property owned, leased or operated by the Borrower or any of its Subsidiaries.

6.18. CHANGE IN CORPORATE STRUCTURE; FISCAL YEAR. The Borrower shall not, nor shall it permit any Subsidiary to, (a) permit any amendment or modification to be made to its certificate or

articles of incorporation or by-laws which is materially adverse to the interests of the Lenders or (b) change its Fiscal Year to end on any date other than December 31 of each year.

6.19. INCONSISTENT AGREEMENTS. The Borrower shall not, nor shall it permit any Subsidiary (other than an Unrestricted Subsidiary) to, enter into any indenture, agreement, instrument or other arrangement which by its terms, (a) other than pursuant to the Valley Credit Agreement or pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay dividends or make other distributions on its capital stock, (ii) make loans or advances to the Borrower or (iii) repay loans or advances from the Borrower or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by the Borrower or any Subsidiary of any of its obligations under any Loan Document.

6.20. FINANCIAL COVENANTS. The Borrower shall (or, in the case of Section 6.20.4, shall cause its Insurance Subsidiaries to):

6.20.1 MINIMUM ADJUSTED NET WORTH. At all times after the date hereof, maintain a minimum Adjusted Net Worth at least equal to the sum of, without duplication, (a) $465,000,000, PLUS (b) an amount equal to 85% of the cash and non-cash proceeds of any equity securities issued or capital contributions received by the Borrower after June 30, 1998, PLUS (c) an amount equal to 50% of the Borrower's positive consolidated net income (excluding from such calculation (i) SOMSC and its Subsidiaries, (ii) any net realized gain from the sale of Borrower's equity interests in White River Corp. or Travelers Property Casualty Corp. and (iii) any net income directly arising out of the consummation of the Folksamerica Transaction) after June 30, 1998, PLUS (d) an amount equal to 85% of the proceeds of any sale of the Borrower's equity interest in SOMSC to the extent such proceeds are not paid out by the Borrower as dividends within one hundred eighty (180) days after receipt thereof.

6.20.2. LEVERAGE RATIO. At all times after the date hereof, maintain a Leverage Ratio of (a) not greater than 45% through and including December 31, 2000 and (b) not greater than 30% at all times thereafter.

6.20.3. FIXED CHARGES COVERAGE RATIO. As of the end of each Fiscal Quarter maintain a Fixed Charges Coverage Ratio of not less than 1.5:1.0.

6.20.4. STATUTORY SURPLUS. At all times, maintain Statutory Surplus for each First-Tier Insurance Subsidiary in an amount not less than an amount equal to (a) 85% of the Statutory Surplus of each such First-Tier Insurance Subsidiary, in existence on the date hereof, as of March 31, 1998 (or, in the case of any First-Tier Insurance Subsidiary acquired after the date hereof, 85% of the Statutory Surplus of each such acquired First-Tier Insurance

Subsidiary as of the most recently ended Fiscal Quarter preceding such acquisition), PLUS (b) 85% of all subsequent capital contributions to each such First-tier Insurance Subsidiary, MINUS (c) in the event such First-Tier Insurance Subsidiary dividends or otherwise distributes to its parent all the capital stock of a Wholly-Owned Insurance Subsidiary, 100% of the book value (calculated in accordance with SAP) of such Wholly-Owned Insurance Subsidiary at the time of such dividend or distribution.

6.21. TAX CONSOLIDATION. The Borrower will not and will not permit any of its Subsidiaries to (a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than Parent and its Subsidiaries or (b) amend, terminate or fail to enforce any existing tax sharing agreement or similar arrangement if such action would cause a Material Adverse Effect.

6.22. ERISA COMPLIANCE.

With respect to any Plan, neither the Borrower nor any Subsidiary shall:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code in excess of $100,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of $100,000, whether or not waived, or permit any Unfunded Liability to exceed $100,000;

(c) permit the occurrence of any Termination Event which could result in a liability to the Borrower or any other member of the Controlled Group in excess of $100,000;

(d) be an "employer" (as such term is defined in Section 3(5) of ERISA) required to contribute to any Multiemployer Plan or a "substantial employer" (as such term in defined in Section 4001(a)(2) of ERISA) required to contribute to any Multiple Employer Plan; or

(e) permit the establishment or amendment of any Plan or fail to comply with the applicable provisions of ERISA and the Code with respect to any Plan which could result in liability to the Borrower or any other member of the Controlled Group which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.23. YEAR 2000. The Borrower will take and will cause each of its Subsidiaries to take all such actions as are reasonably necessary to successfully implement the Year 2000 Program and to assure that Year 2000 Issues will not have a Material Adverse Effect. At the request of the Agent or any Lender, the Borrower will provide a description of the Year 2000 Program, together with any updates or progress reports with respect thereto.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any other Loan Document, any Loan, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be false in any material respect on the date as of which made.

7.2. Nonpayment of (a) any principal of any Note when due, or (b) any interest upon any Note or any commitment fee or other fee or obligations under any of the Loan Documents within five (5) days after the same becomes due.

7.3. The breach by the Borrower of any of the terms or provisions of SECTION 6.2, SECTION 6.3(a) or SECTIONS 6.10 THROUGH 6.16 or SECTIONS 6.18 through 6.22.

7.4. The breach by the Borrower (other than a breach which constitutes a Default under SECTIONS 7.1, 7.2 or 7.3) of any of the terms or provisions of this Agreement which is not remedied within twenty (20) days after written notice from the Agent or any Lender.

7.5. The default by the Borrower or any of its Subsidiaries (or, at any time the Borrower is a Subsidiary of Parent, by Parent) in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of $2,000,000 ($10,000,000 in the case of Parent and $20,000,000, or such lower cross-default threshold amount as is provided in the SOMSC Credit Agreements, in the case of SOMSC) was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of the Borrower, any of its Subsidiaries or Parent shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

7.6. The Borrower or any of its Significant Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial portion of its Property, (d) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization

or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this SECTION 7.6, (f) fail to contest in good faith any appointment or proceeding described in SECTION 7.7 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.7. Without the application, approval or consent of the Borrower or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Significant Subsidiaries or any substantial portion of its Property, or a proceeding described in SECTION 7.6(d) shall be instituted against the Borrower or any of its Significant Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty (60) consecutive days.

7.8. The Borrower or any of its Subsidiaries shall fail within thirty (30) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $5,000,000), which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced.

7.9. Any Change in Control shall occur.

7.10. The occurrence of any "default", as defined in any Loan Document (other than this Agreement or the Notes) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement or the Notes), which default or breach continues beyond any period of grace therein provided.

7.11. Any License of any Insurance Subsidiary (a) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty (30) days after the commencement thereof, (b) shall be suspended by such Governmental Authority for a period in excess of thirty (30) days or (c) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in any case, could reasonably be expected to have a Material Adverse Effect.

7.12. Any Insurance Subsidiary shall be the subject of a final non-appealable order imposing a fine by or at the request of any state insurance regulatory agency as a result of the violation by such Insurance Subsidiary of such state's applicable insurance laws or the regulations promulgated in connection therewith which could reasonably be expected to have a Material Adverse Effect.

7.13. Any Insurance Subsidiary shall become subject to any conservation, rehabilitation or liquidation order, directive or mandate issued by any Governmental Authority or any Insurance Subsidiary shall become subject to any other directive or mandate issued by any Governmental

Authority in either case which could reasonably be expected to have a Material Adverse Effect and which is not stayed within thirty (30) days.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1. ACCELERATION. If any Default described in SECTIONS 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may terminate or suspend the obligations of the Lenders to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

If, within ten (10) Business Days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in SECTIONS 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. AMENDMENTS. Subject to the provisions of this ARTICLE VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; PROVIDED, HOWEVER, that no such supplemental agreement shall, without the consent of each Lender:

(a) Extend the final maturity of any Loan or Note or reduce the principal amount thereof, or, subject to SECTION 2.11, reduce the rate or extend the time of payment of interest or fees thereon;

(b) Reduce the percentage specified in the definition of Required Lenders;

(c) Reduce the amount of or extend the date for the mandatory payments and commitment reductions required under SECTIONS 2.1(b) or 2.7, or increase the amount of the Commitment of any Lender hereunder;

(d) Extend the Facility Termination Date or reduce the amount or extend the time of any mandatory commitment reduction required by SECTION 2.7;

(e) Amend this SECTION 8.2; or

(f) Permit any assignment by the Borrower of its Obligations or its rights hereunder.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. The Agent may waive payment of the fee required under SECTION 12.3.2 without obtaining the consent of any other party to this Agreement.

8.3. PRESERVATION OF RIGHTS. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to SECTION 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1. SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower contained in this Agreement or of the Borrower or any Subsidiary contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

9.2. GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. TAXES. Any stamp, documentary or similar taxes, assessments or charges payable or ruled payable by any governmental authority in respect of the Loan Documents shall be paid by the Borrower, together with interest and penalties, if any.

9.4. HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5. ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated August 14, 1998, in favor of First Chicago.

9.6. SEVERAL OBLIGATIONS; BENEFITS OF THIS AGREEMENT. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. EXPENSES; INDEMNIFICATION. The Borrower shall reimburse the Agent for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, actual or proposed amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents. The Borrower further agrees to indemnify the Agent and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

9.8. NUMBERS OF DOCUMENTS. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. NONLIABILITY OF LENDERS. The relationship between the Borrower and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to the Borrower by the Agent or the Lenders is for the protection of the Agent and the Lenders and neither the Borrower nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby or the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING,

DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. DISCLOSURE. The Borrower and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with the Borrower, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to the Borrower or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. TREATMENT OF CERTAIN INFORMATION: CONFIDENTIALITY.

(a) The Borrower acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Lender or by one or more subsidiaries or affiliates of such Lender and (ii) information delivered to each Lender by the 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 Lender hereunder.

(b) Each Lender 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 the Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statue, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender 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 Lender to keep such information confidential on substantially the terms set forth in this SECTION 9.17(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of the Borrower or any

of its Subsidiaries at any time during the continuance of a Default; PROVIDED that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by the Borrower.

ARTICLE X

THE AGENT

10.1. APPOINTMENT. First Chicago is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this ARTICLE X. The Agent shall not have a fiduciary relationship in respect of the Borrower or any Lender by reason of this Agreement.

10.2. POWERS. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. GENERAL IMMUNITY. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. NO RESPONSIBILITY FOR LOANS, RECITALS, ETC. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in ARTICLE IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. ACTION ON INSTRUCTIONS OF LENDERS. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by SECTION 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing

or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. EMPLOYMENT OF AGENTS AND COUNSEL. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. RELIANCE ON DOCUMENTS; COUNSEL. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. AGENT'S REIMBURSEMENT AND INDEMNIFICATION. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents, and (c) for any 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 in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents; PROVIDED, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this SECTION 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. NOTICE OF DEFAULT. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. RIGHTS AS A LENDER. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender, including, without limitation, pursuant to Article XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless

the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. LENDER CREDIT DECISION. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five (45) days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $50,000,000 and with a Lending Installation in the United States of America. 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 resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this ARTICLE X 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 hereunder and under the other Loan Documents.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. SETOFF. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. RATABLE PAYMENTS. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to SECTIONS 2.18, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender, other than Indebtedness evidenced by any of the Notes held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (a) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in compliance with SECTION 12.3. Notwithstanding CLAUSE (b) of the preceding sentence, any Lender may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; PROVIDED, HOWEVER, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with SECTION 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. PARTICIPATIONS.

12.2.1. PERMITTED PARTICIPANTS; EFFECT. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("PARTICIPANTS") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. VOTING RIGHTS. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in clauses (a) through (f) of SECTION 8.2.

12.2.3. BENEFIT OF SETOFF. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in SECTION 11.1 in respect of its participating interest in amounts

owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents; PROVIDED, that each Lender shall retain the right of setoff provided in SECTION 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in SECTION 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with SECTION 11.2 as if each Participant were a Lender.

12.3. ASSIGNMENTS.

12.3.1. PERMITTED ASSIGNMENTS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("PURCHASERS") all or any part of its rights and obligations under the Loan Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a Lender, such assignment shall be in a minimum amount (when added to the amount of the assignment of such Lender's obligations under the Valley Credit Agreement) of $5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of EXHIBIT C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Agent and, so long as no Default under SECTIONS 7.2, 7.6 or 7.7 is continuing, the Borrower, shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof. Such consent shall not be unreasonably withheld. Notwithstanding anything to the contrary contained herein, any assignment by a Lender of its rights and obligations under the Loan Documents shall be accompanied by an assignment to the same assignee of the same ratable share of the rights and obligations of such Lender under the Valley Credit Agreement in respect of its obligations thereunder.

12.3.2. EFFECT; EFFECTIVE DATE. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to EXHIBIT C hereto (a "NOTICE OF ASSIGNMENT"), together with any consents required by SECTION 12.3.1, and (b) payment of a $3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or action by the Borrower, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this SECTION 12.3.2, the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. DISSEMINATION OF INFORMATION. Subject to SECTION 9.17(b), the Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in

the Loan Documents by operation of law (each a "TRANSFEREE") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries.

12.5. TAX TREATMENT. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of SECTION 2.18.

ARTICLE XIII

NOTICES

13.1. GIVING NOTICE. All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3) Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. CHANGE OF ADDRESS. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XIV

AMENDMENT AND RESTATEMENT

14.1. (a) This Agreement amends and restates in its entirety the Existing Credit Agreement and, upon the Restatement Effective Date, the terms and provisions of the Existing Credit Agreement shall, subject to this ARTICLE XIV, be superseded hereby and thereby. Prior to the Restatement Effective Date, the Existing Credit Agreement shall continue to govern the making of any Loans and any outstanding Loans and Obligations.

(b) Notwithstanding the amendment and restatement of the Existing Credit Agreement by this Agreement, the Loans under, and as defined in, the Existing Credit Agreement ("Continuing Loans") and all accrued interest, fees and expenses owing to First Chicago and Fleet National Bank by the Borrower shall remain outstanding as of the Restatement Effective Date and constitute continuing Obligations under this Agreement. The Continuing Loans shall in all respects be continuing, and this Agreement shall not be deemed to evidence or result in a novation or

repayment and re-borrowing of the Continuing Loans. In furtherance of and without limiting the foregoing (i) all interest, fees and expenses which have arisen under the Existing Credit Agreement shall be paid on the applicable due date therefor specified in this Agreement and (ii) from and after the Restatement Effective Date, the terms, conditions and covenants governing the Continuing Loans shall be solely as set forth in this Agreement, which shall supersede the Prior Credit Agreement to the extent provided in this ARTICLE XIV.

[signature pages to follow]

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

WHITE MOUNTAINS HOLDINGS, INC.

By: ----------

Print Name: ----------

Title: ----------

Address: 80 South Main Street
Hanover, New Hampshire 03755
Attn: Reid T. Campbell
Vice President and
Director of Finance

Fax No.: (603) 640-2203
Tel. No.: (603) 643-4562

COMMITMENTS

		THE FIRST NATIONAL BANK OF CHICAGO,
Commitment	$27,307,692.31	Individually and as Agent
		By: _____
		Print Name: _____
		Title: _____
		Address: 153 West 51st Street New York, NY 10019 Attn: Samuel W. Bridges First Vice President Fax No.: (212) 373-1393 Tel. No.: (212) 373-1142
	$22,692,307.69	FLEET NATIONAL BANK
		By: _____
		Print Name: _____
		Title: _____
		Address: One Federal Street-MAOFD06H Boston, MA 02110-2010 Attn: David A. Bosselait _____ Fax No.: (617) 346-5825 Tel. No.: (617) 346-5823
Aggregate Initial Commitment	$50,000,000	

SCHEDULE 1
TO CREDIT AGREEMENT

MARGINS

"Applicable Eurodollar Margin" and "Applicable Facility Fee Margin" means, for any period, the applicable of the following percentages in effect with such period based on the Leverage Ratio and the Fixed Charges Coverage Ratio as follows:

	I	II	III	IV
Leverage Ratio is:	Less than 25%	Greater than or equal to 25%	Less than 25%	Greater than or equal to 25%
If Fixed Charges Coverage Ratio is:	Greater than 2:1	Greater than 2:1	Less than or equal to 2:1	Less than or equal to 2:1
The applicable margin will be:				
Applicable Facility Fee Margin	.150%	.175%	.175%	.200%
Applicable Eurodollar Margin	.350%	.450%	.450%	.550%

The Leverage Ratio and Fixed Charges Coverage Ratio shall be calculated by the Borrower as of the end of each of its Fiscal Quarters commencing September 30, 1998 and shall be reported to the Agent pursuant to a certificate executed by an authorized officer of the Borrower and delivered in accordance with SECTION 6.1(g) of the Agreement. The foregoing margins shall be adjusted, if necessary, quarterly as of the fifth (5th) day after the delivery of the certificate provided for above; PROVIDED that if such certificate, together with the financial statements to which such certificate relates, are not delivered by the fifth (5th) day after the due date therefor specified in SECTION 6.1(g), then until the fifth (5th) day after such delivery, each of the margins specified above shall be as set forth in Column IV above. Until adjusted as described above after September 30, 1998, the Applicable Eurodollar Margin and Applicable Facility Fee Margin, as the case may be, shall be as specified in Column II above.

EXHIBIT 10.C

$15,000,000

SECOND AMENDED AND RESTATED

CREDIT AGREEMENT

AMONG

VALLEY GROUP, INC.,

as Borrower,

WHITE MOUNTAINS HOLDINGS, INC.,

as Guarantor,

THE LENDERS NAMED HEREIN

and

THE FIRST NATIONAL BANK OF CHICAGO,

as Agent

DATED AS OF

August 14, 1998

TABLE OF CONTENTS

EXHIBITS

SCHEDULES

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This Second Amended and Restated Credit Agreement, dated as of August 14, 1998, is among VALLEY GROUP, INC., an Oregon corporation, WHITE MOUNTAINS HOLDINGS, INC., a Delaware corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrower, the Lenders and the Agent are party to that certain $15,000,000 amended and restated credit agreement, dated as of July 30, 1997 (the "Existing Credit Agreement").

B. The Borrower has requested that the Existing Credit Agreement be amended and restated in order to make certain amendments to the Existing Credit Agreement.

C. The Borrower, the Lenders and the Agent desire to amend and restate the Existing Credit Agreement on the terms and conditions set forth below to accomplish such amendments.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Loan Party, the Lenders and the Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement:

"ABR Advance" means an Advance which bears interest at the Alternate Base Rate.

"Adjusted Net Worth" means, with respect to Parent, Net Worth of Parent (on a consolidated basis) on the date of determination (without duplication for amounts already excluded), MINUS the aggregate book value of Parent's equity interest in SOMSC at such time, MINUS any intercompany loans or receivables owing from Holdings that are assets of Parent or its Subsidiaries at such time.

"Advance" means a borrowing pursuant to SECTION 2.1 consisting of the aggregate amount of the several Loans made on the same Borrowing Date by the Lenders to the Borrower of the same Type and, in the case of Eurodollar Advances, for the same Interest Period.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 20% or more of any class of voting securities (or other ownership

interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means First Chicago in its capacity as agent for the Lenders pursuant to ARTICLE X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to ARTICLE X.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders hereunder. The initial Aggregate Commitment is $15,000,000.

"Agreement" means this Second Amended and Restated Credit Agreement, as it may be amended, modified or restated and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time; PROVIDED, HOWEVER, that if any changes in accounting principles from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of generally accepted accounting principles in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5 hereof.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (a) the Corporate Base Rate for such day, and (b) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum, in each case changing when and as the Corporate Base Rate and the Federal Funds Effective Rate, as the case may be, changes.

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing annual statutory financial statements and shall contain the type of information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Eurodollar Margin" has the meaning ascribed to it by, and shall be determined in accordance with, SCHEDULE 1.

"Applicable Facility Fee Margin" has the meaning ascribed to it by, and shall be determined in accordance with, SCHEDULE 1.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Asset Disposition" means any sale, transfer or other disposition (outside the ordinary course of business) of any material asset of the Borrower in a single transaction or in a series of related transactions (other than the sale of a Money Market Investment, the net proceeds of which are utilized within one hundred eighty (180) days to pay dividends permitted by SECTION 6.10), including any such sale, transfer or disposition by means of a transaction permitted by SECTION 6.12.

"Authorized Officer" means, with respect to either Loan Party, any of the chief executive officer, president, chief financial officer, treasurer or controller of such Loan Party, acting singly.

"Bankruptcy Code" means Title 11, United States Code, sections 1 ET SEQ., as the same may be amended from time to time, and any successor thereto or replacement therefor which may be hereafter enacted.

"Benefit Plan" means any deferred benefit plan for the benefit of present, future or former employees, whether or not such benefit plan is a Plan.

"Borrower" means Valley Group, Inc., an Oregon corporation, and its successors and assigns.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in SECTION 2.8.

"Business Day" means (a) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market, and (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Change" is defined in SECTION 3.2.

"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than Holdings, any Wholly-Owned Subsidiary of Holdings, John J. Byrne or any Plan or any Benefit Plan of Holdings, Parent, the Borrower or any of their Subsidiaries), including without limitation any acquisition effected by means of any transaction contemplated by SECTION 6.12, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of the Borrower; or (b) during any period of twelve (12) consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "CONTINUING DIRECTORS") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower; or (c) during any period of twelve (12) consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower on the first day of each such period to constitute a majority of the Senior Management of the Borrower.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Commitment" means, for each Lender, the obligation of such Lender to make Loans not exceeding the amount set forth opposite its signature below and as set forth in any Notice of Assignment relating to any assignment which has become effective pursuant to SECTION 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

"Consolidated" or "consolidated", when used in connection with any calculation, means a calculation to be determined on a consolidated basis for a Person and its Subsidiaries in accordance with Agreement Accounting Principles.

"Consolidated Person" means, for the taxable year of reference, each Person which is a member of the affiliated group of Parent if Consolidated returns are or shall be filed for such affiliated group for federal income tax purposes or any combined or unitary group of which Parent is a member for state income tax purposes.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement or take-or-pay contract or application for a Letter of Credit, excluding however (a) insurance policies and insurance contracts issued in the ordinary course of business and (b) any financial guarantees issued by FSA.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with either Loan Party or any of their Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Conversion/Continuation Notice" is defined in SECTION 2.9.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest publicly announced by First Chicago from time to time, changing when and as said corporate base rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate of interest actually charged to any customer. First Chicago may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate.

"Default" means an event described in ARTICLE VII.

"Environmental Laws" is defined in SECTION 5.19.

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

"Eurodollar Advance" means an Advance which bears interest at the Eurodollar Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the rate determined by the Agent to be the rate at which deposits in U.S. dollars are offered by First Chicago to first-class banks in the London interbank market at approximately 11 a.m. (London time) two (2) Business Days prior to the first day of such Interest Period, in the approximate amount of First Chicago's relevant Eurodollar Advance and having a maturity approximately equal to such Interest Period.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (a) the quotient of (i) the Eurodollar Base Rate applicable to such Interest Period, divided by (ii) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus the Applicable Eurodollar Margin. The Eurodollar Rate shall be rounded to the next higher multiple of 1/100 of 1% if the rate is not such a multiple.

"Existing Credit Agreement" is defined in the recitals to this Agreement.

"Facility Fee" is defined in Section 2.4(a).

"Facility Termination Date" means July 30, 2002.

"FAE" means Fund American Enterprises, Inc. (f/k/a Fund American Enterprises II, Inc.), a Delaware corporation and direct Wholly-Owned Subsidiary of Parent.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Financial Statements" is defined in SECTION 5.5.

"First Chicago" means The First National Bank of Chicago in its individual capacity, and its successors.

"First-Tier Insurance Subsidiary" means any Insurance Subsidiary that is either (a) a direct Wholly-Owned Subsidiary of Parent or (b) a Wholly-Owned Subsidiary of a Subsidiary of Parent and there exists no Insurance Subsidiary in the chain of ownership between Parent and such Insurance Subsidiary.

"Fiscal Quarter" means one of the four three-month accounting periods comprising a Fiscal Year.

"Fiscal Year" means the twelve-month accounting period ending December 31 of each year.

"Fixed Charges Coverage Ratio" means, as of the end of any Fiscal Quarter, the ratio of:

(a) the sum, without duplication, of,

(i) investments of Parent, the Borrower, FAE, Charter Group, Inc., Charter General Agency, Inc., NCM Management Corporation and Folksamerica (but only after it becomes a Wholly-Owned Subsidiary of Parent) in cash and Money Market Investments as of the end of such Fiscal Quarter, PLUS

(ii) an amount equal to the maximum amount of dividends and intercompany fees available to be paid to Parent, the Borrower, FAE and Folksamerica (but only after it becomes a Wholly-Owned Subsidiary of Parent) without approval of any Governmental Authority by each present and future Wholly- Owned Subsidiary of Parent that is a First-Tier Insurance Subsidiary of either Parent or any of its Subsidiaries that is not an Insurance Subsidiary pursuant to applicable insurance statutes, rules and regulations of the applicable Governmental Authority during the succeeding four Fiscal Quarters, to

(b) Fixed Charges.

"Fixed Charges" means, with respect to Holdings, Parent and the Borrower, as of the end of any Fiscal Quarter, the sum, without duplication and after giving effect to consolidation, of (a) the sum of all interest expense on outstanding Indebtedness (determined by adjusting the principal amount of such Indebtedness for scheduled amortization payments and assuming that the applicable interest rate in effect as of the date of determination would remain constant during the succeeding four Fiscal Quarter period) payable by Holdings, Parent, the Borrower and any of Parent's Wholly- Owned Subsidiaries (other than any Unrestricted Subsidiary), (b) dividends payable on preferred stock by Holdings, Parent, the Borrower and any of Parent's Wholly-Owned Subsidiaries (other than any Unrestricted Subsidiary), (c) Indebtedness payable pursuant to the scheduled amortization of such Indebtedness by Holdings, Parent, the Borrower and any of Parent's Wholly-Owned Subsidiaries (other than any Unrestricted Subsidiary), (d) Loans payable pursuant to SECTION 2.1(b) as a result of reductions in the Aggregate Commitment occurring in any such period pursuant to SECTION 2.7(a) (subject to the last sentence of this definition with respect to the July 30, 2002 reduction), and Loans (as defined in the White Mountains Credit Agreement) payable pursuant to Section 2.1(b) of the White Mountains Credit Agreement as a result of reductions in the Aggregate Commitment (as determined in the White Mountains Credit Agreement) occurring in any such period pursuant to Section 2.7(a) of the White Mountains Credit Agreement (subject to the last sentence of this definition with respect to the July 30, 2002 reduction), in each case for the period of four Fiscal Quarters immediately following the date of determination. Solely for purposes of computing Fixed Charges under the preceding CLAUSE (c), the scheduled principal payment of approximately $56,000,000 due on or before March 31, 1999 under the Folksamerica Loan Agreement shall not be included. Solely for purposes of computing Fixed Charges under the preceding CLAUSE (d) for any period on or after June 30, 2001, the "Reduction Amount" on July 30, 2002 stated in SECTION 2.7(a) shall be deemed to be $2,000,000 and the "Reduction Amount" on July 30, 2002 stated in Section 2.7(a) of the White Mountains Credit Agreement shall be deemed to be $4,000,000.

"Folksamerica" means Folksamerica Holding Company, Inc., a New York corporation.

"Folksamerica Loan Agreement means that certain $70,000,000 loan agreement between Folksamerica and Swedbank (Sparbanken Sverige AB (publ), New York Branch, dated as of November 12, 1991, as amended.

"Folksamerica Transaction" means that certain transaction by which (a) Parent and/or FAE acquires all of the outstanding capital stock of Folksamerica not already owned by Parent and (b) Holdings assumes the obligations of each of Folksam Omsesidig Sakforsakring (Sweden) and Samvirke Skadeforsikring AS (Norway) (collectively, the "Folksamerica Guarantors") to guarantee the obligations of Folksamerica (the "Folksamerica Guaranty") under the Folksamerica Loan Agreement and (c) Holdings indemnifies the Folksamerica Guarantors and their respective affiliates, successors and assigns with respect to various matters relating to the Folksamerica Guaranty.

"FSA" means Financial Security Assurance Holdings Ltd., a New York corporation.

"FSA Amount" means an amount equal to that immediately utilized by SOMSC to exercise certain options, in existence on the date hereof, on the capital stock of FSA, such amount not to exceed $18,000,000.

"Funded Indebtedness" means Indebtedness of the type described in clauses (a), (d), (e) and (h) of the definition "Indebtedness".

"Governmental Authority" means any government (foreign or domestic) or any state or other political subdivision thereof or any governmental body, agency, authority, department or commission (including without limitation any board of insurance, insurance department or insurance commissioner and any taxing authority or political subdivision) or any instrumentality or officer thereof (including without limitation any court or tribunal) exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any corporation, partnership or other entity directly or indirectly owned or controlled by or subject to the control of any of the foregoing.

"Guaranty" means the Guaranty of Parent pursuant to ARTICLE XIV.

"Hazardous Materials" is defined in SECTION 5.19.

"Holdings" means Fund American Enterprises Holdings, Inc., a Delaware corporation.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) Capitalized Lease Obligations, (f) Rate Hedging Obligations, (g) Contingent Obligations, (h) obligations for which such Person is obligated pursuant to or in respect of a Letter of Credit and (i) repurchase obligations or liabilities of such Person with respect to accounts or notes receivable sold by such Person.

"Insurance Subsidiary" means any Subsidiary which is engaged in the insurance business as an issuer or underwriter of insurance policies and/or insurance contracts.

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one, two, three or six months thereafter; PROVIDED, HOWEVER, that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day; PROVIDED, HOWEVER, that if said next succeeding Business Day

falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, partnership interests, notes, debentures or other securities of any other Person made by such Person.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender or the Agent, any office, branch, subsidiary or affiliate of such Lender or the Agent.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Leverage Ratio" means, at any time, the ratio of (a) the consolidated Funded Indebtedness of Holdings (excluding SOMSC) at such time to (b) the sum of the consolidated Funded Indebtedness of Parent and its Subsidiaries, other than SOMSC, at such time PLUS Adjusted Net Worth at such time, in all cases determined in accordance with Agreement Accounting Principles.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance business.

"Lien" means any security interest, lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement), save in respect of liabilities and obligations arising out of the underwriting of insurance policies and contracts of insurance.

"Loan" means, with respect to a Lender, such Lender's portion of any Advance and "Loans" means, with respect to the Lenders, the aggregate of all Advances.

"Loan Documents" means this Agreement, the Notes and the other documents and agreements contemplated hereby and executed by either Loan Party in favor of the Agent or any Lender.

"Loan Party" means each and either of the Borrower or Parent.

"Margin Stock" has the meaning assigned to that term under Regulation U.

"Material Adverse Effect" means a material adverse effect on (a) the business, Property, condition (financial or other), performance, results of operations, or prospects of Parent and its Subsidiaries taken as a whole, (b) the ability of Parent, the Borrower or any Subsidiary of Parent or the Borrower to perform its obligations under the Loan Documents, or (c) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Money Market Investments" means (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 ninety (90) days from the date of acquisition thereof; (c) commercial paper rated A-1 or better P-1 or better by Standard & Poor's Ratings Group or Moody's Investors Services, Inc., respectively, maturing not more than ninety (90) days from the date of acquisition thereof; and (d) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a dollar weighted average maturity of not more than one year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which either Loan Party or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"NAIC" means the National Association of Insurance Commissioners or any successor thereto, or in lieu thereof, any other association, agency or other organization performing advisory, coordination or other like functions among insurance departments, insurance commissioners and similar Governmental Authorities of the various states of the United States toward the promotion of uniformity in the practices of such Governmental Authorities.

"Net Available Proceeds" means (a) with respect to any Asset Disposition, the sum of cash or readily marketable cash equivalents received (including by way of a cash generating sale or discounting of a note or account receivable) therefrom, whether at the time of such disposition or subsequent thereto, in excess in the case of any Asset Disposition of any amounts derived from such sale used (and permitted by this Agreement to be used) within one hundred eighty (180) days after such sale to make a Permitted Reinvestment, or (b) with respect to any sale or issuance of equity securities of the Borrower, cash or readily marketable cash equivalents received therefrom, whether at the time of such sale or issuance or subsequent thereto, net, in the case of either CLAUSE (a) or

CLAUSE (b), of all legal, title and recording tax expenses, commissions and other fees and all costs and expenses incurred, including, without limitation, incremental income taxes resulting from such transaction.

"Net Worth" means, with respect to any Person, at any date the consolidated shareholders' equity of such Person and its Consolidated Subsidiaries determined in accordance with Agreement Accounting Principles (but excluding the effect of Statement of Financial Accounting Standards No. 115).

"Non-Excluded Taxes" is defined in SECTION 2.18(a).

"Note" means a promissory note in substantially the form of EXHIBIT A hereto, with appropriate insertions, duly executed and delivered to the Agent by the Borrower and payable to the order of a Lender in the amount of its Commitment, including any amendment, modification, renewal or replacement of such promissory note.

"Notice of Assignment" is defined in SECTION 12.3.2.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Notes, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of each Loan Party to the Lenders or to any Lender, the Agent or any indemnified party hereunder arising under any of the Loan Documents.

"Parent" means White Mountains Holdings, Inc., a Delaware corporation, formerly known as Fund American Enterprises, Inc. and the survivor of a merger with White Mountains Holdings, Inc., a Hew Hampshire corporation.

"Participants" is defined in SECTION 12.2.1.

"Payment Date" means the last day of each March, June, September and December.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereto.

"Permitted Reinvestment" means an Investment in Subsidiaries (other than any Unrestricted Subsidiary) in existence on the date hereof, an Investment in Main Street America Holdings, Inc., or any other Investment approved by the Required Lenders.

"Person" means any natural person, corporation, firm, joint venture, partnership, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan, as defined in Section 3(2) of ERISA, as to which either Loan Party or any member of the Controlled Group may have any liability.

"Proceeding" is defined in SECTION 5.19.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"pro-rata" means, when used with respect to a Lender, and any described aggregate or total amount, an amount equal to such Lender's pro-rata share or portion based on its percentage of the Aggregate Commitment or if the Aggregate Commitment has been terminated, its percentage of the aggregate principal amount of outstanding Advances.

"Purchase" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which either Loan Party or any of their Subsidiaries (a) acquiresany going business or all or substantially all of the assets of any firm, corporation or division or line of business thereof, whether through purchase of assets, merger or otherwise, or (b) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding partnership interests of a partnership.

"Purchasers" is defined in SECTION 12.3.1.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing quarterly statutory financial statements and shall contain the type of financial information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Rate Hedging Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official

interpretation of said Board of Governors relating to reserve requirements applicable to depositary institutions.

"Regulation T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of such Board of Governors relating to the extension of credit by securities brokers and dealers for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by the specified lenders for the purpose of purchasing or carrying margin stocks applicable to such Persons.

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 ET SEQ.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty (30) days of the occurrence of such event; PROVIDED, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Required Lenders" means Lenders in the aggregate having at least 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding at least 66-2/3% of the aggregate unpaid principal amount of the outstanding Loans.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Restatement Effective Date" means the date on which all conditions precedent set forth in SECTION 4.1 are satisfied or waived by all of the Lenders.

"Risk-Based Capital Guidelines" is defined in SECTION 3.2.

"SAP" means, with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the insurance commissioner (or other similar authority) in the jurisdiction of such Person for the preparation of annual statements and other financial reports by insurance companies of the same type as such Person in effect from time to time; PROVIDED, HOWEVER, that if any changes in statutory accounting practices from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of statutory accounting practices in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to SECTION 5.5(j) AND (k) hereof.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Significant Subsidiary" shall mean and include, at any time, each Subsidiary of the Borrower to the extent that the Net Worth of such Subsidiary is equal to or greater than $5,000,000.

"Single Employer Plan" means a Plan subject to Title IV of ERISA maintained by either Loan Party or any member of the Controlled Group for employees of either Loan Party or any member of the Controlled Group, other than a Multiemployer Plan.

"Solvent" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with Agreement Accounting Principles and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "Solvency" shall have a correlative meaning.

"SOMSC" means Source One Mortgage Services Corporation, a Delaware corporation.

"SOMSC Credit Agreements" means the credit agreement or credit agreements from time to time in effect among SOMSC, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented, restated, replaced or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"Statutory Surplus" means, with respect to any Insurance Subsidiary at any time, the statutory capital and surplus of such Insurance Subsidiary at such time, as determined in accordance

with SAP ("Liabilities, Surplus and Other Funds" statement, page 3, line 25 of the Annual Statement for the 1995 Fiscal Year entitled "Surplus as Regards Policyholders").

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, association, joint venture, limited liability company or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Termination Event" means, with respect to a Plan which is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of either Loan Party or any other member of the Controlled Group from such Plan during a plan year in which either Loan Party or any other member of the Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Plan, the filing of a notice of intent to terminate such Plan or the treatment of an amendment of such Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Plan or (e) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Plan.

"Transferee" is defined in SECTION 12.4.

"Type" means, with respect to any Advance, its nature as an ABR Advance or Eurodollar Advance.

"Unfunded Liability" means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Unrestricted Subsidiary" means SOMSC and its Subsidiaries.

"White Mountains Credit Agreement" means the Second Amended and Restated Credit Agreement, dated as of August 14, 1998, among Parent, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time (and, subsequent to the termination thereof, as in effect on the date of such termination).

"Wholly-Owned Subsidiary" of a Person means (a) any Subsidiary all of the outstanding voting securities of which (other than directors' qualifying or similar shares) shall at the time be

owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (b) any partnership, association, joint venture, limited liability company or similar business organization 100% of the ownership interests having ordinary voting power of which (other than directors' qualifying or similar shares) shall at the time be so owned or controlled.

"Year 2000 Issues" means anticipated costs, problems and uncertainties associated with the inability of certain computer applications and hardware to effectively function on and after January 1, 2000, as such inability affects the business, operations and financial condition of either Loan Party and their Subsidiaries and of either Loan Party's and their Subsidiaries' material customers, suppliers and vendors.

"Year 2000 Program" is defined in SECTION 5.22.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. References herein to particular columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding column, line or section of such Person's Quarterly Statement, or if no such corresponding column, line or section exists or if any report form changes, then to the corresponding item referenced thereby. In the event that the columns, lines or sections of the Annual Statement referenced herein are changed or renumbered, all such references shall be deemed references to such column, line or section as so renumbered or changed. Each accounting term used herein which is not otherwise defined herein shall be defined in accordance with Agreement Accounting Principles or SAP, as applicable, unless otherwise specified.

ARTICLE II

THE CREDITS

2.1. ADVANCES. (a) From and including the date hereof to but excluding the Facility Termination Date, each Lender severally (and not jointly) agrees, on the terms and conditions set forth in this Agreement, to make Advances to the Borrower from time to time in amounts not to exceed in the aggregate at any one time outstanding the amount of its pro-rata share of the Aggregate Commitment existing at such time. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Advances at any time prior to the Facility Termination Date.

(b) The Borrower hereby agrees that if at any time, as a result of reductions in the Aggregate Commitment pursuant to SECTION 2.7 or otherwise, the aggregate balance of the Loans exceeds the Aggregate Commitment, the Borrower shall repay immediately its then outstanding Loans in such amount as may be necessary to eliminate such excess.

(c) The Borrower's obligation to pay the principal of, and interest on, the Loans shall be evidenced by the Notes. Although the Notes shall be dated the date of this Agreement,

interest in respect thereof shall be payable only for the periods during which the Loans evidenced thereby are outstanding and, although the stated amount of each Note shall be equal to the applicable Lender's Commitment, each Note shall be enforceable, with respect to the Borrower's obligation to pay the principal amount thereof, only to the extent of the unpaid principal amount of the Loans at the time evidenced thereby.

(d) All Advances and all Loans shall mature, and the principal amount thereof and the unpaid accrued interest thereon shall be due and payable, on the Facility Termination Date.

2.2. RATABLE LOANS. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment.

2.3. TYPES OF ADVANCES. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with SECTIONS 2.8 and 2.9.

2.4. FACILITY FEE; REDUCTIONS IN AGGREGATE COMMITMENT.

(a) The Borrower agrees to pay to the Agent for the account of each Lender a facility fee ("Facility Fee") in an amount equal to the Applicable Facility Fee Margin per annum times the daily average Commitment of such Lender from the date hereof to and including the Facility Termination Date, payable on each Payment Date hereafter and on the Facility Termination Date. All accrued Facility Fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Loans hereunder.

(b) The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in a minimum aggregate amount of $1,000,000 upon at least three (3) Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction; PROVIDED, HOWEVER, that the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances. Such reductions shall be in addition to reductions occurring pursuant to SECTION 2.7(b). Voluntary commitment reductions pursuant to this SECTION 2.4(b) shall be applied to the mandatory commitment reductions required to be made pursuant to SECTION 2.7(a) in direct order of maturity.

2.5. MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the minimum amount of $1,000,000 (and in integral multiples of $500,000 if in excess thereof); PROVIDED, HOWEVER, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

2.6. OPTIONAL PRINCIPAL PAYMENTS. The Borrower may from time to time pay, without penalty or premium, all outstanding ABR Advances, or, in a minimum aggregate amount of $1,000,000 any portion of the outstanding ABR Advances upon two (2) Business Days' prior notice to the Agent. Subject to SECTION 3.4 and upon like notice, a Eurodollar Advance may be paid prior

to the last day of the applicable Interest Period in a minimum amount of $1,000,000 or an integral multiple of $500,000 in excess thereof.

2.7. MANDATORY COMMITMENT REDUCTIONS. (a) The Aggregate Commitment shall be automatically and permanently reduced by the following amounts (or such lesser amount as a result of reductions pursuant to SECTION 2.7(c)) on the following dates:

DATE	REDUCTION AMOUNT
June 30, 1999	$ 1,000,000
June 30, 2000	$ 2,000,000
June 30, 2001	$ 2,000,000
July 30, 2002	$10,000,000

(b) The Aggregate Commitment shall also be automatically and permanently reduced in the amounts and at the times set forth below:

(i) within one hundred eighty (180) days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 100% of the aggregate Net Available Proceeds in excess of $1,000,000 realized upon all Asset Dispositions in any Fiscal Year of the Borrower; and

(ii) within five (5) Business Days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 85% of the Net Available Proceeds realized upon the sale by the Borrower of any equity securities issued by it or equity contributed to it after the date of this Agreement in excess of an aggregate amount of $1,000,000 (other than a sale of common stock of the Borrower to Parent).

(c) Mandatory commitment reductions under SECTION 2.7(b) shall be cumulative and in addition to reductions occurring pursuant to SECTION 2.4(b). Any mandatory commitment reductions under SECTION 2.7(b) shall be applied to the mandatory commitment reductions required to be made pursuant to SECTION 2.7(a) in the inverse order of maturity.

(d) Any reduction in the Aggregate Commitment pursuant to this SECTION 2.7 or otherwise shall ratably reduce the Commitment of each Lender.

2.8. METHOD OF SELECTING TYPES AND INTEREST PERIODS FOR NEW ADVANCES. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; PROVIDED, HOWEVER, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "BORROWING NOTICE") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

(a) the Borrowing Date of such Advance, which shall be a Business Day;

(b) the aggregate amount of such Advance;

(c) the Type of Advance selected;

(d) in the case of each Eurodollar Advance, the Interest Period applicable thereto, which shall end on or prior to the Facility Termination Date; and

(e) any changes to money transfer instructions previously delivered to the Agent.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago, to the Agent at its address specified pursuant to ARTICLE XIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address or at such account at such other institution in the United States of America as the Borrower may indicate in the Borrowing Notice.

2.9. CONVERSION AND CONTINUATION OF OUTSTANDING ADVANCES. ABR Advances shall continue as ABR Advances unless and until such ABR Advances are converted into Eurodollar Advances. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an ABR Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of SECTION 2.5, the Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; PROVIDED, HOWEVER, that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "CONVERSION/ CONTINUATION NOTICE") of each conversion of an ABR Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) on the conversion date, in the case of a conversion into an ABR Advance, or at least three (3) Business Days, in the case of a conversion into or continuation of a Eurodollar Advance, prior to the date of the requested conversion or continuation, specifying:

(a) the requested date of such conversion or continuation, which shall be a Business Day;

(b) the aggregate amount and Type of the Advance which is to be converted or continued; and

(c) the amount and Type(s) of Advance(s) into which such Advance is to be converted or continued and, in the case of a conversion into or continuation of a Eurodollar Advance, the duration of the Interest Period applicable thereto, which shall end on or prior to the Facility Termination Date.

2.10. CHANGES IN INTEREST RATE, ETC. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance

was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined as applicable to such Eurodollar Advance plus the Applicable Eurodollar Margin. No Interest Period may end after the Facility Termination Date. The Borrower shall select Interest Periods so that it is not necessary to repay any portion of a Eurodollar Advance prior to the last day of the applicable Interest Period in order to make a mandatory repayment required pursuant to SECTION 2.7(A).

2.11. RATES APPLICABLE AFTER DEFAULT. Notwithstanding anything to the contrary contained in SECTIONS 2.8 or 2.9, no Advance may be made as, converted into or continued as a Eurodollar Advance (except with the consent of the Agent and the Required Lenders) when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of SECTION 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that each Eurodollar Advance and ABR Advance shall bear interest (for the remainder of the applicable Interest Period in the case of Eurodollar Advances) at a rate per annum equal to the rate otherwise applicable plus two percent (2%) per annum; PROVIDED, HOWEVER, that such increased rate shall automatically and without action of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in SECTIONS 7.6 or 7.7.

2.12. METHOD OF PAYMENT. All payments of the Obligations hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to ARTICLE XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower (at least two (2) Business Days in advance) by noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to ARTICLE XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with the Agent for each payment of principal, interest and fees as it becomes due hereunder.

2.13. NOTES. Each Lender is hereby authorized to record the principal amount of each of its Loans and each repayment on the schedule attached to its Note; PROVIDED, HOWEVER, that neither the failure to so record nor any error in such recordation shall affect the Borrower's obligations under such Note.

2.14. INTEREST PAYMENT DATES; INTEREST AND FEE BASIS. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of

any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three (3) months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.15. NOTIFICATION OF ADVANCES, INTEREST RATES, PREPAYMENTS AND COMMITMENT REDUCTIONS. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.16. LENDING INSTALLATIONS. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Notes shall be deemed held by each Lender for the benefit of such Lending Installation. Each Lender may, by written or telex notice to the Agent and the Borrower, designate a Lending Installation through which Loans will be made by it and for whose account Loan payments are to be made.

2.17. NON-RECEIPT OF FUNDS BY THE AGENT. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrower has not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, 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 Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrower shall, on demand by the Agent, 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 (a) in the case of payment by a Lender, the Federal Funds Effective Rate for such day, or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.18. TAXES. (a) Any payments made by either Loan Party under this Agreement or any other Loan Document shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax based upon any income imposed on the Agent or any Lender by the jurisdiction in which the Agent or such Lender is incorporated or has its principal place of business or maintains its Lending Installation. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non- Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Agreement; PROVIDED, HOWEVER, that no Loan Party shall be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this SECTION 2.18. Whenever any Non-Excluded Taxes are payable by either Loan Party, as promptly as practicable thereafter such Loan Party shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by such Loan Party showing payment thereof. If either Loan Party fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, each Loan Party shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this SECTION 2.18 shall survive the termination of this Agreement and the payment of all other amounts payable hereunder.

(b) At least five (5) Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Lender, each Lender that is not incorporated under the laws of the United States of America, or a state thereof, agrees that it will deliver to each of the Borrower and the Agent two (2) duly completed and properly executed copies of United States Internal Revenue Service Form 1001 or 4224 (or a successor form), certifying in either case that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Lender which so delivers a Form 1001 or 4224 (or a successor form) further undertakes to deliver to each of the Borrower and the Agent two (2) additional duly completed and properly executed copies of such form (or a successor form) on or before the date that such form expires (currently, three (3) successive calendar years for Form 1001 and each tax year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent forms so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with

respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

2.19. AGENT'S FEES. The Borrower shall pay to the Agent those fees, in addition to the Facility Fees referenced in SECTION 2.4(a), in the amounts and at the times separately agreed to between the Agent and the Borrower.

ARTICLE III

CHANGE IN CIRCUMSTANCES

3.1. YIELD PROTECTION. If, after the date hereof, the adoption of or any change in any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any new interpretation thereof, or the compliance of any Lender with such adoption, change or interpretation,

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding taxation of the overall net income of any Lender or applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending Installation is incorporated or has its principal place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(c) imposes any other condition the result of which is to increase the cost to any Lender or any applicable Lending Installation of making, funding or maintaining Loans or reduces any amount receivable by any Lender or any applicable Lending Installation in connection with any Loans, or requires any Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of Loans held, or interest received by it, by an amount deemed material by such Lender,

then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender that portion of such increased expense incurred or resulting in an amount received which such Lender determines is attributable to making, funding and maintaining its Loans and its Commitment.

3.2. CHANGES IN CAPITAL ADEQUACY REGULATIONS. If a Lender determines the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such

Lender or any corporation controlling such Lender is increased as a result of a Change, then, within fifteen (15) days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "CHANGE" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "RISK-BASED CAPITAL GUIDELINES" means (a) the risk-based capital guidelines in effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. AVAILABILITY OF TYPES OF ADVANCES. If any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (a) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available, or (b) the interest rate applicable to a Eurodollar Advance does not accurately or fairly reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of the Eurodollar Advances until such circumstance no longer exists and require any Eurodollar Advances to be repaid.

3.4. FUNDING INDEMNIFICATION. If any payment of a Eurodollar Advance occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify the Agent and each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain the Eurodollar Advance.

3.5. LENDER STATEMENTS; SURVIVAL OF INDEMNITY. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to such Lender under SECTIONS 2.18, 3.1 and 3.2 or to avoid the unavailability of a Type of Advance under SECTION 3.3, so long as such designation is not disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under SECTIONS 3.1, 3.2 or 3.4. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advance shall be calculated as though each Lender funded its Eurodollar Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a

reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under SECTIONS 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. EFFECTIVENESS. The Lenders shall not be required to make the initial Advance hereunder unless and until each Loan Party has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) CHARTER DOCUMENTS; GOOD STANDING CERTIFICATES. Copies of the certificate of incorporation of each Loan Party, together with all amendments thereto, both certified by the appropriate governmental officer in its jurisdiction of incorporation, together with a good standing certificate issued by the Secretary of State of the jurisdiction of its incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) BY-LAWS AND RESOLUTIONS. Copies, certified by the Secretary or Assistant Secretary of the relevant Loan Party, of its by-laws and of its Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which it is a party.

(c) SECRETARY'S CERTIFICATE. An incumbency certificate, executed by the Secretary or Assistant Secretary of the relevant Loan Party, which shall identify by name and title and bear the signature of the officers of such Loan Party authorized to sign the Loan Documents and, in the case of the Borrower, to make borrowings hereunder, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.

(d) OFFICER'S CERTIFICATE. A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the Restatement Effective Date (both before and after giving effect to the consummation of the transactions contemplated hereby and the making of the Loans hereunder, if any, being made on such date): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of any Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time

required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the relevant Loan Party has obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and warranties set forth in ARTICLE V of this Agreement is true and correct on and as of the Restatement Effective Date; and (v) since December 31, 1997, no event or change has occurred that has caused or evidences a Material Adverse Effect.

(e) LEGAL OPINION. A written opinion of Brobeck, Phleger & Harrison LLP., counsel to each Loan Party, addressed to the Agent and the Lenders in form and substance acceptable to the Agent and its counsel.

(f) NOTES. Notes payable to the order of each of the Lenders duly executed by the Borrower.

(g) LOAN DOCUMENTS. Executed originals of this Agreement and each of the Loan Documents, which shall be in full force and effect, together with all schedules, exhibits, certificates, instruments, opinions, documents and financial statements required to be delivered pursuant hereto and thereto.

(h) LETTERS OF DIRECTION. Written money transfer instructions with respect to the initial Advances and to future Advances in form and substance acceptable to the Agent and its counsel addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested.

(i) SOLVENCY CERTIFICATE. A written solvency certificate from the chief financial officer of the relevant Loan Party in form and content satisfactory to the Agent with respect to the value, Solvency and other factual information, or relating to, as the case may be, of such Loan Party on a consolidated basis.

(j) REGULATORY MATTERS. Receipt of any required regulatory approvals from any Governmental Authority.

(k) INVESTMENT POLICY GUIDELINES. Certified copy of the investment policy guidelines adopted by the finance committee of the board of directors of Parent and the board of directors of the Borrower.

(l) PAYMENT OF FEES. The Borrower shall have paid all fees due to First Chicago.

(m) FOLKSAMERICA LOAN AGREEMENT. A copy of the Folksamerica Loan Agreement, including all amendments thereto.

(n) OTHER. Such other documents as the Agent, any Lender or their counsel may have reasonably requested.

4.2. EACH FUTURE ADVANCE. The Lenders shall not be required to make any Advance unless on the applicable Borrowing Date:

(a) There exists no Default or Unmatured Default and none would result from such Advance;

(b) The representations and warranties contained in ARTICLE V are true and correct as of such Borrowing Date (except to the extent such representations and warranties are expressly made as of a specified date, in which event such representations and warranties shall be true and correct as of such specified date);

(c) A Borrowing Notice shall have been properly submitted; and

(d) All legal matters incident to the making of such Advance shall be satisfactory to the Lenders and their counsel.

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by each Loan Party that the conditions contained in SECTIONS 4.2(a), (b) AND (c) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of EXHIBIT B hereto as a condition to making an Advance.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Each Loan Party represents and warrants to the Lenders that:

5.1. CORPORATE EXISTENCE AND STANDING. Each Loan Party and each of its Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

5.2. AUTHORIZATION AND VALIDITY. Each Loan Party has all requisite power and authority (corporate and otherwise) and legal right to execute and deliver each of the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by each Loan Party of the Loan Documents to which it is a party and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings and the Loan Documents constitute legal, valid and binding obligations of such Loan Party enforceable against it in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3. COMPLIANCE WITH LAWS AND CONTRACTS. Each Loan Party and each of its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and

restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by either Loan Party of the Loan Documents to which it is party, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations T, U and X), order, writ, judgment, injunction, decree or award binding on such Loan Party or any of its Subsidiaries or the charter, articles or certificate of incorporation or by-laws of such Loan Party or any of its Subsidiaries, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which such Loan Party or any of its Subsidiaries is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the Loan Documents) in, of or on the property of such Loan Party or any of its Subsidiaries pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on SCHEDULE 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. GOVERNMENTAL CONSENTS. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents or the application of the proceeds of the Loans or any other transaction contemplated in the Loan Documents. No Loan Party nor any of its Subsidiaries is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to such Loan Party or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. FINANCIAL STATEMENTS. The Loan Parties have heretofore furnished to each of the Lenders (a) the December 31, 1997 audited consolidated financial statements of Parent and its Subsidiaries, (b) the unaudited consolidated financial statements of Parent and its Subsidiaries as of March 31, 1998, (c) the December 31, 1997 audited financial statements of Charter Group, Inc. and its Subsidiaries, (d) the December 31, 1997 audited financial statements of Valley Insurance Co. and its Subsidiaries, (e) the December 31, 1997 audited consolidated financial statements of the Borrower and its Subsidiaries, (f) the December 31, 1997 audited financial statements of SOMSC and its Subsidiaries , (g) the December 31, 1997 audited financial statements of Holdings and its Subsidiaries, (h) the December 31, 1997 audited financial statements of Folksamerica and its Subsidiaries, (i) the December 31, 1997 audited financial statements of Main Street America Holdings, Inc. and its Subsidiaries, (j) the March 31, 1998 unaudited balance sheets and income

statements of Holdings, Parent, the Borrower , SOMSC, Folksamerica and Main Street America Holdings, Inc., (k) the December 31, 1997 Annual Statement of each Insurance Subsidiary of Parent and the Borrower and Folksamerica Reinsurance Company and (l) the March 31, 1998 Quarterly Statement of each Insurance Subsidiary of Parent and the Borrower and Folksamerica Reinsurance Company (collectively, the "FINANCIAL STATEMENTS"). Each of the Financial Statements (other than as described in CLAUSE (j)) was prepared in accordance with Agreement Accounting Principles or SAP, as applicable, and fairly presents the consolidated financial condition and operations of the Person which is the subject of such Financial Statements at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. MATERIAL ADVERSE CHANGE. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of either Loan Party and its Subsidiaries has occurred since December 31, 1997, except as specifically disclosed in the Financial Statements.

5.7. TAXES. Neither Loan Party nor any of its Subsidiaries is required to file United States federal, foreign, state or local tax returns. As of the date hereof, the United States income tax returns of Holdings on a consolidated basis have been audited by the Internal Revenue Service through its fiscal period ending December 31, 1988, and all tax years beginning on or after January 1, 1989 are currently being audited or are subject to audit. No tax liens have been filed and no claims are being asserted with respect to any taxes of Holdings which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of Holdings in respect of any taxes or other governmental charges of Holdings are in accordance with Agreement Accounting Principles.

5.8. LITIGATION AND CONTINGENT OBLIGATIONS. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting either Loan Party or any of its Subsidiaries or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. No Loan Party nor any of its Subsidiaries has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on SCHEDULE 5.16 or disclosed in the Financial Statements or in the financial statements required to be delivered under SECTIONS 6.1(a) and (b) and as permitted under this Agreement.

5.9. CAPITALIZATION. SCHEDULE 5.9 hereto contains (a) an accurate description of each Loan Party's capitalization as of March 31, 1998 and (b) an accurate list of all of the existing Subsidiaries of each Loan Party as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by such Loan Party or its other Subsidiaries. All of the issued and outstanding shares of capital stock of each Loan Party and of each Subsidiary of such Loan Party have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens. No authorized but unissued or treasury shares of capital stock of each Loan Party or any of its Subsidiaries are subject to any option,

warrant, right to call or commitment of any kind or character. Except as set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement, no Loan Party nor any of its Subsidiaries has any outstanding stock or securities convertible into or exchangeable for any shares of its capital stock, or any right issued to any Person (either preemptive or other) to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to any of its capital stock or any stock or securities convertible into or exchangeable for any of its capital stock other than as expressly set forth in the certificate or articles of incorporation of such Loan Party or such Subsidiary. No Loan Party nor any of its Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital stock or any convertible securities, rights or options of the type described in the preceding sentence except as otherwise set forth on SCHEDULE 5.9 or pursuant to management incentive plans implemented after the date of this Agreement.

5.10. ERISA. Except as disclosed on SCHEDULE 5.10, no Loan Party nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability. No Loan Party nor any other member of the Controlled Group maintains, or is obligated to contribute to, any Multiemployer Plan or has incurred, or is reasonably expected to incur, any withdrawal liability to any Multiemployer Plan. Each Plan complies in all material respects with all applicable requirements of law and regulations other than any such failure to comply which could not reasonably be expected to have a Material Adverse Effect. No Loan Party nor any member of the Controlled Group has, with respect to any Plan, failed to make any contribution or pay any amount required under Section 412 of the Code or Section 302 of ERISA or the terms of such Plan. There are no pending or, to the knowledge of either Loan Party, threatened claims, actions, investigations or lawsuits against any Plan, any fiduciary thereof, or either Loan Party or any member of the Controlled Group with respect to a Plan. No Loan Party nor any member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which would subject such Person to any material liability. Within the last five (5) years no Loan Party nor any member of the Controlled Group has engaged in a transaction which resulted in a Single Employer Plan with an Unfunded Liability being transferred out of the Controlled Group which could reasonably be expected to have a Material Adverse Effect. No Termination Event has occurred or is reasonably expected to occur with respect to any Plan which is subject to Title IV of ERISA which could reasonably be expected to have a Material Adverse Effect.

5.11. DEFAULTS. No Default or Unmatured Default has occurred and is continuing.

5.12. FEDERAL RESERVE REGULATIONS. No Loan Party nor any of its Subsidiaries is engaged, directly or indirectly, principally, or as one of its important activities, in the business of extending, or arranging for the extension of, credit for the purpose of purchasing or carrying Margin Stock. No part of the proceeds of any Loan will be used in a manner which would violate, or result in a violation of, Regulation T, Regulation U or Regulation X. Neither the making of any Advance hereunder nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulation T, Regulation U or Regulation X.

5.13. INVESTMENT COMPANY. No Loan Party nor any of its Subsidiaries is, or after giving effect to any Advance will be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

5.14. CERTAIN FEES. No broker's or finder's fee or commission was, is or will be payable by either Loan Party or any of its Subsidiaries with respect to any of the transactions contemplated by this Agreement, except as described in SECTION 9.5. Each Loan Party hereby agrees to indemnify the Agent and the Lenders against and agrees that it will hold each of them harmless from any claim, demand or liability for broker's or finder's fees or commissions alleged to have been incurred by either Loan Party in connection with any of the transactions contemplated by this Agreement and any expenses (including, without limitation, attorneys' fees and time charges of attorneys for the Agent or any Lender, which attorneys may be employees of the Agent or any Lender) arising in connection with any such claim, demand or liability. No other similar fee or commissions will be payable by either Loan Party or any of its Subsidiaries for any other services rendered to such Loan Party or such Subsidiary ancillary to any of the transactions contemplated by this Agreement.

5.15. SOLVENCY. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by each Loan Party or any of its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date, each Loan Party and each of its Subsidiaries is Solvent.

5.16. INDEBTEDNESS. Attached hereto as SCHEDULE 5.16 is a complete and correct list of all Indebtedness of each Loan Party and each of its Subsidiaries outstanding on the date of this Agreement (other than Indebtedness in a principal amount not exceeding $100,000 for a single item of Indebtedness and $1,000,000 in the aggregate for all such Indebtedness listed, it being understood and agreed that any such Indebtedness shall be permitted to exist pursuant to SECTION 6.11(b) notwithstanding the absence thereof on SCHEDULE 5.16), showing the aggregate principal amount which was outstanding on such date after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date.

5.17. INSURANCE LICENSES. SCHEDULE 5.17 hereto lists all of the jurisdictions in which any Insurance Subsidiary holds a License and is authorized to and does transact insurance business as of the date of this Agreement. No such License, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To each Loan Party's knowledge, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.18. MATERIAL AGREEMENTS. Except as set forth in SCHEDULE 5.18 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, no Loan Party nor any of its Subsidiaries is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes conditions upon the ability of any Subsidiary of a Loan Party (other

than an Unrestricted Subsidiary) to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to either Loan Party, (c) repay loans or advances from either Loan Party or (d) grant Liens to the Agent to secure the Obligations. No Loan Party nor any of its Subsidiaries is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect.

5.19. ENVIRONMENTAL LAWS. There are no claims, investigations, litigation, administrative proceedings, notices, requests for information (each a "PROCEEDING"), whether pending or threatened, or judgments or orders asserting violations of applicable federal, state and local environmental, health and safety statutes, regulations, ordinances, codes, rules, orders, decrees, directives and standards ("ENVIRONMENTAL LAWS") or relating to any toxic or hazardous waste, substance or chemical or any pollutant, contaminant, chemical or other substance defined or regulated pursuant to any Environmental Law, including, without limitation, asbestos, petroleum, crude oil or any fraction thereof ("HAZARDOUS MATERIALS") asserted against either Loan Party or any of its Subsidiaries, other than in connection with an insurance policy issued in the ordinary course of business to any Person (other than Holdings or any Subsidiary of Holdings), which, in any case, could reasonably be expected to have a Material Adverse Effect. As of the date hereof, Parent and its Subsidiaries do not have liabilities exceeding $100,000 in the aggregate for all of them with respect to compliance with applicable Environmental Laws or related to the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials, and no facts or circumstances exist which could give rise to such liabilities with respect to compliance with applicable Environmental Laws and the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials.

5.20. INSURANCE. Each Loan Party and each of its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is consistent with sound business practice.

5.21. DISCLOSURE. No information, exhibit or report furnished by either Loan Party or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading. There is no fact known to either Loan Party (other than matters of a general economic or political nature) that has had or could reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated by this Agreement.

5.22. YEAR 2000. Each Loan Party has made a reasonable assessment of the Year 2000 Issues and has a realistic and achievable program for remediating the Year 2000 Issues on a timely basis (the "Year 2000 Program"). Based on such assessment and on the Year 2000 Program each Loan Party does not reasonably anticipate that Year 2000 Issues will have a Material Adverse Effect.

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. FINANCIAL REPORTING. Parent will maintain, for itself and each of its Subsidiaries, a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and furnish to the Lenders:

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows accompanied by a certificate of said accountants that, in the course of the examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

(b) As soon as practicable and in any event within sixty (60) days after the close of each of the first three Fiscal Quarters of each of its Fiscal Years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating statements of income, retained earnings and cash flows for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its chief financial officer.

(c) (i) Upon the earlier of (A) fifteen (15) days after the regulatory filing date or (B) seventy-five (75) days after the close of each fiscal year of each Insurance Subsidiary of the Parent, copies of the unaudited Annual Statement of such Insurance Subsidiary, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP and (ii) no later than each June 15, copies of financial statements prepared in accordance with SAP, or generally accepted accounting principles with a reconciliation to SAP, and certified by independent certified public accountants of recognized national standing.

(d) Upon the earlier of (i) ten (10) days after the regulatory filing date or (ii) sixty (60) days after the close of each of the first three (3) fiscal quarters of each fiscal year of each Insurance Subsidiary of the Parent, copies of the unaudited Quarterly Statement of each of the Insurance Subsidiaries of the Parent, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP.

(e) Promptly and in any event within ten (10) days after (i) learning thereof, notification of any changes after the date of this Agreement in the rating given by A.M. Best & Co. in respect of any Insurance Subsidiary of the Parent and (ii) receipt thereof, copies of any ratings analysis by A.M. Best & Co. relating to any Insurance Subsidiary of the Parent.

(f) Copies of any outside actuarial reports prepared with respect to any valuation or appraisal of any Insurance Subsidiary of the Parent, promptly after the receipt thereof.

(g) Together with the financial statements required by CLAUSES (a) and (b) above, a compliance certificate in substantially the form of EXHIBIT B hereto signed by the Borrower's chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(h) Promptly after the same becomes available after the close of each Fiscal Year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(i) As soon as possible and in any event within ten (10) days after such Loan Party knows that any Termination Event has occurred with respect to any Plan, a statement, signed by the chief financial officer of such Loan Party, describing said Termination Event and the action which such Loan Party proposes to take with respect thereto.

(j) As soon as possible and in any event within ten (10) days after receipt by such Loan Party, a copy of (i) any notice, claim, complaint or order to the effect that such Loan Party or any of its Subsidiaries is or may be liable to any Person as a result of the release by such Loan Party or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or Environmental Permit by such Loan Party or any of its Subsidiaries. Within ten (10) days of such Loan Party or any of its Subsidiaries having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, such Loan Party shall provide the Agent with written notice thereof.

(k) Promptly upon the furnishing thereof to the shareholders of such Loan Party, copies of all financial statements, reports and proxy statements so furnished.

(l) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which such Loan Party or any of its Subsidiaries files with the Securities and Exchange Commission, the National Association of Securities Dealers, any securities exchange, the NAIC or any insurance commission

or department or analogous Governmental Authority (including any filing made by such Loan Party or any of its Subsidiaries pursuant to any insurance holding company act or related rules or regulations), but excluding routine or non-material filings with the NAIC, any insurance commissioner or department or analogous Governmental Authority.

(m) Promptly and in any event within ten (10) days after learning thereof, notification of (i) any material tax assessment, demand, notice of proposed deficiency or notice of deficiency received by Holdings or any other Consolidated Person or (ii) the filing of any tax Lien or commencement of any judicial proceeding by or against any such Consolidated Person, if any such assessment, demand, notice, Lien or judicial proceeding relates to tax liabilities in excess of ten percent (10%) of the net worth (determined according to generally accepted accounting standards and without reduction for any reserve for such liabilities) of such Loan Party and its Subsidiaries taken as a whole.

(n) Promptly after available, any management letter prepared by the accountants conducting the audit of the financial statements delivered pursuant to Section 6.1(a).

(o) Promptly after reviewed by the relevant board of directors, a copy of the Borrower's and Parent's investment policy compliance report.

(p) Such other information (including, without limitation, the annual Best's Advance Report Service report prepared with respect to each Insurance Subsidiary of the Parent rated by A.M. Best & Co. and non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. USE OF PROCEEDS. The Borrower will, and will cause each of its Subsidiaries to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including, but not limited to, the making of any Investments permitted by SECTION 6.13. The Borrower will not, nor will it permit any of its Subsidiaries to, use any of the proceeds of the Advances in any manner which would violate, or result in the violation of, Regulation T, Regulation U or Regulation X or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. NOTICE OF DEFAULT. The Borrower will give prompt notice in writing to the Lenders of the occurrence of (a) any Default or Unmatured Default, (b) of any other event or development, financial or other, relating specifically to either Loan Party or any of their Subsidiaries (and not of a general economic or political nature) which could reasonably be expected to have a Material Adverse Effect, (c) receipt by either Loan Party or any of their Subsidiaries of any notice from any Governmental Authority of the expiration without renewal, revocation or suspension of, or the institution of any proceedings to revoke or suspend, any License now or hereafter held by any Insurance Subsidiary of the Parent which is required to conduct insurance business in compliance with all applicable laws and regulations and the expiration, revocation or suspension of which could reasonably be expected to have a Material Adverse Effect, (d) receipt by either Loan Party or any of their Subsidiaries of any notice from any Governmental Authority of the institution of any disciplinary proceedings against or in respect of any Insurance Subsidiary of the Parent, or the issuance of any order, the taking of any action or any request for an extraordinary audit for cause by

any Governmental Authority which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (e) any material judicial or administrative order of which either Loan Party or any of their Subsidiaries are aware limiting or controlling the insurance business of any Insurance Subsidiary (and not the insurance industry generally) which has been issued or adopted or (f) the commencement of any litigation of which either Loan Party or any of their Subsidiaries are aware which could reasonably be expected to create a Material Adverse Effect.

6.4. CONDUCT OF BUSINESS. Each Loan Party will, and will cause each of its Subsidiaries to, (a) carry on and conduct its business in substantially the same manner as it is presently conducted, (b) not conduct any significant business except for financial services, (c) do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except where the failure to maintain such authority could not reasonably be expected to have a Material Adverse Effect and (d) do all things necessary to renew, extend and continue in effect all Licenses which may at any time and from time to time be necessary for any Insurance Subsidiary of the Parent to operate its insurance business in compliance with all applicable laws and regulations except for any License the loss of which could not reasonably be expected to have a Material Adverse Effect; PROVIDED, that any Insurance Subsidiary of the Parent may withdraw from one or more states (other than its state of domicile) as an admitted insurer if such withdrawal is determined by such Loan Party's Board of Directors to be in the best interest of such Loan Party and could not reasonably be expected to have a Material Adverse Effect. The Parent shall cause Folksamerica to remain a Wholly-Owned Subsidiary of the Parent (but only after it becomes a Wholly-Owned Subsidiary of the Parent) until the Borrower shall have repaid all outstanding Advances and other Obligations and the Lenders' Commitments hereunder have terminated.

6.5. TAXES. At any time on and after the date Parent or any of its Subsidiaries are required to do so, each Loan Party will, and will cause each of its Subsidiaries to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with generally accepted accounting principles or SAP, as applicable.

6.6. INSURANCE. Each Loan Party will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to the Agent and any Lender upon request full information as to the insurance carried.

6.7. COMPLIANCE WITH LAWS. Each Loan Party will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, the failure to comply with which could reasonably be expected to have a Material Adverse Effect.

6.8. MAINTENANCE OF PROPERTIES. Each Loan Party will, and will cause each of its Subsidiaries to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. INSPECTION. Each Loan Party will, and will cause each of its Subsidiaries to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of such Loan Party and such Subsidiary, to examine and make copies of the books of accounts and other financial records of such Loan Party and such Subsidiary, and to discuss the affairs, finances and accounts of such Loan Party and such Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. Each Loan Party will keep or cause to be kept, and cause each of its Subsidiaries to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles or SAP, as applicable.

6.10. DIVIDENDS. The Borrower may declare and pay dividends or make distributions to Parent. Parent will not declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock or any options or other rights in respect thereof at any time outstanding, except that so long as no Default or Unmatured Default exists before or after giving effect to the declaration or payment of such dividends or distributions or repurchase or redemption of such stock or other transaction, (a) Parent may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock and any options or other rights thereof in an aggregate amount not to exceed, when aggregated with the principal amount of loans (exclusive of loans described in SECTION 6.13(e)(II)) made during such Fiscal Year from Parent or its Subsidiaries to Holdings, (i) during Parent's 1998 Fiscal Year, 2% of Adjusted Net Worth as of December 31, 1997, and (ii) during any Fiscal Year thereafter, 3% of Adjusted Net Worth as of the end of the Fiscal Year preceding the Fiscal Year during which such transaction is consummated and (b) in addition to any dividends, distributions, repurchases, redemptions, acquisitions or retirements which may be declared, paid or made pursuant to the preceding CLAUSE (a), Parent may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock, and any options or rights thereof, (x) in an amount equal to (1) the net proceeds received by Parent from dividends, sales, transfers or other dispositions of its equity interests in SOMSC or FAE's equity interest in San Juan Basin Trust, MINUS (2) the amount of loans made pursuant to SECTION 6.13(e)(II), PROVIDED, that such dividend is paid within one hundred eighty (180) days of receipt of such net proceeds, (y) its equity interests in SOMSC and (z) in an amount equal to that immediately utilized by Holdings to repay all or a portion of a certain $40,000,000 loan from FAE to Holdings.

6.11. INDEBTEDNESS. No Loan Party will, nor will it permit any of its Subsidiaries (other than an Unrestricted Subsidiary) to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and described in SCHEDULE 5.16 hereto and any renewals, extensions, refundings or refinancings of such Indebtedness; PROVIDED that the amount thereof is not increased and the maturity or scheduled amortization of principal thereof is not shortened (unless to a maturity or scheduled amortization occurring after the Facility Termination Date);

(c) Indebtedness owing by (x) either Loan Party to any Wholly-Owned Subsidiary of a Loan Party and (y) any Wholly-Owned Subsidiary of a Loan Party to a Wholly-Owned Subsidiary of a Loan Party or either Loan Party;

(d) Indebtedness permitted under the White Mountains Credit Agreement;

(e) Indebtedness of Folksamerica or its Subsidiaries in existence at the time of the Folksamerica Transaction; PROVIDED, HOWEVER, such Indebtedness of Folksamerica or its Subsidiaries may not be renewed, extended, refunded or refinanced by Folksamerica without the prior written consent of the Required Lenders;

(f) Indebtedness of the Parent, the proceeds of which are used directly or indirectly to refund or refinance the Indebtedness described in SECTION 6.11 (e); PROVIDED, HOWEVER, that the amount thereof is not increased, the maturity or scheduled amortization of principal thereof is not set to a maturity or weighted average maturity occurring before the Facility Termination Date hereunder and the terms of the proposed Indebtedness are not otherwise, in the reasonable judgment of the Required Lenders, disadvantageous (relative to the terms of the Indebtedness refunded or refinanced) to the interests of the Lenders hereunder;

(g) Indebtedness secured by Liens permitted pursuant to SECTION 6.15(f);

(h) Contingent Obligations permitted under SECTION 6.14; and

(i) other Indebtedness of either Loan Party or any of their Subsidiaries to the extent not otherwise included in subparagraphs (a) through (h) of this SECTION 6.11 or in SECTION 6.14, in an aggregate amount outstanding at any one time not to exceed $5,000,000.

6.12. MERGER. No Loan Party will, nor will it permit any Significant Subsidiary to, merge or consolidate with or into any other Person, except that:

(a) a Wholly-Owned Subsidiary (other than any Unrestricted Subsidiary) may merge with (i) either Loan Party, (ii) any Wholly-Owned Subsidiary of either Loan Party or

(iii) any other Person so long as no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and the surviving entity of such merger is either Loan Party or a Wholly-Owned Subsidiary of either Loan Party;

(b) a Significant Subsidiary (other than the Borrower) may merge or consolidate with any Person so long as neither Parent, the Borrower, nor any of their Subsidiaries shall hold any capital stock of such Significant Subsidiary after giving effect to such merger or consolidation; and

(c) either Loan Party may merge into any Person so long as (i) such Loan Party is the surviving entity of such merger, (ii) no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and (iii) the covenants contained in SECTION 6.20 shall be complied with on a PRO FORMA basis on the date of, and after giving effect to, such merger.

6.13. INVESTMENTS AND PURCHASES. No Loan Party will, and will not permit any of its Subsidiaries (other than an Unrestricted Subsidiary) to, make or suffer to exist any Investments (including, without limitation, loans and advances to, and other Investments in, Holdings or Subsidiaries of either Loan Party), or commitments therefor, or create any Subsidiary or become or remain a partner in any partnership or joint venture, or make any Purchases, except:

(a) Investments or commitments therefor (such commitments being set forth on SCHEDULE 6.13) in existence on the date hereof (including a certain $40,000,000 loan from FAE to Holdings);

(b) loans and advances to employees in the ordinary course of business and consistent with past practices;

(c) Investments made in Subsidiaries (other than any Unrestricted Subsidiary) and Main Street America Holdings, Inc.;

(d) Purchases of or Investments in businesses or entities engaged in the insurance and/or insurance services business or businesses reasonably incident thereto (including holding companies, the Subsidiaries of which on a consolidated basis are primarily engaged in such businesses) which do not constitute hostile takeovers (including the creation of Subsidiaries in connection therewith) so long as no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Purchase or Investment;

(e) Investments by Parent made on or before May 13, 1999 directly in SOMSC in an amount equal to the FSA Amount so long as at the time of such Investment no Default or Unmatured Default has occurred and is continuing or would occur after giving effect to such Investment; PROVIDED, however, that any Investments pursuant to this CLAUSE (e) are made from net proceeds traceable to dividends, sales, transfers or other distributions of equity interests in SOMSC after the date hereof;

(f) loans made by Parent or its Subsidiaries to Holdings, (i) so long as at all times, after giving effect to the aggregate outstanding principal amount of such loans, Parent would be permitted to pay at least $1.00 in incremental dividends pursuant to SECTION 6.10(a) or (ii) that are made out or the net proceeds described in SECTION 6.10(b)(x) in lieu of utilizing such net proceeds to pay a dividend;

(g) other Investments (other than any direct or indirect Investments in Holdings), so long as any such Investment is materially consistent with such Loan Party's investment policy guidelines as approved from time to time by the finance committee of the board of directors of Parent and the board of directors of the Borrower (a copy of the current version of such guidelines having been delivered to each Lender); provided that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders; and

(h) other Investments (other than any direct or indirect Investments in Holdings) by Folksamerica (but only after it becomes a Wholly-Owned Subsidiary of Parent) at any time prior to March 31, 1999, so long as any such Investment is permitted under the insurance laws of the State of New York and is materially consistent with Folksamerica's investment policy guidelines as approved from time to time by the board of directors of Folksamerica (a copy of the current version of such guidelines having been delivered to each Lender); provided that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders.

6.14. CONTINGENT OBLIGATIONS. No Loan Party will, nor will it permit any of its Subsidiaries (other than an Unrestricted Subsidiary) to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary of either Loan Party), except (a) the issuance of financial guarantees in the ordinary course of business, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business, (d) the issuance of intercompany guarantees so long as the primary obligation is permitted under this Agreement and (e) issuance of financial guarantees to the holders of seller notes issued by ML (Bermuda) Holdings Ltd. or any of its Subsidiaries, provided that the aggregate principal amount of all such financial guarantees shall not at any time exceed 6,500,000 British Pounds.

6.15. LIENS. No Loan Party will, nor will it permit any of its Subsidiaries (other than an Unrestricted Subsidiary) to, create, incur, or suffer to exist any Lien in, of or on the Property (other than Margin Stock) of such Loan Party or any of its Subsidiaries (other than an Unrestricted Subsidiary), except:

(a) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate

reserves in accordance with generally accepted principles of accounting shall have been set aside on its books;

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than sixty (60) days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

(c) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(d) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of such Loan Party or any of its Subsidiaries;

(e) Liens existing on the date hereof and described in SCHEDULE 6.15 hereto;

(f) Liens in, of or on Property acquired after the date of this Agreement (by purchase, construction or otherwise) by either Loan Party or any of their Subsidiaries, each of which Liens either (1) existed on such Property before the time of its acquisition and was not created in anticipation thereof, or (2) was created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinance or refund, the cost (including the cost of construction) of such Property; PROVIDED that no such Lien shall extend to or cover any Property of such Loan Party or such Subsidiary other than the Property so acquired and improvements thereon; and PROVIDED, FURTHER, that the principal amount of Indebtedness secured by any such Lien shall at the time the Lien is incurred not exceed 75% of the fair market value (as determined in good faith by a financial officer of such Loan Party and, in the case of any Property having a fair market value in excess of $500,000, certified by such officer to the Agent, with a copy for each Lender) of the Property at the time it was so acquired;

(g) Liens on assets securing letters of credit issued on behalf of Insurance Subsidiaries in the ordinary course of business; and

(h) Liens not otherwise permitted by the foregoing clauses (a) through (g) securing any Indebtedness of either Loan Party, PROVIDED that the aggregate principal amount of Indebtedness secured by Liens permitted by this clause (h) shall not exceed $3,000,000 at any time.

6.16. AFFILIATES. No Loan Party will, and will not permit any of its Subsidiaries to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliates (other than a Wholly-Owned Subsidiary of either Loan Party), except in the ordinary course of business and pursuant to the

reasonable requirements of such Loan Party's or such Subsidiary's business and upon fair and reasonable terms no less favorable to such Loan Party or such Subsidiary than such Loan Party or such Subsidiary would obtain in a comparable arms-length transactions, except that any Unrestricted Subsidiary may make loans to Holdings.

6.17. ENVIRONMENTAL MATTERS. Each Loan Party shall and shall cause each of its Subsidiaries to (a) at all times comply in all material respects with all applicable Environmental Laws and (b) promptly take any and all necessary remedial actions in response to the presence, storage, use, disposal, transportation or Release of any Hazardous Materials on, under or about any real property owned, leased or operated by such Loan Party or any of its Subsidiaries.

6.18. CHANGE IN CORPORATE STRUCTURE; FISCAL YEAR. No Loan Party shall, nor shall it permit any of its Subsidiaries to, (a) permit any amendment or modification to be made to its certificate or articles of incorporation or by-laws which is materially adverse to the interests of the Lenders or (b) change its Fiscal Year to end on any date other than December 31 of each year.

6.19. INCONSISTENT AGREEMENTS. No Loan Party shall, nor shall it permit any of its Subsidiaries (other than an Unrestricted Subsidiary) to, enter into any indenture, agreement, instrument or other arrangement which by its terms (a) other than pursuant to the White Mountains Credit Agreement or pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay dividends or make other distributions on its capital stock, (ii) make loans or advances to such Loan Party or (iii) repay loans or advances from such Loan Party or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by such Loan Party or any of its Subsidiaries of any of its obligations under any Loan Document.

6.20. FINANCIAL COVENANTS. Parent shall (or, in the case of Section 6.20.4, shall cause its Insurance Subsidiaries to):

6.20.1 MINIMUM ADJUSTED NET WORTH. At all times after the date hereof, maintain a minimum Adjusted Net Worth at least equal to the sum of, without duplication, (a) $465,000,000, PLUS (b) an amount equal to 85% of the cash and non-cash proceeds of any equity securities issued or capital contributions received by Parent after June 30, 1998, PLUS (c) an amount equal to 50% of Parent's positive consolidated net income (excluding from such calculation (i) SOMSC and its Subsidiaries, (ii) any net realized gain from the sale of Parent's equity interests in White River Corp. or Travelers Property Casualty Corp. and (iii) any net income directly arising out of the consummation of the Folksamerica Transaction) after June 30, 1998, PLUS (d) an amount equal to 85% of the proceeds of any sale of the Parent's equity interest in SOMSC to the extent such proceeds are not paid out by Parent as dividends within one hundred eighty (180) days after receipt thereof.

6.20.2. LEVERAGE RATIO. At all times after the date hereof, maintain a Leverage Ratio of (a) not greater than 45% through and including December 31, 2000 and (b) not greater than 30% at all times thereafter.

6.20.3. FIXED CHARGES COVERAGE RATIO. As of the end of each Fiscal Quarter maintain a Fixed Charges Coverage Ratio of not less than 1.5:1.0.

6.20.4. STATUTORY SURPLUS. At all times, maintain Statutory Surplus for each First-Tier Insurance Subsidiary in an amount not less than an amount equal to (a) 85% of the Statutory Surplus of each such First-Tier Insurance Subsidiary, in existence on the date hereof, as of March 31, 1998 (or, in the case of any First-Tier Insurance Subsidiary acquired after the date hereof, 85% of the Statutory Surplus of each such acquired First-Tier Insurance Subsidiary as of the most recently ended Fiscal Quarter preceding such acquisition), PLUS (b) 85% of all subsequent capital contributions to each such First-tier Insurance Subsidiary, MINUS (c) in the event such First-Tier Insurance Subsidiary dividends or otherwise distributes to its parent all the capital stock of a Wholly-Owned Insurance Subsidiary, 100% of the book value (calculated in accordance with SAP) of such Wholly-Owned Insurance Subsidiary at the time of such dividend or distribution.

6.21. TAX CONSOLIDATION. No Loan Party will and will not permit any of its Subsidiaries to (a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than Holdings and its Subsidiaries or (b) amend, terminate or fail to enforce any existing tax sharing agreement or similar arrangement if such action would cause a Material Adverse Effect.

6.22. ERISA COMPLIANCE.

With respect to any Plan, no Loan Party nor any of its Subsidiaries shall:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code in excess of $100,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of $100,000, whether or not waived, or permit any Unfunded Liability to exceed $100,000;

(c) permit the occurrence of any Termination Event which could result in a liability to either Loan Party or any other member of the Controlled Group in excess of $100,000;

(d) be an "employer" (as such term is defined in Section 3(5) of ERISA) required to contribute to any Multiemployer Plan or a "substantial employer" (as such term in defined in Section 4001(a)(2) of ERISA) required to contribute to any Multiple Employer Plan; or

(e) permit the establishment or amendment of any Plan or fail to comply with the applicable provisions of ERISA and the Code with respect to any Plan which could result in liability to either Loan Party or any other member of the Controlled Group which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.23. YEAR 2000. Each Loan Party will take and will cause each of its Subsidiaries to take all such actions as are reasonably necessary to successfully implement its Year 2000 Program and to assure that Year 2000 Issues will not have a Material Adverse Effect. At the request of the Agent or any Lender, each Loan Party will provide a description of its Year 2000 Program, together with any updates or progress reports with respect thereto.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1. Any representation or warranty made or deemed made by or on behalf of either Loan Party or any of its Subsidiaries to the Lenders or the Agent under or in connection with this Agreement, any other Loan Document, any Loan, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be false in any material respect on the date as of which made.

7.2. Nonpayment of (a) any principal of any Note when due, or (b) any interest upon any Note or any commitment fee or other fee or obligations under any of the Loan Documents within five (5) days after the same becomes due.

7.3. The breach by either Loan Party of any of the terms or provisions of SECTION 6.2, SECTION 6.3(A) or SECTIONS 6.10 through 6.16 or SECTIONS 6.18 through 6.22.

7.4. The breach by either Loan Party (other than a breach which constitutes a Default under SECTIONS 7.1, 7.2 or 7.3) of any of the terms or provisions of this Agreement which is not remedied within twenty (20) days after written notice from the Agent or any Lender.

7.5. The default by either Loan Party or any of its Subsidiaries (or, at any time Parent is a Subsidiary of Holdings, by Holdings) in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of $2,000,000 ($10,000,000 in the case of Holdings and $20,000,000, or such lower cross-default threshold amount as is provided in the SOMSC Credit Agreements, in the case of SOMSC)

was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of either Loan Party or any of its Subsidiaries or Holdings shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

7.6. Either Loan Party or any of its Significant Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial portion of its Property, (d) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this SECTION 7.6, (f) fail to contest in good faith any appointment or proceeding described in SECTION 7.7 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.7. Without the application, approval or consent of the relevant Loan Party or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for either Loan Party or any of its Significant Subsidiaries or any substantial portion of its Property, or a proceeding described in SECTION 7.6(d) shall be instituted against either Loan Party or any of its Significant Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty (60) consecutive days.

7.8. Either Loan Party or any of its Subsidiaries shall fail within thirty (30) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $5,000,000), which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced.

7.9. Any Change in Control shall occur.

7.10. The occurrence of any "default", as defined in any Loan Document (other than this Agreement or the Notes) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement or the Notes), which default or breach continues beyond any period of grace therein provided.

7.11. Any License of any Insurance Subsidiary of Parent (a) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty (30) days after the commencement thereof, (b) shall be suspended

by such Governmental Authority for a period in excess of thirty (30) days or (c) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in any case, could reasonably be expected to have a Material Adverse Effect.

7.12. Any Insurance Subsidiary of Parent shall be the subject of a final non-appealable order imposing a fine by or at the request of any state insurance regulatory agency as a result of the violation by such Insurance Subsidiary of such state's applicable insurance laws or the regulations promulgated in connection therewith which could reasonably be expected to have a Material Adverse Effect.

7.13. Any Insurance Subsidiary of Parent shall become subject to any conservation, rehabilitation or liquidation order, directive or mandate issued by any Governmental Authority or any Insurance Subsidiary shall become subject to any other directive or mandate issued by any Governmental Authority in either case which could reasonably be expected to have a Material Adverse Effect and which is not stayed within thirty (30) days.

7.14. The Guaranty shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Guaranty, or Parent shall fail to comply with any of the terms or provisions of the Guaranty, or shall deny, or give notice to such effect, that it has any further liability under the Guaranty.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1. ACCELERATION. If any Default described in SECTIONS 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may terminate or suspend the obligations of the Lenders to make Loans hereunder, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

If, within ten (10) Business Days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in SECTIONS 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. AMENDMENTS. Subject to the provisions of this ARTICLE VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Loan Parties may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or either Loan Party hereunder or waiving any Default hereunder; PROVIDED, HOWEVER, that no such supplemental agreement shall, without the consent of each Lender:

(a) Extend the final maturity of any Loan or Note or reduce the principal amount thereof, or, subject to Section 2.11, reduce the rate or extend the time of payment of interest or fees thereon;

(b) Reduce the percentage specified in the definition of Required Lenders;

(c) Reduce the amount of or extend the date for the mandatory payments and commitment reductions required under SECTIONS 2.1(b) or 2.7, or increase the amount of the Commitment of any Lender hereunder;

(d) Extend the Facility Termination Date or reduce the amount or extend the time of any mandatory commitment reduction required by SECTION 2.7;

(e) Amend this SECTION 8.2;

(f) Release Parent from the Guaranty; or

(g) Permit any assignment by either Loan Party of its Obligations or its rights hereunder.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. The Agent may waive payment of the fee required under SECTION 12.3.2 without obtaining the consent of any other party to this Agreement.

8.3. PRESERVATION OF RIGHTS. No delay or omission of the Lenders or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Loan notwithstanding the existence of a Default or the inability of either Loan Party to satisfy the conditions precedent to such Loan shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to SECTION 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent and the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1. SURVIVAL OF REPRESENTATIONS. All representations and warranties of each Loan Party contained in this Agreement or either Loan Party or any of their Subsidiaries contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

9.2. GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3. TAXES. Any stamp, documentary or similar taxes, assessments or charges payable or ruled payable by any governmental authority in respect of the Loan Documents shall be paid by the Borrower, together with interest and penalties, if any.

9.4. HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5. ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding among each Loan Party, the Agent and the Lenders and supersede all prior agreements and understandings among each Loan Party, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated August 14, 1998, in favor of First Chicago.

9.6. SEVERAL OBLIGATIONS; BENEFITS OF THIS AGREEMENT. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. EXPENSES; INDEMNIFICATION. Each Loan Party agrees to reimburse the Agent for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, actual or proposed amendment, modification, and administration of the Loan Documents. Each Loan Party also agrees to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents. Each Loan Party further agrees to indemnify the Agent and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating

to this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of each Loan Party under this Section shall survive the termination of this Agreement.

9.8. NUMBERS OF DOCUMENTS. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. NONLIABILITY OF LENDERS. The relationship between the Borrower and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to either Loan Party. Neither the Agent nor any Lender undertakes any responsibility to either Loan Party to review or inform either Loan Party of any matter in connection with any phase of either Loan Party's business or operations. Each Loan Party shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to either Loan Party by the Agent or the Lenders is for the protection of the Agent and the Lenders and no Loan Party nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and each Loan Party hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by either Loan Party in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby or the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. EACH LOAN PARTY HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED

STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND EACH LOAN PARTY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST EITHER LOAN PARTY IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY EITHER LOAN PARTY AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. EACH LOAN PARTY, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. DISCLOSURE. Each Loan Party and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with either Loan Party, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to either Loan Party or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by each Loan Party, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. TREATMENT OF CERTAIN INFORMATION: CONFIDENTIALITY.

(a) Each Loan Party acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Lender or by one or more subsidiaries or affiliates of such Lender and (ii) information delivered to each Lender by such Loan Party 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 Lender hereunder.

(b) Each Lender 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 either Loan Party pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statue, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender 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 Lender to keep such information confidential on substantially the terms set forth in this SECTION 9.17(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of either Loan Party or any of their Subsidiaries at any time during the continuance of a Default; PROVIDED that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by either Loan Party.

ARTICLE X

THE AGENT

10.1. APPOINTMENT. First Chicago is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this ARTICLE X. The Agent shall not have a fiduciary relationship in respect of either Loan Party or any Lender by reason of this Agreement.

10.2. POWERS. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. GENERAL IMMUNITY. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to either Loan Party or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. NO RESPONSIBILITY FOR LOANS, RECITALS, ETC. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in ARTICLE IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by either Loan Party to the Agent at such time, but is voluntarily furnished by either Loan Party to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. ACTION ON INSTRUCTIONS OF LENDERS. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by SECTION 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. EMPLOYMENT OF AGENTS AND COUNSEL. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. RELIANCE ON DOCUMENTS; COUNSEL. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. AGENT'S REIMBURSEMENT AND INDEMNIFICATION. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by either Loan Party for which the Agent is entitled to reimbursement by such Loan Party under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents, and (c) for any 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 in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents; PROVIDED, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this SECTION 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. NOTICE OF DEFAULT. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. RIGHTS AS A LENDER. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender, including, without limitation, pursuant to Article XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with either Loan Party or any of their Subsidiaries in which such Loan Party or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. LENDER CREDIT DECISION. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by each Loan Party and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five (45) days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If the Agent has resigned and no successor Agent has been appointed, the Lenders

may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $50,000,000 and with a Lending Installation in the United States of America. 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 resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this ARTICLE X 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 hereunder and under the other Loan Documents.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. SETOFF. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. RATABLE PAYMENTS. If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to SECTIONS 2.18, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender, other than Indebtedness evidenced by any of the Notes held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of each Loan Party and the Lenders and their respective successors and assigns, except that (a) no Loan Party shall have the right to assign their rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in compliance with SECTION 12.3. Notwithstanding CLAUSE (b) of the preceding sentence, any Lender may at any time, without the consent of either Loan Party or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; PROVIDED, HOWEVER, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with SECTION 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. PARTICIPATIONS.

12.2.1. PERMITTED PARTICIPANTS; EFFECT. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("PARTICIPANTS") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and each Loan Party and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. VOTING RIGHTS. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in clauses (a) through (f) of SECTION 8.2.

12.2.3. BENEFIT OF SETOFF. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in SECTION 11.1 in respect of its participating interest

in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents; PROVIDED, that each Lender shall retain the right of setoff provided in SECTION 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in SECTION 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with SECTION 11.2 as if each Participant were a Lender.

12.3. ASSIGNMENTS.

12.3.1. PERMITTED ASSIGNMENTS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("PURCHASERS") all or any part of its rights and obligations under the Loan Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a Lender, such assignment shall be in a minimum amount (when added to the amount of the assignment of such Lender's obligations under the White Mountains Credit Agreement) of $5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of EXHIBIT C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Agent and, so long as no Default under SECTIONS 7.2, 7.6 or 7.7 is continuing, the Borrower, shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof. Such consent shall not be unreasonably withheld. Notwithstanding anything to the contrary contained herein, any assignment by a Lender of its rights and obligations under the Loan Documents shall be accompanied by an assignment to the same assignee of the same ratable share of the rights and obligations of such Lender under the White Mountains Credit Agreement in respect of its obligations thereunder.

12.3.2. EFFECT; EFFECTIVE DATE. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to EXHIBIT C hereto (a "NOTICE OF ASSIGNMENT"), together with any consents required by SECTION 12.3.1, and (b) payment of a $3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or action by the Borrower, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this SECTION 12.3.2, the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. DISSEMINATION OF INFORMATION. Subject to SECTION 9.17(b), each Loan Party authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "TRANSFEREE") and any prospective Transferee any

and all information in such Lender's possession concerning the creditworthiness of such Loan Party and its Subsidiaries.

12.5. TAX TREATMENT. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of SECTION 2.18.

ARTICLE XIII

NOTICES

13.1. GIVING NOTICE. All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3) Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. CHANGE OF ADDRESS. Either Loan Party, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XIV

GUARANTY

14.1. Parent hereby absolutely, irrevocably and unconditionally guarantees prompt, full and complete payment when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter, of (a) the principal of and interest on the Advances made by the Lenders to, and the Notes held by the Lenders of, the Borrower and (b) all other amounts from time to time owing to the Lenders by the Borrower under this Agreement, the Notes and the other Loan Documents, including without limitation all Obligations of the Borrower (solely for purposes of this ARTICLE XIV, collectively referred to as the "Guaranteed Debt"). This is a guaranty of payment, not a guaranty of collection.

14.2. Parent waives notice of the acceptance of this ARTICLE XIV (solely for purposes of this ARTICLE XIV, referred to as the "Guaranty") and of the extension or incurrence of the Guaranteed Debt or any part thereof. Parent further waives all setoffs and counterclaims and presentment, protest, notice, filing of claims with a court in the event of receivership, bankruptcy or reorganization of the Borrower, demand or action on delinquency in respect of the Guaranteed Debt or any part thereof, including any right to require the Agent or any Lender to sue the Borrower, or any other person obligated with respect to the Guaranteed Debt or any part

thereof, or otherwise to enforce payment thereof against any collateral securing the Guaranteed Debt or any part thereof.

14.3. Parent hereby agrees that, to the fullest extent permitted by law, its obligations hereunder shall be continuing, absolute and unconditional under any and all circumstances and not subject to any reduction, limitation, impairment, termination, defense (other than indefeasible payment in full), setoff, counterclaim or recoupment whatsoever (all of which are hereby expressly waived by it to the fullest extent permitted by law), whether by reason of any claim of any character whatsoever, including, without limitation, any claim of waiver, release, surrender, alteration or compromise. The validity and enforceability of this Guaranty shall not be impaired or affected by any of the following: (a) any extension, modification or renewal of, or indulgence with respect to, or substitution for, the Guaranteed Debt or any part thereof or any agreement relating thereto at any time; (b) any failure or omission to perfect or maintain any lien on, or preserve rights to, any security or collateral or to enforce any right, power or remedy with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto, or any collateral securing the Guaranteed Debt or any part thereof; (c) any waiver of any right, power or remedy or of any default with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (d) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral securing the Guaranteed Debt or any part thereof, any other guaranties with respect to the Guaranteed Debt or any part thereof, or any other obligations of any person or entity with respect to the Guaranteed Debt or any part thereof; (e) the enforceability or validity of the Guaranteed Debt or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (f) the application of payments received from any source to the payment of indebtedness other than the Guaranteed Debt, any part thereof or amounts which are not covered by this Guaranty even though the Agent or any Lender might lawfully have elected to apply such payments to any part or all of the Guaranteed Debt or to amounts which are not covered by this Guaranty; (g) any change of ownership of the Borrower or the insolvency, bankruptcy or any other change in the legal status of the Borrower; (h) any change in, or the imposition of, any law, decree, regulation or other governmental act which does or might impair, delay or in any way affect the validity, enforceability or the payment when due of the Guaranteed Debt; (i) the failure of the Borrower to maintain in full force, validity or effect or to obtain or renew when required all governmental and other approvals, licenses or consents required in connection with the Guaranteed Debt or this Guaranty, or to take any other action required in connection with the performance of all obligations pursuant to the Guaranteed Debt or this Guaranty; (j) the existence of any claim, setoff or other rights which Parent may have at any time against the Borrower in connection herewith or with any unrelated transaction; (k) the Agent's or any Lender's election, in any case or proceeding instituted under chapter 11 of the Bankruptcy Code, of the application of section 1111(b)(2) of the Bankruptcy Code; (l) any borrowing, use of cash collateral, or grant of a security interest by the Borrower, as debtor in possession, under section 363 or 364 of the United States Bankruptcy Code; (m) the disallowance of all or any portion of the Lender's claims for repayment of the Guaranteed Debt under section 502 or 506 of the United States Bankruptcy Code; or (n) any other fact or circumstance which might

otherwise constitute grounds at law or equity for the discharge or release of Parent from its obligations hereunder, all whether or not Parent shall have had notice or knowledge of any act or omission referred to in the foregoing CLAUSES (a) THROUGH (n) of this paragraph. It is agreed that Parent's liability hereunder is independent of any other guaranties or other obligations at any time in effect with respect to the Guaranteed Debt or any part thereof and that Parent's liability hereunder may be enforced regardless of the existence, validity, enforcement or non-enforcement of any such other guaranties or other obligations or any provision of any applicable law or regulation purporting to prohibit payment by the Borrower of the Guaranteed Debt in the manner agreed upon between the Agent, the Lenders and the Borrower.

14.4. Credit may be granted or continued from time to time by the Agent and/or any Lender to the Borrower without notice to or authorization from Parent regardless of the Borrower's financial or other condition at the time of any such grant or continuation. Neither the Agent nor any Lender shall have any obligation to disclose or discuss with Parent its assessment of the financial condition of the Borrower.

14.5. Until the irrevocable payment in full of the Obligations and termination of all commitments which could give rise to any Obligation, Parent shall have no right of subrogation with respect to the Guaranteed Debt and hereby waives any right to enforce any remedy which the Agent and/or the Lenders now has or may hereafter have against the Borrower, any endorser or any other guarantor of all or any part of the Guaranteed Debt, and Parent hereby waives any benefit of, and any right to participate in, any security or collateral given to the Agent and/or the Lenders to secure payment of the Guaranteed Debt or any part thereof or any other liability of the Borrower to the Agent and/or the Lenders.

14.6. Parent authorizes the Agent and the Lenders to take any action or exercise any remedy with respect to any collateral from time to time securing the Guaranteed Debt, which the Agent and the Lenders in their sole discretion (but subject, as applicable, to the terms of this Agreement and of any documentation pursuant to which a Lien in such collateral is granted) shall determine, without notice to Parent. Notwithstanding any reference herein to any collateral securing any of the Guaranteed Debt, it is acknowledged that, on the date hereof, neither Parent nor any of its Subsidiaries has granted, or has any obligation to grant, any security interest in or other lien on any of its property as security for the Guaranteed Debt.

14.7. In the event the Agent and the Lenders in their sole discretion elect to give notice of any action with respect to any collateral securing the Guaranteed Debt or any part thereof, ten (10) days' written notice mailed to Parent by ordinary mail at the address shown hereon shall be deemed reasonable notice of any matters contained in such notice. Parent consents and agrees that neither the Agent nor any Lender shall be under any obligation to marshall any assets in favor of Parent or against or in payment of any or all of the Guaranteed Debt.

14.8. In the event that acceleration of the time for payment of any of the Guaranteed Debt is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, or otherwise, all such amounts shall nonetheless be payable by Parent forthwith upon demand by the Agent. Parent further

agrees that, to the extent that the Borrower makes a payment or payments to the Agent or any Lender on the Guaranteed Debt, or the Agent or any Lender receives any proceeds of collateral securing the Guaranteed Debt, which payment or receipt of proceeds or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be returned or repaid to the Borrower, its estate, trustee, receiver, debtor in possession or any other party, including, without limitation, Parent, under any insolvency or bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment, return or repayment, the obligation or part thereof which has been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date when such initial payment, reduction or satisfaction occurred.

14.9. No delay on the part of the Agent or any Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, and no single or partial exercise by the Agent or any Lender of any right, power or remedy shall preclude any further exercise thereof; nor shall any amendment, supplement, modification or waiver of any of the terms or provisions of this Guaranty be binding upon the Agent or any Lender, except as expressly set forth in a writing duly signed and delivered by the Agent and the Lenders. The failure by the Agent or any Lender at any time or times hereafter to require strict performance by the Borrower or Parent of any of the provisions, warranties, terms and conditions contained in any promissory note, security agreement, agreement, guaranty, instrument or document now or at any time or times hereafter executed pursuant to the terms of, or in connection with, this Agreement by the Borrower or Parent and delivered to the Agent or any Lender shall not waive, affect or diminish any right of the Agent or any Lender at any time or times hereafter to demand strict performance thereof, and such right shall not be deemed to have been waived by any act or knowledge of the Agent or any Lender, its agents, officers or employees, unless such waiver is contained in an instrument in writing duly signed and delivered by the Agent or such Lender. No waiver by the Agent or any Lender of any default shall operate as a waiver of any other default or the same default on a future occasion, and no action by the Agent or any Lender permitted hereunder shall in any way affect or impair the Agent's or such Lender's rights or powers, or the obligations of Parent under this Guaranty. Any determination by a court of competent jurisdiction of the amount of any Guaranteed Debt owing by the Borrower to the Agent and the Lender shall be conclusive and binding on Parent irrespective of whether Parent was a party to the suit or action in which such determination was made.

14.10. Subject to the provisions of SECTION 14.8, this guaranty shall continue in effect until this Agreement has terminated, the Guaranteed Debt has been paid in full and the other conditions of this guaranty have been satisfied.

ARTICLE XV

AMENDMENT AND RESTATEMENT

15.1. (a) This Agreement amends and restates in its entirety the Existing Credit Agreement and, upon the Restatement Effective Date, the terms and provisions of the Existing Credit Agreement

shall, subject to this ARTICLE XV, be superseded hereby and thereby. Prior to the Restatement Effective Date, the Existing Credit Agreement shall continue to govern the making of any Loans and any outstanding Loans and Obligations.

(b) Notwithstanding the amendment and restatement of the Existing Credit Agreement by this Agreement, the Loans under, and as defined in, the Existing Credit Agreement ("Continuing Loans") and all accrued interest, fees and expenses owing to First Chicago and Fleet National Bank by the Borrower shall remain outstanding as of the Restatement Effective Date and constitute continuing Obligations under this Agreement. The Continuing Loans shall in all respects be continuing, and this Agreement shall not be deemed to evidence or result in a novation or repayment and re-borrowing of the Continuing Loans. In furtherance of and without limiting the foregoing (i) all interest, fees and expenses which have arisen under the Existing Credit Agreement shall be paid on the applicable due date therefor specified in this Agreement and (ii) from and after the Restatement Effective Date, the terms, conditions and covenants governing the Continuing Loans shall be solely as set forth in this Agreement, which shall supersede the Prior Credit Agreement to the extent provided in this ARTICLE XV.

[signature pages to follow]

IN WITNESS WHEREOF, each Loan Party, the Lenders and the Agent have executed this Agreement as of the date first above written.

VALLEY GROUP, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire 03755

Attn: _____

Fax No.: _____

Tel. No.: _____

WHITE MOUNTAINS HOLDINGS, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire 03755

Attn: Reid T. Campbell

Fax No.: (603) 640-2203
Tel. No.: (603) 643-4562

COMMITMENTS

		THE FIRST NATIONAL BANK OF CHICAGO,
Commitment	$8,192,307.69	Individually and as Agent

By: _____

Print Name: _____

Title: _____

Address: 153 West 51st Street
New York, NY 10019
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

$6,807,692.31	FLEET NATIONAL BANK

By: _____

Print Name: _____

Title: _____

Address: One Federal Street-MAOFD06H
Boston, MA 02110-2010
Attn: David A. Bosselait

Fax No.: (617) 346-5825
Tel. No.: (617) 346-5823

Aggregate Initial Commitment	$15,000,000

SCHEDULE 1
TO CREDIT AGREEMENT

MARGINS

"Applicable Eurodollar Margin" and "Applicable Facility Fee Margin" means, for any period, the applicable of the following percentages in effect with such period based on the Leverage Ratio and the Fixed Charges Coverage Ratio as follows:

	I	II	III	IV
Leverage Ratio is:	Less than 25%	Greater than or Equal to 25%	Less than 25%	Greater than or Equal to 25%
If Fixed Charges Coverage Ratio is:	Greater than 2:1	Greater than 2:1	Less than or Equal to 2:1	Less than or Equal to 2:1
The applicable margin will be:				
Applicable Facility Fee Margin	.150%	.175%	.175%	.200%
Applicable Eurodollar Margin	.350%	.450%	.450%	.550%

The Leverage Ratio and Fixed Charges Coverage Ratio shall be calculated by Parent as of the end of each of its Fiscal Quarters commencing September 30, 1998 and shall be reported to the Agent pursuant to a certificate executed by an authorized officer of Parent and delivered in accordance with SECTION 6.1(g) of the Agreement. The foregoing margins shall be adjusted, if necessary, quarterly as of the fifth (5th) day after the delivery of the certificate provided for above; PROVIDED that if such certificate, together with the financial statements to which such certificate relates, are not delivered by the fifth (5th) day after the due date therefor specified in SECTION 6.1(g), then until the fifth day after such delivery, each of the margins specified above shall be as set forth in Column IV above. Until adjusted as described above after September 30, 1998, the Applicable Eurodollar Margin and Applicable Facility Fee Margin, as the case may be, shall be as specified in Column II above.

Exhibit 10D

EXECUTION COPY

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This Amendment (this "Amendment") is entered into as of November 20, 1998 by and among Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Borrower"), The First National Bank of Chicago, individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Agent and the Lenders are party to that certain $35,000,000 Amended and Restated Credit Agreement dated as of August 14, 1998 (the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the effectiveness of this Amendment pursuant to SECTION 3 below, the Credit Agreement shall be amended as follows:

> SECTION 6.20(a)(i) shall be amended by deleting the dollar amount of "$537,870,000" therein and inserting the dollar amount of "$510,000,000" in lieu thereof.

2. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

> (a) The execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;
>
> (b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

3. EFFECTIVE DATE. This Amendment shall become effective upon (a) the execution and delivery hereof by the Borrower, the Agent and the Required Lenders (without respect to whether it has been executed and delivered by all the Lenders) and (b) the execution and delivery of the Reaffirmation of White Mountains Guaranty in the form of EXHIBIT A hereto. In the event such effectiveness has not occurred on or before November 20, 1998, SECTION 1 hereof shall not become operative and shall be of no force or effect.

4. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

5. COSTS AND EXPENSES. The Borrower hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

6. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

7. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By:

Name:

Title:

THE FIRST NATIONAL BANK OF CHICAGO,
individually and as Agent

By:

Name:

Title:

FLEET NATIONAL BANK

By:

Name:

Title:

EXHIBIT A

REAFFIRMATION OF WHITE MOUNTAINS GUARANTY

The undersigned acknowledges receipt of a copy of the foregoing Amendment No. 1 to Credit Agreement (the "Amendment") dated as of November 20, 1998, consents to such amendment and hereby reaffirms its obligations under the White Mountains Guaranty dated as of August 14, 1998 in favor of The First National Bank of Chicago, as Agent, and the Lenders (as defined in the Amendment).

Dated as of November 20, 1998

WHITE MOUNTAINS HOLDINGS, INC.

By: ----------

Name: ----------

Title: ----------

Exhibit 10E

EXECUTION COPY

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This Amendment (this "Amendment") is entered into as of November 20, 1998 by and among White Mountains Holdings, Inc., a Delaware corporation (the "Borrower"), The First National Bank of Chicago, individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Agent and the Lenders are party to that certain $50,000,000 Second Amended and Restated Credit Agreement dated as of August 14, 1998 (the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Agent and the undersigned Lenders wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the effectiveness of this Amendment pursuant to SECTION 3 below, the Credit Agreement shall be amended as follows:

(a) SECTION 6.20.1 (a) shall be amended by deleting the dollar amount of "$465,000,000" therein and inserting the dollar amount of "$437,000,000" in lieu thereof.

(b) SECTION 6.20.1 (c) shall be amended by inserting in the parenthetical exception (ii) the phrase "after tax" between the words "realized" and "gain".

(c) SECTION 6.20.4 shall be amended in its entirety to read as follows:

"6.20.4. STATUTORY SURPLUS. At all times, maintain Statutory Surplus for each First-Tier Insurance Subsidiary in an amount not less than an amount equal to (a) 85% of the Statutory Surplus of each such First-Tier Insurance Subsidiary, in existence on the date hereof, as of March 31, 1998 (or, in the case of any First-Tier Insurance Subsidiary acquired after the date hereof, 85% of the Statutory Surplus of each such acquired First-Tier Insurance Subsidiary as of the most recently ended Fiscal Quarter preceding such acquisition), PLUS (b) 85% of all subsequent capital contributions to each such First-Tier Insurance Subsidiary (other than capital contributions described in SECTION 6.20.4(c)), PLUS (c) 100% of all subsequent capital

contributions to each such First-Tier Insurance Subsidiary to the extent that the source of such capital contribution is a dividend described in SECTION 6.20.4(e), MINUS (d) in the event such First-Tier Insurance Subsidiary dividends or otherwise distributes to its parent all the capital stock of a Wholly-Owned Insurance Subsidiary, 100% of the book value (calculated in accordance with SAP) of such Wholly-Owned Insurance Subsidiary at the time of such dividend or distribution, MINUS (e) the amount of dividends paid after March 31, 1998 by such First-Tier Insurance Subsidiary which are substantially contemporaneously utilized by the recipient thereof to make a capital contribution to another First-Tier Insurance Subsidiary."

2. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants that:

(a) The execution, delivery and performance by the Borrower of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

3. EFFECTIVE DATE. This Amendment shall become effective upon (a) the execution and delivery hereof by the Borrower, the Agent and the Required Lenders (without respect to whether it has been executed and delivered by all the Lenders). In the event such effectiveness has not occurred on or before November 20, 1998, SECTION 1 hereof shall not become operative and shall be of no force or effect.

4. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the

effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

5. COSTS AND EXPENSES. The Borrower hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

6. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

7. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

WHITE MOUNTAINS HOLDINGS, INC.

By: _____

Name: _____

Title: _____

THE FIRST NATIONAL BANK OF CHICAGO,
individually and as Agent

By: _____

Name: _____

Title: _____

FLEET NATIONAL BANK

By: _____

Name: _____

Title: _____

Exhibit 10F

EXECUTION COPY

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This Amendment (this "Amendment") is entered into as of November 20, 1998 by and among Valley Group, Inc., an Oregon corporation (the "Borrower"), White Mountains Holdings, Inc., a Delaware corporation (the "Parent", and with the Borrower, each being a "Loan Party"), The First National Bank of Chicago, individually and as agent ("Agent"), and the other financial institutions signatory hereto (the "Lenders").

RECITALS

A. The Borrower, the Parent, the Agent and the Lenders are party to that certain $15,000,000 Second Amended and Restated Credit Agreement dated as of August 14, 1998 (the "Credit Agreement"). Unless otherwise specified herein, capitalized terms used in this Amendment shall have the meanings ascribed to them by the Credit Agreement.

B. The Borrower, the Parent, the Agent and the undersigned Lenders wish to amend the Credit Agreement on the terms and conditions set forth below.

Now, therefore, in consideration of the mutual execution hereof and other good and valuable consideration, the parties hereto agree as follows:

1. AMENDMENT TO CREDIT AGREEMENT. Upon the effectiveness of this Amendment pursuant to SECTION 4 below, the Credit Agreement shall be amended as follows:

(a) SECTION 6.20.1 (A) shall be amended by deleting the dollar amount of "$465,000,000" therein and inserting the dollar amount of "$437,000,000" in lieu thereof.

(b) SECTION 6.20.1 (C) shall be amended by inserting in the parenthetical exception (ii) the phrase "after tax" between the words "realized" and "gain".

(c) SECTION 6.20.4 shall be amended in its entirety to read as follows:

> "6.20.4. STATUTORY SURPLUS. At all times, maintain Statutory Surplus for each First-Tier Insurance Subsidiary in an amount not less than an amount equal to (a) 85% of the Statutory Surplus of each such First-Tier Insurance Subsidiary, in existence on the date hereof, as of March 31, 1998 (or, in the case of any First-Tier Insurance Subsidiary acquired after the date hereof, 85% of the Statutory Surplus of each such acquired First-Tier Insurance Subsidiary as of the most recently ended Fiscal Quarter preceding such acquisition), PLUS (b) 85% of all subsequent capital contributions to each such First-Tier Insurance Subsidiary (other than capital

contributions described in SECTION 6.20.4(C)), PLUS (c) 100% of all subsequent capital contributions to each such First-Tier Insurance Subsidiary to the extent that the source of such capital contribution is a dividend described in SECTION 6.20.4(E), MINUS (d) in the event such First-Tier Insurance Subsidiary dividends or otherwise distributes to its parent all the capital stock of a Wholly-Owned Insurance Subsidiary, 100% of the book value (calculated in accordance with SAP) of such Wholly-Owned Insurance Subsidiary at the time of such dividend or distribution, MINUS (e) the amount of dividends paid after March 31, 1998 by such First-Tier Insurance Subsidiary which are substantially contemporaneously utilized by the recipient thereof to make a capital contribution to another First-Tier Insurance Subsidiary."

2. REPRESENTATIONS AND WARRANTIES OF THE BORROWER AND THE PARENT. Each Loan Party represents and warrants that:

(a) The execution, delivery and performance by each Loan Party of this Amendment has been duly authorized by all necessary corporate action and that this Amendment is a legal, valid and binding obligation of each Loan Party enforceable against each Loan Party in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally;

(b) After giving effect to this Amendment, each of the representations and warranties contained in the Credit Agreement is true and correct in all material respects on and as of the date hereof as if made on the date hereof; and

(c) After giving effect to this Amendment, no Default or Unmatured Default has occurred and is continuing.

3. REAFFIRMATION OF GUARANTY. The Parent consents to the terms hereof and hereby reaffirms its obligations under ARTICLE XIV of the Credit Agreement, as amended hereby.

4. EFFECTIVE DATE. This Amendment shall become effective upon (a) the execution and delivery hereof by each Loan Party, the Agent and the Required Lenders (without respect to whether it has been executed and delivered by all the Lenders). In the event such effectiveness has not occurred on or before November 20, 1998, SECTION 1 hereof shall not become operative and shall be of no force or effect.

5. REFERENCE TO AND EFFECT UPON THE CREDIT AGREEMENT.

(a) Except as specifically amended above, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

(b) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Credit Agreement or any Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any Loan Document, except as specifically set forth herein. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Credit Agreement as amended hereby.

6. COSTS AND EXPENSES. Each Loan Party hereby affirms its obligations under Section 9.7 of the Credit Agreement to reimburse the Agent for all reasonable costs, internal charges and out-of-pocket expenses paid or incurred by the Agent in connection with the preparation, negotiation, execution and delivery of this Amendment, including but not limited to the attorneys' fees and time charges of attorneys for the Agent with respect thereto.

7. CHOICE OF LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

8. HEADINGS. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purposes.

9. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed an original but all such counterparts shall constitute one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

VALLEY GROUP, INC.

By: _____

Name: _____

Title: _____

WHITE MOUNTAINS HOLDINGS, INC.

By: _____

Name: _____

Title: _____

THE FIRST NATIONAL BANK OF CHICAGO,
individually and as Agent

By: _____

Name: _____

Title: _____

FLEET NATIONAL BANK

By: _____

Name: _____

Title: _____

Exhibit 10n

STOCK ACQUISITION AGREEMENT

STOCK ACQUISITION AGREEMENT dated as of February 10, 1999 ("Agreement") by and between Unitrin, Inc., a Delaware corporation ("Buyer"), and Fund American Enterprises Holdings, Inc., a Delaware corporation ("Seller"), for the acquisition and conveyance of all of the outstanding capital stock of Valley Group, Inc., an Oregon corporation and an indirect wholly owned subsidiary of Seller (the "Company").

WHEREAS, the Company is the owner of all of the issued and outstanding capital stock of each of Charter Group, Inc., a Texas corporation ("Charter"), Valley Insurance Company, a California insurance company ("VIC"), Valley Pacific, Inc., an Oregon corporation ("Valley Pacific"), and Valley Property & Casualty Insurance Company, an Oregon insurance company ("VP&C") (Charter, VIC, Valley Pacific and VP&C are sometimes hereinafter each individually referred to as a "Subsidiary" and collectively referred to as the "Subsidiaries");

WHEREAS, Charter is the owner of all of the issued and outstanding capital stock of Charter General Agency, Inc., a Texas corporation ("CGA"), Charter Indemnity Company, a Texas insurance company ("CIC"), and NCM Management Corporation, a Delaware corporation ("NCM");

WHEREAS, NCM controls Charter County Mutual Insurance Company, a Texas insurance company ("Charter County Mutual") pursuant to a general agency managerial contract;

WHEREAS, pursuant to that certain Stock Purchase Agreement dated as of October 14, 1998 by and among Charter, Pinnacle Insurance Company, a Georgia insurance company in rehabilitation ("Pinnacle"), and the Honorable John W. Oxendine, Commissioner of the Georgia Department of Insurance and Safety Fire acting solely in his capacity as the rehabilitator of Pinnacle (the "Pinnacle Acquisition Agreement"), Charter has agreed to acquire all of the outstanding shares of capital stock of Pinnacle;

WHEREAS, VIC is the owner of all of the issued and outstanding capital stock of each of Valley National Insurance Company, a Kansas insurance company ("Valley National"), and White Mountains Insurance Company, a New Hampshire insurance company ("WMIC");

WHEREAS, for the consideration and subject to the terms and conditions set forth in this Agreement, Buyer desires to purchase or cause to be purchased from Seller, and

Seller desires to sell or cause to be sold to Buyer, all of the issued and outstanding capital stock of the Company for the purpose of Buyer acquiring control of the Company, the Subsidiaries and the following entities owned or controlled by the Company, the Subsidiaries or their respective subsidiaries: CGA, CIC, NCM, WMIC and Charter County Mutual (the Company, the Subsidiaries, CGA, CIC, NCM, WMIC and Charter County Mutual are sometimes hereinafter each individually referred to as a "Subject Entity" and collectively referred to as the "Subject Entities," and VIC, VP&C, CIC, WMIC, and Charter County Mutual are sometimes each individually referred to as an "Insurance Company" and collectively referred to as the "Insurance Companies");

WHEREAS, in connection with Buyer's acquisition of control of the Subject Entities, Buyer wishes to acquire the assets used, and immediately following the Closing continue to employ those employees engaged, in the business operations of the Subject Entities, subject to the terms and conditions set forth in this Agreement; and

WHEREAS, Buyer does not wish to acquire ownership or control of either Pinnacle or Valley National (Pinnacle and Valley National are hereinafter collectively referred to as the "Excluded Subsidiaries"); provided, however, that Buyer wishes to acquire the business of Valley National as in effect on the Closing Date.

NOW, THEREFORE, in consideration of the covenants and mutual promises herein contained, Buyer and Seller agree as follows:

1. SALE OF SHARES; RELATED TRANSACTIONS.

1.01 SALE AND PURCHASE OF SHARES. Subject to the terms and conditions of this Agreement, Seller agrees to sell, transfer and convey (or cause to be sold, transferred and conveyed) to Buyer, and Buyer agrees to purchase and accept (or cause to be purchased and accepted) from Seller, for the aggregate purchase price set forth below in Section 1.02 (the "Purchase Price"), all of the shares of common stock of the Company beneficially owned by Seller, representing one hundred percent of the issued and outstanding shares of capital stock of the Company (the "Shares").

1.02 PURCHASE PRICE; POST-CLOSING ADJUSTMENT.

(A) PURCHASE PRICE. The Purchase Price for the Shares shall be an amount equal to the sum of (i) $90,000,000 (ninety million dollars) plus (ii) the sum of (x) the amount of the consolidated book value of the Company determined in accordance with United States generally accepted accounting principles ("GAAP") as applied by the Seller and the Company consistent with the GAAP Consolidated Financial Statements described in Section 2.09 ("GAAP Book

Value") at the Closing Date, after taking into account all Related Transactions completed at or prior to the Closing, and (y) the amount of any and all bank indebtedness of the Company in respect of borrowed money ("Indebtedness") which is outstanding immediately prior to the Closing.

(B) ESTIMATED PURCHASE PRICE. On the Closing Date, Buyer shall pay to Seller an amount equal to an estimate, prepared by Seller and delivered to Buyer as described in the following sentence, of the Purchase Price (the "Estimated Purchase Price"). Not later than five (5) business days prior to Closing, Seller shall deliver to Buyer (i) a balance sheet reflecting GAAP Book Value at the end of the month immediately preceding the Closing Date, prepared in a manner consistent with the GAAP Consolidated Financial Statements described in Section 2.09 (the "Prior Month-End Balance Sheet") as adjusted on an estimated basis to give effect to the Related Transactions, (ii) a schedule detailing the components of the Estimated Purchase Price including, without limitation, the adjustments for the Related Transactions and the amount of Indebtedness (if any), and (iii) a certificate from Seller certifying that such Prior Month-End Balance Sheet has been so prepared. At Closing, Buyer shall pay to Seller the Estimated Purchase Price by wire transfer of immediately available funds to a bank account or other accounts designated by Seller. Buyer and Seller agree that, to the extent any amount of the Indebtedness is outstanding at Closing, a portion of Purchase Price equal thereto shall be paid by Buyer directly to the banking institution or institutions holding such Indebtedness such that the Indebtedness is fully extinguished contemporaneous with Closing.

(C) POST-CLOSING DETERMINATION OF ACTUAL PURCHASE PRICE. Not later than forty-five (45) days after the Closing Date, Buyer shall deliver to Seller (i) a balance sheet reflecting GAAP Book Value at the Closing Date (taking into account all Related Transactions completed at or prior to the Closing) prepared in a manner consistent with the GAAP Consolidated Financial Statements described in Section 2.09 (the "Closing Date Balance Sheet") and (ii) a certificate from Buyer certifying that such Closing Date Balance Sheet has been so prepared. If GAAP Book Value as reflected on the Closing Date Balance Sheet exceeds GAAP Book Value used to determine the Estimated Purchase Price (as adjusted on an estimated basis to give effect to the Related Transactions) by at least $250,000, then, subject to the resolution of any disputes pursuant to Section 1.02(D), Buyer shall pay to Seller such difference (including such $250,000 amount) within ten (10) business days after the receipt of the Closing Date Balance Sheet by Seller, together with interest thereon at an annual rate equal to the average yield to maturity on United States Treasury securities with a remaining maturity of one year as published from time to time by THE WALL STREET JOURNAL, calculated on the

basis of the actual number of days elapsed over 365 (the "Interest Rate"), from the Closing Date to the date of payment, by wire transfer of immediately available funds to a bank account designated by Seller. If, on the other hand, GAAP Book Value used to determine the Estimated Purchase Price (as adjusted on an estimated basis to give effect to the Related Transactions) exceeds GAAP Book Value as reflected on the Closing Date Balance Sheet by at least $250,000, then, subject to the resolution of any disputes pursuant to Section 1.02(D), Seller shall pay to Buyer such difference (including such $250,000 amount) within ten (10) business days after the receipt of the Closing Date Balance Sheet by Seller, together with interest thereon at the Interest Rate, from the Closing Date to the date of payment, by wire transfer of immediately available funds to a bank account designated by Buyer. In the event that the GAAP Book Value as reflected on the Closing Date Balance Sheet is neither $250,000 more nor $250,000 less than the GAAP Book Value used to determine the Estimated Purchase Price (as adjusted on an estimated basis to give effect to the Related Transactions), then, subject to the resolution of any disputes pursuant to Section 1.02(D), the Estimated Purchase Price paid by Buyer to Seller at Closing shall be the Purchase Price.

(D) DISPUTE RESOLUTION. Seller and Buyer shall seek in good faith to resolve in writing any disputes which they may have as to the Closing Date Balance Sheet, GAAP Book Value, the Purchase Price or the adjustments to reflect the Related Transactions within thirty (30) days after the receipt of the Closing Date Balance Sheet by Seller. Any such disputes that remain unresolved at the end of any such 30-day period shall be referred to an accounting firm of national standing and reputation mutually agreed to by the parties in writing (the "Accounting Firm"). The fees of the Accounting Firm agreed to shall be shared equally by Buyer and Seller. The Accounting Firm shall be instructed to, within thirty (30) days after the submission of any disputed matters by Seller and Buyer, review and resolve all such disputed matters and to report in writing its resolution thereof to Seller and Buyer. The determination of the Accounting Firm shall be final, binding and conclusive with respect to Seller and Buyer, and Seller and Buyer agree that judgment may be entered upon the determination of the Accounting Firm in any court having jurisdiction over the party against which such determination is to be enforced. Balances in dispute due from either party shall be paid by wire transfer of immediately available funds to a bank account designated by the payee within ten (10) business days after the parties are notified in writing of the determination rendered by the Accounting Firm.

1.03 RELATED TRANSACTIONS. Seller shall use its reasonable best efforts to complete the following transactions (the "Related Transactions") at or prior to Closing:

(A) DISTRIBUTABLE ASSETS.

(i) Buyer and Seller acknowledge and agree that it is their mutual intent that, subject to the receipt of all necessary regulatory and governmental approvals therefor, at or prior to the Closing:

(1) (x) the assets set forth in Section 1.03(A)(i)(1) of the Seller Schedule (as defined in Section 2)1, and

(y) all other property (other than cash) purchased by any Subject Entity on or after December 31, 1998 that is designated by Seller and/or Buyer as at the time of the purchase thereof as a Distributable Asset (collectively, "Distributable Assets"), shall be distributed, sold or otherwise transferred by the Subject Entities; and

(2) subject to completion of the reinsurance transaction described in this Section 1.03(A)(i)(2), the statutory capital and surplus of CIC, VIC, WMIC, and VP&C remaining after all the Distributable Assets have been distributed, sold or otherwise transferred pursuant to (1), above, will be reduced by means of investment asset distributions by each such company to its respective parent company, as nearly as possible (leaving a reasonable margin for error) to the minimum statutory amount required to maintain in good standing the certificates of authority of each such company to transact insurance or reinsurance in the jurisdictions identified in Section 2.21 of the Seller Schedule ("Excess Capital Distributions"), and the parties agree that such required minimum statutory amounts shall be as mutually agreed and set forth in Section 1.03(A)(i)(2) of the Seller Schedule. Any Subject Entity that receives an Excess Capital Distribution (as defined below), or a distribution relating to a lower-tier Excess Capital Distribution, from one or more Subject Entities shall distribute such amount to its parent. Buyer and Seller acknowledge that Buyer intends to arrange for the reinsurance cession of all business of the foregoing Subject Entities to Trinity Universal Insurance Company and/or another qualified reinsurer having adequate capital and surplus to support such reinsurance, subject to applicable regulatory approval. For purposes of determining the Purchase Price, the GAAP Book Value shall be increased by the amount of all of Seller's deferred policy acquisitions costs, net of related deferred taxes, calculated in a manner consistent

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1 to include all investment assets that Seller desires to retain and/or Buyer does not wish to acquire and the capital stock of Valley National and Pinnacle

with the GAAP Consolidated Financial Statements described in Section 2.09, related to the business transferred pursuant to such reinsurance arrangement, if any. Buyer agrees to undertake such reinsurance upon terms and conditions reasonably satisfactory to Seller. The distributions made pursuant to this Section 1.03(A) shall be treated as made pursuant to a plan of liquidation adopted by each of the Subject Entities prior to such distributions and in connection with the deemed liquidation of each of the Subject Entities that is occurring by reason of the elections under Section 338(h)(10) of the IRC being filed with respect to each such entity pursuant to Section 7.09

(ii) At the Closing, Seller shall deliver to Buyer its calculation of the aggregate Distributable Asset Values (as defined below) of all Distributable Assets, and, if and to the extent all necessary regulatory and governmental approvals therefor shall have been obtained, such Distributable Assets shall be transferred to Seller in the manner described in Section 1.03(A)(i). "Distributable Asset Value" of any asset at Closing means the carrying value of such asset, including related receivables for interest and dividends, all determined in accordance with GAAP as applied by Seller and the Company in a manner consistent with the GAAP Consolidated Financial Statements described in Section 2.09.

(iii) In the event that any Distributable Assets (other than the voting securities of Valley National and Pinnacle) are not transferred by distribution to Seller (or its designee) in accordance with Section 1.03 (A)(i) at the Closing, then Seller (or its designee) shall buy, and Buyer shall cause the Company or any other Subject Entity to sell, any or all such remaining Distributable Assets, free and clear of any lien or encumbrance, at a price equal to the Distributable Asset Value thereof within one (1) business day following the date of the Closing. The sale price of such Distributable Assets shall be payable by wire transfer of immediately available funds to an account designated by Buyer.

(iv) If at any time after the Closing, the Company or any other Subject Entity shall receive any cash or other property as a dividend, distribution, return of capital or principal, premium or interest payment (or similar payment) with respect to any Distributable Asset transferred by way of distribution to Seller (or its designee) in accordance with Sections 1.03 (A)(i) or 1.03(A)(iii), the Company or such other Subject Entity shall immediately transfer such cash or other property to Seller (or its designee).

(B) ASSET SALE. Prior to the Closing, subject to the receipt of all necessary regulatory and governmental approvals therefor, Seller shall cause Valley Pacific to sell to VIC all assets owned by or in the possession of Valley Pacific that are located in the State of California in exchange for an amount equal to the carrying value of such assets on the date of sale determined in accordance with GAAP as applied by Seller and the Company in a manner consistent with the GAAP Consolidated Financial Statements described in Section 2.09 (the "Asset Sale").

2. REPRESENTATIONS AND WARRANTIES OF SELLER.

For purposes of this Agreement:

the term "Company Material Adverse Effect" means a material adverse effect on the business, assets, financial condition or results of operations of the Subject Entities, taken as a whole (excluding any state of facts, event, change or effect relating to (w) the economy or securities markets in general, (x) this Agreement or the transactions contemplated hereby or the announcement thereof, (y) the insurance industry in general (including any changes in laws or regulations applicable to the insurance industry) or (z) losses or loss adjustment expenses in the ordinary course of business; and

the term "knowledge" with respect to Seller shall mean the actual knowledge of the persons set forth on Schedule A hereto.

Seller represents and warrants to Buyer that, except as set forth in the disclosure schedule of Seller attached hereto and made a part hereof (the "Seller Schedule"):

2.01 ORGANIZATION, GOOD STANDING, QUALIFICATION OF THE COMPANIES. Each of the Subject Entities is duly organized, validly existing and in good standing under the laws of the state of its organization and has all requisite corporate power and authority to own or lease and operate its properties and assets and carry on its business as now being conducted. Each of the Subject Entities is duly qualified to transact business as a foreign corporation and is in good standing in every jurisdiction in which such qualification is required by law to carry on its business as now being conducted or to own, lease or operate its properties and assets, except where the failure to so qualify or to be in good standing would not, individually or in the aggregate, have a Company Material Adverse Effect. Section 2.01 of the Seller Schedule lists each jurisdiction where each Subject Entity is so qualified.

2.02 SUBSIDIARIES. Each of VIC, Charter, Valley Pacific and VP&C is a direct or indirect wholly-owned subsidiary of the Company. WMIC is a wholly-owned subsidiary of VIC. CIC, CGA and NCM are wholly-owned subsidiaries of Charter. Except as described in this Section 2.02 and except for investments in the Excluded Subsidiaries and for the Distributable Assets, none of the Subject Entities has any equity investment in any subsidiary, partnership, joint venture, limited liability company or similar entity.

2.03 AUTHORIZED STOCK.

(A) The authorized capital stock of the Company consists of 500 shares of common stock, no par value per share, of which 100 shares, constituting the Shares, are issued and outstanding on the date hereof, all of which are owned directly or indirectly by Seller. Section 2.03 of the Seller Schedule sets forth the authorized and outstanding capital stock of each Subject Entity other than the Company and Charter County Mutual.

(B) All of the issued and outstanding shares of the capital stock, if any, of the Subject Entities have been validly issued and are fully paid, nonassessable and free of preemptive rights and are owned free and clear of any liens, claims, charges or encumbrances, and upon Closing, Buyer will acquire directly or indirectly good and marketable title to all of such shares.

(C) There is no contract, understanding, restriction or agreement, including any voting trust or other agreement or understanding with respect to the voting of any of the capital stock of the Subject Entities, or any convertible, exchangeable or exercisable security, option, warrant, call, or commitment on the part of the Subject Entities of any character relating to issued or unissued shares of the capital stock of the Subject Entities.

2.04 AUTHORIZATION. Seller has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. All corporate acts and other proceedings required to be taken by Seller or any of its affiliates (other than the Subject Entities) to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly and properly taken. This Agreement has been duly executed and delivered by Seller and constitutes a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms.

2.05 ARTICLES OF INCORPORATION AND BY-LAWS. Seller has delivered to Buyer true and complete copies of the articles or certificate of incorporation and by-laws (or

comparable constituent instruments) of each of the Subject Entities as in effect as of the date hereof.

2.06 CONSENTS AND APPROVALS. Except for the consents and approvals listed on Section 2.06 of the Seller Schedule (the "Seller Consent Schedule") and except for such filings, permits, authorizations, consents or approvals the failure of which to obtain or make would not, individually or in the aggregate, have a Company Material Adverse Effect, no filing with, and no permit, authorization, consent or approval of, any public body or authority is necessary for the consummation by Seller or any of its affiliates (other than the Subject Entities) of the transactions contemplated by this Agreement.

2.07 DEFAULTS AND CONFLICTS. Neither Seller nor any of the Subject Entities is, or immediately prior to the Closing will be, in default under its articles or certificate of incorporation or by-laws (or comparable constituent instruments), or in default under any indenture or under any agreement or other instrument to which it is a party or by which it or any of its properties is bound or to which it is subject, which default would have a Company Material Adverse Effect. Subject to the receipt of all consents and approvals contemplated by this Agreement, neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of and compliance with the terms and provisions hereof or thereof, will (i) violate any judicial, administrative or arbitral order, writ, award, judgment, injunction or decree involving Seller or any of the Subject Entities, (ii) conflict with the terms, conditions or provisions of the certificate or articles of incorporation or by-laws (or comparable constituent instruments) of Seller or any of the Subject Entities, (iii) conflict with, result in a breach of, constitute a default under or accelerate or permit the acceleration of the performance required by, any indenture, agreement or other instrument that is material to the business of any Subject Entity and to which Seller or any of the Subject Entities is a party or by which any of them is bound (a "Material Agreement"), (iv) result in the creation of any lien, charge or encumbrance upon any of the assets of any of the Subject Entities under any such Material Agreement, or (v) terminate or give any party thereto the right to terminate any Material Agreement, except for any such violation, conflict, breach, default, lien, charge, encumbrance, termination or other item which would not have a Company Material Adverse Effect. Except as disclosed in Section 2.07 of the Seller Schedule, no consent of any third party to any Material Agreement is required in connection with this Agreement and the transactions contemplated hereby.

2.08 STATUTORY FINANCIAL STATEMENTS. Each Subject Entity that is an insurance company (each, an "Insurance Company") has filed all annual and quarterly statements, together with all exhibits, interrogatories, notes, schedules and any actuarial opinions, affirmations or certifications or other supporting documents in connection therewith, required to be filed since December 1, 1995 with or submitted to the appropriate

regulatory authorities of the jurisdiction in which it is domiciled or commercially domiciled on forms prescribed or permitted by such authorities. Financial statements included in such statements, including amendments and the notes thereto (the "Statutory Financial Statements"), were prepared in conformity in all material respects with statutory accounting practices prescribed or permitted by the applicable insurance regulatory authority ("SAP") consistently applied for the periods covered thereby. The Statutory Financial Statements, including, without limitation, the provisions made therein for investments and the valuation thereof, reserves, policy and contract claims, together with the notes, exhibits and schedules thereto, fairly present the statement of admitted assets, liabilities and capital and surplus of the applicable Insurance Company as of the dates thereof and the related statutory basis statements of income, changes in capital and surplus, and cash flows for the periods indicated in conformity with SAP, applied on a basis consistent with prior periods, except as set forth therein. Each such Statutory Financial Statement was in compliance in all material respects with applicable law when filed and there were no material omissions therefrom.

2.09 GAAP CONSOLIDATED FINANCIAL STATEMENTS. Seller has delivered or will deliver to Buyer, consolidated balance sheets of the Company and its subsidiaries as of December 31, 1997, September 30, 1998, and December 31, 1998, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for the years ended December 31, 1997 and 1998 and the related statement of income for the nine months ended September 30, 1998, and in the case of the December 31, 1997 and 1998 financial statements the notes related to each of the foregoing (the "GAAP Consolidated Financial Statements"). The GAAP Consolidated Financial Statements have been prepared or will be prepared in conformity with GAAP consistently applied and present fairly, or will present fairly in all material respects, the consolidated financial position of the Company and results of its operations. Such GAAP Consolidated Financial Statements properly reflect and make adequate provision for or will properly reflect and make adequate provision for (a) the carrying value of investments, (b) balances due from policyholders, agents and reinsurers net of any valuation allowance, (c) deferred policy acquisition costs, (d) reserves for losses, loss adjustment expenses and unearned premiums, (e) current and deferred Taxes (as defined in Section 2.17), (f) guaranty fund assessments, and (g) other liabilities, including, but not limited to, accrued audit and legal fees, accrued salary, bonus, vacation, sick pay, and post-retirement benefits other than pensions. Transactions with reinsurers have been or will be recorded in accordance with Statement of Financial Accounting Standards No. 113, "Accounting and Reporting for Reinsurance of Short-duration and Long-duration Contracts."

2.10 ABSENCE OF CERTAIN CHANGES. Since September 30, 1998, except in connection with this Agreement and the transactions contemplated hereby, the Subject Entities have conducted their respective businesses only in, and have not engaged in any

material transaction other than in, the ordinary course of such businesses consistent with past practice and there has not been (i) any change in the business, assets, financial condition or results of operations of the Subject Entities or any development or combination of developments of which Seller has knowledge, that, individually or in the aggregate, has had or is reasonably likely to have a Company Material Adverse Effect, (ii) any material change by any Subject Entity in accounting principles, practices or methods, other than as required by changes in GAAP or statutory accounting principles or practices prescribed by insurance regulatory authorities, or (iii) any change by any Subject Entity in the actuarial, investment, reserving, underwriting, or claims administration policies, practices, procedures, methods, assumptions or principles applied by such Subject Entity in conducting its business in the usual and ordinary course other than as required by law or regulatory authority.

2.11 PROPERTIES.

(A) REAL ESTATE AND MORTGAGES. Section 2.11(A) of the Seller Schedule sets forth a list and summary description of (a) all real property owned by the Subject Entities and all buildings and other structures located on such real property, (b) all leases, subleases or other agreements under which any Subject Entity is the lessor or lessee of any real property, (c) all unexpired options held by any Subject Entity or contractual obligations on its part to purchase or acquire any interest in real property, (d) all unexpired options granted by any Subject Entity or contractual obligations on its part to sell or dispose of any interest in real property, and (e) all mortgages on properties owned by a Subject Entity, identifying all such mortgages, if any, for which deficiency notices have been issued or that are otherwise not current. Except as disclosed in Section 2.11(A) of the Seller Schedule, all such leases, subleases, options and other agreements are in full force and effect and no written notice of any default thereunder has been received, except where the failure to be in full force and effect and except where any such default would not have a Company Material Adverse Effect.

(B) INVESTMENT SECURITIES. Section 2.11(B) of the Seller Schedule sets forth, as of the date of this Agreement, the common stock, preferred stock, bonds, notes, mortgage loans, limited partnerships interests, and other securities and investments owned or held by the Subject Entities ("Investments"). The Investments are evidenced by appropriate written instruments and certificates (except where in non-certificated form), and, to the knowledge of Seller, are valid and genuine in all material respects and are enforceable in accordance with their terms against all persons against whom they purport to create an obligation, subject to bankruptcy, receivership, insolvency, reorganization, moratorium, or other similar laws affecting or relating to creditors' rights generally and subject to

general principles of equity. Except as disclosed in Section 2.11(B) of the Seller Schedule, all Investments that are held by an Insurance Company constitute admitted assets of the holder pursuant to applicable insurance laws. Except as disclosed in Section 2.11(B) of the Seller Schedule, none of the obligors in respect of such Investments is in default in the payment of principal, interest or other required distributions.

(C) TITLE TO PROPERTY. Except as disclosed in Section 2.11(C) of the Seller Schedule, the Subject Entities have good and valid title to all real properties and Investments reflected as owned by them in Sections 2.11(A) and 2.11(B) of the Seller Schedule, all other assets and properties reflected in the GAAP Consolidated Financial Statements for the period ended September 30, 1998 and all other assets and properties acquired subsequent to such date (except assets and properties disposed of in the ordinary course of business subsequent to such date), in each case free of all mortgages, liens, charges and encumbrances of any nature whatsoever, other than (i) liens for Taxes not yet due and payable and (ii) such minor liens, charges and encumbrances as, in the aggregate, do not and would not if asserted have a Company Material Adverse Effect.

(D) CONDITION OF PROPERTY. All real properties, equipment, fixtures, and other tangible properties owned, leased or used by the Subject Entities in their respective businesses are in good operating condition and repair, ordinary wear and tear excepted, and are, and at the Closing will be, available for the operation of such businesses as now being conducted, except where the failure to be in such condition and repair or to be so available would not have a Company Material Adverse Effect.

2.12 ENVIRONMENTAL LAWS. Except as disclosed in Section 2.12 of the Seller Schedule, the Subject Entities have conducted and are conducting their businesses in compliance in all material respects with all applicable federal, state, and local laws, regulations and requirements currently in force relating to the protection of the environment ("Environmental Laws") and there is no pending, or, to the knowledge of Seller, threatened, civil or criminal litigation, written notice of violation, or administrative proceeding relating to such Environmental Laws involving any Subject Entity which would reasonably be expected to have a Company Material Adverse Effect. To the knowledge of Seller, there is no condition existing with respect to the release, emission, discharge or presence of hazardous substances in connection with the business or properties of any Subject Entity which would subject any of them to any proceeding under such Environmental Laws or would otherwise have a Company Material Adverse Effect. The Subject Entities have received all approvals, consents, licenses, and permits with respect to environmental matters necessary to carry on their respective businesses

substantially as currently conducted, other than any such approvals, consents, licenses or permits the failure of which to receive would not, individually or in the aggregate, have a Company Material Adverse Effect.

2.13 PROPRIETARY RIGHTS. Section 2.13 of the Seller Schedule discloses all the trademarks, trade names and service marks (and all registrations and applications with respect thereto) and all material computer software (collectively the "Proprietary Rights") used in the businesses of the Subject Entities. To the knowledge of Seller, except as otherwise disclosed in such Section, the Subject Entities own or are duly licensed or otherwise authorized to use all of such Proprietary Rights. To the knowledge of Seller, such Proprietary Rights as used by the Subject Entities in their respective businesses do not violate or infringe upon the proprietary rights of any third party. There is no claim, action, proceeding or investigation pending or, to the knowledge of Seller, threatened, against any of the Subject Entities with respect to any such Proprietary Rights which claim, action, proceeding or investigation would reasonably be expected to have a Company Material Adverse Effect.

2.14 AGREEMENTS. Except for this Agreement and as set forth in Section 2.14 of the Seller Schedule, and other than any Plans (as defined in Section 2.19), none of the Subject Entities is a party to or is bound by any (i) written contract for the employment of any officer, director or employee with annual compensation in excess of $100,000 which pursuant to its terms is not terminable without liability on 30 days' (or less) notice or which provides for any further payments following such termination, or contract with a former officer, director or employee pursuant to which payments are required to be made at any time following the date hereof, (ii) stock ownership, profit sharing, bonus, deferred compensation, severance pay, pension, retirement or similar plan or agreement, (iii) mortgage, indenture, note or installment obligation or other instrument for or relating to any borrowing of money, (iv) guaranty of any obligation for borrowings or otherwise, other than insurance policies, bonds, or other contracts in connection with the conduct of the insurance business of the Insurance Companies in the ordinary course, (v) agreement or arrangement for the sale or lease of any material amount of the assets or business of any Subject Entity or for the grant of preferential rights with respect thereto, (vi) agreement or contract with any labor union or association representing any employee, (vii) material agreement or contract with or for the benefit of any Insurance Producer (as defined in Section 2.24) other than pursuant to the forms of agreement described or included in Section 2.24 of the Seller Schedule, or (viii) any Material Agreement not otherwise described above. All contracts, plans, mortgages, indentures, notes, installment obligations, guaranties, treaties and other agreements disclosed in Section 2.14 of the Seller Schedule are in full force and effect, and no Subject Entity, nor, to the knowledge of Seller, any other party thereto, is in default in any material respect as to any provision thereof, and, except as disclosed in such Section 2.14, no party thereto may terminate any

of such agreements or other instruments by reason of the transactions contemplated by this Agreement.

2.15 LITIGATION. There is no suit, action or proceeding pending or, to the knowledge of Seller, threatened against or affecting any of the Subject Entities which would, individually or in the aggregate, be reasonably expected to have a Company Material Adverse Effect, nor is there any judgment, verdict, decree, injunction, rule or order of any court, governmental entity or arbitrator outstanding against any of the Subject Entities which would, individually or in the aggregate, have a Company Material Adverse Effect. Section 2.15 of the Seller Schedule sets forth a description of (i) each lawsuit in which punitive, exemplary or other extra-contractual damages are sought against a Subject Entity, and (ii) each lawsuit not involving insurance policies assumed, reinsured or issued by a Subject Entity.

2.16 COMPLIANCE WITH LAWS. Each Subject Entity has complied with all laws, regulations, orders, ordinances, judgments or decrees of all governmental authorities (federal, state, local, foreign or otherwise) applicable to its businesses, except where the failure to have so complied would not, individually or in the aggregate, have a Company Material Adverse Effect. Except as disclosed in Section 2.16 of the Seller Schedule, neither Seller nor any Subject Entity has received any written notification of any asserted material failure by a Subject Entity to comply with any of such laws.

2.17 TAXES.

(A) Each of the Subject Entities (i) has filed, or caused to be filed, with the appropriate taxing authority all material Tax Returns (as hereafter defined) required to be filed on or before the date hereof (giving effect to any valid extension of time), and such Tax Returns were true, correct and complete in all material respects when filed, and (ii) has paid or caused to be paid in full, or has made or will make adequate provision in the appropriate GAAP Consolidated Financial Statements and the Prior Month-End Balance Sheet, for all material Taxes (as hereafter defined) shown to be due on such Tax Returns. There are no material liens for Taxes upon the assets of any of the Subject Entities except for statutory liens for current Taxes not yet due.

(B) The United States federal income Tax Returns in which any Subject Entity has joined have been audited by the Internal Revenue Service or are closed by the applicable statute of limitations for all taxable years through December 31, 1994. As of the date hereof, except as described in Section 2.17 of the Seller Schedule, neither Seller nor any of the Subject Entities has given, or been requested in writing to give, waivers or extensions of any statute of limitations

relating to any material Tax Returns filed by or on behalf of any of the Subject Entities.

(C) All tax sharing agreements between the Subject Entities, on the one hand, and Seller and its affiliates (other than the Subject Entities), on the other hand, shall be terminated effective at Closing, and the Subject Entities shall not be bound thereby and shall have no liability after the Closing for amounts due or arising thereunder, other than in respect of any Taxes (due or refundable) which are attributable to a pre-Closing Tax period.

(D) The GAAP Consolidated Financial Statements and the Prior Month-End Balance Sheet reflect or will reflect an adequate accrual for all material Taxes due and accrued, or deferred in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," based on all activity prior to and including the date of such financial statements.

For purposes of this Agreement, the term "Taxes" shall mean all taxes, charges, fees, levies or other assessments, including, without limitation, all net income, gross income, premium or privilege, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, withholding, payroll, employment, excise, estimated, severance, stamp, occupation, property or other taxes, customs duties, fees, assessments, or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any governmental authority (domestic or foreign) upon any Subject Entity and the term "Tax Returns" shall mean all returns, declarations, reports, estimates, and statements, regarding Taxes, required to be filed under United States federal, state, local or any foreign laws.

2.18 RELATED PARTY TRANSACTIONS. Except as disclosed in Section 2.18 of the Seller Schedule, no Subject Entity has made any loan to any director, officer, employee, or affiliate of Seller or any of its direct or indirect subsidiaries (including the Subject Entities) which remains outstanding, nor has any Subject Entity entered into any agreement for the purchase or sale of any property or services from or to any such director, officer, employee or affiliate.

2.19 EMPLOYEE BENEFIT PLANS.

(A) Section 2.19 of the Seller Schedule sets forth a true and complete list of each material employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and each other material plan, arrangement and agreement providing employee benefits (collectively the "Plans"), that covers current or former employees of any of the

Subject Entities (the "Employers") and is presently maintained by any of them or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), which together with Employers would be deemed a "single employer" within the meaning of Section 4001 of ERISA. None of the Plans is a "multi-employer plan," as defined in Section 3(37) of ERISA.

(B) Each of the Plans and any related trust agreement, group annuity contract, insurance policy or other funding arrangement, is in substantial compliance both in form and operation with all applicable provisions of law, including the IRC (as defined below), ERISA and the Age Discrimination in Employment Act. Neither Employers nor any ERISA Affiliate currently maintains or sponsors a defined benefit pension plan as defined in Section 414(j) of the Internal Revenue Code of 1986, as amended ("IRC"), and to the knowledge of Seller neither Employers nor any ERISA Affiliate, except as disclosed in Section 2.19 of the Seller Schedule, has ever maintained or sponsored any such plan that could give rise to any liability against Employers.

(C) No excise tax or penalty (federal or state) is owed by any person (including, but not limited to, any Plan, any Plan fiduciary, Employers and ERISA Affiliates) with respect to the operations of, or any transactions with respect to, any Plan, including, but not limited to, the civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the IRC or the tax imposed under Section 4978 of the IRC. No reserve for any excise taxes or penalties has been established with respect to any Plan, nor has any advice been given to any person with respect to the need to establish such a reserve.

(D) There are no material (i) actions, suits, arbitrations or claims (other than routine claims for benefits), (ii) legal, administrative or other proceedings or governmental investigations or audits, or (iii) complaints to or by any governmental entity, which are pending or, to the knowledge of Seller, anticipated or threatened, against the Plans or their assets.

(E) Neither Employers nor any ERISA Affiliate provides or, to Seller's knowledge, has ever provided post-retirement medical or life insurance benefits to any present or former employees of Employers, other than COBRA continuation benefits required by ERISA, the IRC or state continuation coverage laws and employee conversion of life insurance benefits to an individual policy.

2.20 INSURANCE. All material tangible and real properties of the Subject Entities are covered by valid and currently effective insurance policies. Section 2.20 of the Seller

Schedule contains a list of all insurance policies covering the Subject Entities, including the identity of the named insured and all loss payees. Except as otherwise identified in Section 2.20 of the Seller Schedule and except where the failure to be in full force and effect would not have a Company Material Adverse Effect, all insurance policies listed on such schedule will remain in full force and effect through the Closing Date.

2.21 INSURANCE BUSINESS. Each Insurance Company has all requisite power and authority to carry on its insurance business pursuant to and to the extent of the certificates of authority issued under the laws of the jurisdictions listed in Section 2.21 of the Seller Schedule. Such Section indicates the line or lines of insurance which are permitted to be written with respect to each certificate of authority listed. Except as otherwise described in such Section and except as a result of the transactions contemplated hereby, no certificate of authority identified therein has been revoked, restricted, suspended, limited or modified, nor is any certificate of authority the subject of, nor to the knowledge of the Seller is there a basis for, a proceeding for revocation, restriction, suspension, limitation or modification, nor is any Insurance Company operating under any formal or informal agreement or understanding with the licensing authority of any jurisdiction which restricts its authority to do business or requires it to take, or refrain from taking, any action (or, in the case of an agreement or understanding arising between the date hereof and the Closing, any material action). Section 2.21 of the Seller Schedule identifies each pending application for a certificate of authority submitted by or on behalf of an Insurance Company and specifies the jurisdiction in which each application is pending, the date of submission, the line or lines of business for which authority is sought and the current status of such application.

Except as disclosed in Section 2.21 of the Seller Schedule, (i) all policies of insurance issued, reinsured or assumed by each Insurance Company now in force are, in all material respects to the extent required under applicable law, on forms approved by applicable insurance regulatory authorities or which have been filed and not objected to by such authorities within the period provided for objection and (ii) any premium rates required to be filed with or approved by insurance regulatory authorities have been so filed or approved in all material respects, and premiums charged conform in all material respects thereto.

Each Insurance Company has timely paid in full all guaranty fund and other residual market assessments required by any regulatory authority to be paid by it except for any failures to pay which would not, individually or in the aggregate, have a Company Material Adverse Effect.

2.22 REINSURANCE; POOLS, ETC.

(A) Section 2.22(A) of the Seller Schedule discloses all reinsurance treaties or agreements to which any of the Insurance Companies is a party or is a named reinsured or is the reinsurer, or was a party or was a named reinsured or was the reinsurer. Except as disclosed in such Section, all such treaties or agreements are in full force and effect through the respective dates noted in such Section and no disputes are pending or asserted in writing under any such treaties or agreements. None of the Insurance Companies is in default under any treaty or agreement listed in such Section nor, to the knowledge of Seller, is any other party in default thereunder except as disclosed in such Section. Except as disclosed in Section 2.22(A) of the Seller Schedule, no party may terminate any such treaties or agreements by reason of the transactions contemplated by this Agreement.

(B) Section 2.22(B) of the Seller Schedule discloses all pooling agreements, assigned risk pools, joint underwriting associations or similar arrangements and all fronting arrangements under which any Insurance Company is now or, to the knowledge of Seller, has in the past been a participant.

2.23 REGULATORY FILINGS. Each Insurance Company has filed all reports, statements, documents, registrations, filings or submissions required to be filed by it with any governmental or regulatory body, except (i) those with respect to which the imposition, levy or collection of all fines, penalties, assessments, taxes, forfeitures, money judgments or sanctions of any type are barred by statutes of limitation, (ii) with respect to which the failure to so file, individually and in the aggregate, has not and would not have a Company Material Adverse Effect, and (iii) as otherwise agreed to in writing by the applicable governmental or regulatory body. Except as disclosed in Section 2.23 of the Seller Schedule, (A) all such registrations, filings and submissions were in material compliance with applicable law when filed, and (B) no material deficiencies have been asserted in writing by any such governmental or regulatory body with respect to such registrations, filings and submissions that have not been satisfied. Except as may be required for the transactions contemplated by this Agreement, each Insurance Company has duly filed with appropriate insurance authorities, to the extent that filing of the same is required by laws, rules or regulations, all annual and quarterly statements and other material statements, documents and reports (including, without limitation, any filings required under applicable state insurance holding company systems acts) required by the insurance and other applicable laws of its state of domicile and in each of the states in which it is licensed to conduct an insurance business. All such statements and filings were correct in all material respects as of the date filed (or, if the statement or filing covers a period of time prior to the date of filing, as of such date), and there are no material omissions therefrom. Section 2.23 of the Seller Schedule sets forth

all reports of examination (including, without limitation, all financial examinations and market conduct examinations) issued since December 1, 1995 by any department of insurance or regulatory body with respect to each Insurance Company. Such Section contains a copy of each written notice by an issuer of any such report to an Insurance Company that the issues raised in any such report have been resolved.

2.24 INSURANCE PRODUCERS. All contracts between an Insurance Company and its insurance agents, managers, brokers, managing general agents and all other insurance producers (collectively "Insurance Producers") listed or required to be listed in Section 2.14 of the Seller Schedule are in full force and effect, except for any failures to be in full force and effect as would not, individually or in the aggregate, have a Company Material Adverse Effect. No Insurance Company is, and to the knowledge of Seller, none of the Insurance Producers are, in default in any material respect under any such contract. Set forth in Section 2.24 of the Seller Schedule is a true and correct (i) summary description of all material compensation arrangements with the Insurance Producers and (ii) a list of all managing general agents appointed by any Insurance Company. To the knowledge of Seller, each of the Insurance Producers is duly licensed in every jurisdiction in which such licensing is required by law to solicit, negotiate, effect, renew or bind policies of insurance, or otherwise to act as an insurance agent, broker, producer or managing general agent (as the case may be), and is in full compliance with applicable laws governing the activities of the Insurance Producers, except for any failures to be duly licensed or in full compliance as would not, individually or in the aggregate, have a Company Material Adverse Effect.

2.25 BANK ACCOUNTS. Section 2.25 of the Seller Schedule sets forth the name of each bank, trust company, safe deposit company, broker or dealer in or with which any Subject Entity has or at the Closing will have an account or safe deposit box and the names of all persons authorized to draw thereon, give instructions with respect thereto, or to have access thereto.

2.26 MINUTE BOOKS. The minute books of each Subject Entity contain true and complete minutes of all meetings of its board of directors, board committees and shareholders and any written consents in lieu of such meetings since December 1, 1995.

2.27 POWERS OF ATTORNEY; GUARANTEES. Except as disclosed in Section 2.27 of the Seller Schedule, no Subject Entity has any obligation to act under any outstanding power of attorney or any obligation or liability, either accrued, accruing or contingent, as guarantor, surety, co-signer, endorser (other than for purposes of collection in the ordinary course of business), co-maker or indemnitor in respect of the obligation of any person, corporation, partnership, joint venture, association, organization or other entity.

2.28 CHARTER COUNTY MUTUAL. Charter County Mutual (i) is a Texas county mutual insurance company that is duly organized, validly existing and in good standing under the laws of the State of Texas, (ii) has all requisite corporate power and authority to own or lease and operate its properties and assets and carry on its business as now being conducted, (iii) transacts no business outside of the State of Texas, (iv) is a party to a general agency managerial agreement with NCM (the "NCM Agreement") and a quota share reinsurance agreement with CIC (the "CIC Agreement"), each of which is currently, and will at Closing be, in full force and effect and a valid and binding agreement, enforceable against the parties in accordance with its terms, and (v) is not a party to any agreements with Seller or any of its direct or indirect subsidiaries (including the Subject Entities) except for the NCM Agreement and the CIC Agreement.

2.29 INVESTMENT ADVISORS. Except as identified in Section 2.29 of the Seller Schedule, none of the Subject Entities has any written or oral agreement or arrangement with, or utilizes the services of, any investment advisors or consultants.

2.30 YEAR 2000. The computer software and hardware, used by the Subject Entities in the operation of their businesses are capable of providing or are in the process of being adapted or replaced to accurately record, store, process and present calendar dates falling on or after January 1, 2000, as well as date-dependent data, without degradation of the functionality or performance of such software or hardware, which would have a Company Material Adverse Effect. Section 2.30 of the Seller Schedule lists all material computer software and hardware used by the Subject Entities in operation of their businesses and summarizes for such software and hardware, taken as a whole, their overall state of readiness and estimated costs of remediation within the meaning of Release No. 33-7558, dated August 4, 1998, of the Securities and Exchange Commission, regarding disclosure of Year 2000 issues. None of the Subject Entities has made any express written warranties to any third parties relating to the Year 2000 readiness of such Subject Entities, which warranties would reasonably be expected to have a Company Material Adverse Effect. None of Seller or any of the Subject Entities has received written notice that any vendor or other provider of services upon which any of the Subject Entities is materially dependent will not be Year 2000 compliant on a timely basis. None of the Subject Entities has written or, to the knowledge of Seller, reinsured any insurance policies that create a material exposure to either property or liability claims for Year 2000 failures. Section 2.30 of the Seller Schedule describes all Year 2000 coverage exclusions that have been, or are contemplated to be, incorporated in insurance policies written or reinsured by any of the Subject Entities.

2.31 DIRECTORS AND OFFICERS. The persons listed on Section 2.31 of the Seller Schedule (the "Directors and Officers Schedule") constitute, and at the Closing will constitute, all of the directors and officers of the Subject Entities.

2.32 CHARTER GENERAL AGENCY, INC. CGA (i) is a Texas corporation duly organized, validly existing and in good standing under the Texas Business Corporation Act or the Texas Professional Corporation Act, as applicable, (ii) has its principal place of business in the State of Texas, and (iii) has as one of its purposes the authority to act as an agent, general agent, local recording agent or managing general agent ("Agent"), as the case may be, under Texas insurance laws. CGA possesses a license to act as an Agent issued by the Texas Department of Insurance.

2.33 MISSOURI HOME SERVICE BUSINESS. None of the Subject Entities has (i) written, reinsured or otherwise acquired any home service life insurance policies currently in force and covering lives in the State of Missouri, or (ii) any home service insurance agents operating in the State of Missouri.

2.34 DISCLOSURE. To the knowledge of Seller, no representation or warranty of Seller and no statement or information relating to the Subject Entities or their respective businesses or properties contained in (i) this Agreement, (ii) the Seller Schedule, or (iii) any certificate, schedule, list or other document furnished or to be furnished by Seller to Buyer pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements made herein or therein, in light of the circumstances in which they were made, not misleading.

3. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

3.01 ORGANIZATION OF BUYER. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware:

3.02 AUTHORIZATION. Buyer has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. All corporate acts and other proceedings required to be taken by Buyer or any of its affiliates to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly and properly taken. This Agreement has been duly executed and delivered by Buyer and constitutes a legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms.

3.03 DEFAULTS AND CONFLICTS. Subject to the receipt of all consents and approvals contemplated by this Agreement, neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby or the fulfillment of and

compliance with the terms and provisions hereof will (i) violate any judicial, administrative or arbitral order, writ, award, judgment, injunction or decree involving Buyer, (ii) conflict with the terms, conditions or provisions of the certificate of incorporation or by-laws of Buyer, (iii) conflict with, result in a breach of, constitute a default under or accelerate or permit the acceleration of the performance required by, any indenture or any material agreement or other material instrument to which Buyer is a party or by which Buyer is bound, (iv) result in the creation of any lien, charge or encumbrance upon any of the assets of Buyer under any such agreement or instrument, or (v) terminate or give any party thereto the right to terminate any such indenture, agreement or instrument. No consent of any third party to any indenture or any material agreement or other material instrument to which Buyer or any of its affiliates is a party is required in connection with the execution and delivery of this Agreement.

3.04 ACQUISITION FOR INVESTMENT. Buyer is acquiring the Shares for its own account, for investment purposes and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act of 1933, as amended.

3.05 CONSENTS AND APPROVALS. Except for the consents and approvals listed on the schedule thereof attached hereto (the "Buyer Consent Schedule"), and except for such filings, permits, authorizations, consents or approvals, the failure of which to obtain or make would not, individually or in the aggregate, have a Company Material Adverse Effect or delay or restrict the consummation of the transactions contemplated hereby, no filing with, and no permit, authorization, consent or approval of, any public body or authority is necessary for the consummation by Buyer and its affiliates of the transactions contemplated by this Agreement.

3.06 FUNDS AVAILABLE. Buyer has, and at all times through the Closing will have, available to it sufficient funds to consummate its purchase of the Shares and the other transactions contemplated hereby.

4. ACCESS.

Subject to applicable law, Seller shall afford to the officers, employees and authorized representatives of Buyer and its affiliates reasonable access, during normal business hours and upon reasonable notice, to the offices, properties, senior management, books and records of the Subject Entities; PROVIDED, HOWEVER, that such access does not unreasonably disrupt the normal business operations of Seller or the Subject Entities. Seller shall furnish Buyer with such additional financial and operating data and other information as to the assets, properties, and business of the Subject Entities as Buyer may from time to time reasonably request. Seller shall cause the Subject Entities to consent to

the review by the officers, employees and authorized representatives of Buyer and its affiliates of the reports and working papers of the Subject Entities' independent auditors and to discussions by the officers, employees and authorized representatives of Buyer and its affiliates with such independent auditors.

5. COVENANTS OF SELLER

5.01 ORDINARY COURSE. Except with respect to the Related Transactions and as otherwise expressly contemplated or permitted hereunder, between the date hereof and the Closing, Seller shall cause the business of the Subject Entities to be conducted in the ordinary course of business and consistent with past practices.

5.02 LIABILITIES. Between the date hereof and the Closing, without the prior written consent of Buyer, Seller shall not permit any of the Subject Entities to incur or to become subject to any material liability or obligation (absolute, contingent or otherwise) (including, without limitation, any surplus notes) except (i) as set forth in Section 5.02 of the Seller Schedule; (ii) liabilities or obligations incurred in the ordinary course of business (other than bank indebtedness in excess of the bank indebtedness of the Company outstanding on the date hereof, which excess shall not be deemed in the ordinary course of business); (iii) as required by law or regulatory authority or as contemplated hereunder; and (iv) other liabilities which shall not exceed $250,000 in the aggregate. Nothing contained herein shall restrict Seller from causing the Company to repay outstanding Indebtedness prior to the Closing.

5.03 CHANGES IN STOCK. Between the date hereof and the Closing, without the prior written consent of Buyer, Seller shall not permit any of the Subject Entities to (i) make any change in its authorized capital stock, (ii) issue any stock, options, warrants, or other rights calling for the issue, transfer, sale or delivery of its capital stock or other securities, (iii) pay any stock dividend or make any reclassification in respect of its outstanding shares of capital stock, (iv) issue, sell, exchange or deliver any shares of its capital stock (or securities convertible into or exchangeable, with or without additional consideration, for such capital stock), or (v) purchase or otherwise acquire for consideration any outstanding shares of its capital stock.

5.04 NEW AGREEMENT. Except (i) in the ordinary course of business or (ii) as required by law or regulatory authority or (iii) as contemplated hereunder, between the date hereof and the Closing, Seller shall not permit any of the Subject Entities to, without the prior written consent of Buyer, amend in any material respect or enter into any contract, agreement or other instrument of the types described in Section 2.14 hereunder or increase the salary or base compensation of, or pay any bonus or make any special awards to, or amend any compensation agreements of, any of the directors, officers,

employees, agents or affiliates of the Subject Entities other than in accordance with regularly scheduled periodic increases in accordance with past practices or as disclosed in Section 5.04 of the Seller Schedule. Except as required by law or regulatory authority Seller shall not, and shall cause NCM not to, terminate, cancel, amend, modify or otherwise alter the existing General Managerial Contract between NCM and Charter County Mutual under which NCM controls Charter County Mutual.

5.05 CONSENTS. Seller shall, as soon as practicable, prepare or cause to be prepared and make all necessary filings with all governmental or regulatory bodies or other entities and shall use its reasonable best efforts to obtain all consents, waivers, approvals, authorizations, rulings or orders from all governmental or regulatory bodies or other entities listed on the Seller Consent Schedule and furnish true, correct and complete copies of each thereof to Buyer. Prior to the Closing, Seller shall (and shall cause each of the Subject Entities to) use its reasonable best efforts to obtain any required consents of the parties to any Material Agreements.

5.06 NOTICE. Between the date hereof and Closing, Seller shall give prompt notice to Buyer of (i) any notice or other communication received by Seller or any of the Subject Entities relating to a default or event which, with notice or lapse of time or both, would become a default, under any of the Subject Entities' articles of incorporation, by-laws or comparable governing instruments, or any Material Agreement, (ii) any notice or other communication received by any of the foregoing from any third party alleging that the consent of such third party is or may be required in connection with the transactions contemplated hereby, (iii) any circumstances of which Seller or any Subject Entity becomes aware that is reasonably likely to have a Company Material Adverse Effect, and (iv) any matter which, if it had occurred prior to the date hereof, would have been required to be included on the Seller Schedule.

5.07 OTHER TRANSACTIONS. From the date of this Agreement to the Closing, except for the Related Transactions, none of Seller, any Subject Entity nor any other affiliate of Seller shall, nor shall they permit any of their respective officers, directors, stockholders or other representatives to, directly or indirectly, encourage, solicit, initiate or participate in discussions or negotiations with, or provide any information or assistance to, any person or group (other than Buyer, its affiliates and their representatives) concerning any merger, sale of securities, sale of substantial assets or similar transaction involving the Subject Entities. In the event that Seller, any Subject Entity or any other affiliate of Seller receives a proposal relating to any such transaction, Seller shall promptly notify Buyer of such proposal.

5.08 EMPLOYEE MATTERS.

(A) TRANSFER OF CONTINUING EMPLOYEES. On or prior to the Closing Date, subject to the receipt of any necessary regulatory approvals, Seller shall cause (i) the transfer to VIC of all employees of Valley Pacific located in California, and (ii) the transfer to WMIC of all employees of Fund American or its affiliates (other than the Subject Entities) who provide services to WMIC on a substantially full time basis. Each of such transfers is hereafter collectively referred to as the "Employee Transfer."

(B) SELLER EMPLOYEE OBLIGATIONS. Seller shall cause each of the Subject Entities to take such actions as are necessary to terminate the participation by the Subject Entities in the Valley Insurance Companies Long Term Incentive Plan, the Charter Insurance Companies Long Term Incentive Plan, the Valley Insurance Companies Annual Incentive Plan, the Charter Insurance Companies Annual Incentive Plan, the Fund American Enterprises Holdings, Inc. Long Term Incentive Plan, the Valley Group, Inc. Voluntary Salary Reduction Agreement and the employee benefit plans of Seller and White Mountains Holdings, Inc. in which any of them participates, effective no later than the close of business on the Closing Date. Following the Closing, Seller shall indemnify Buyer and its affiliates against any Loss or Losses (as defined in Section 14.01) (including funding deficiencies) arising under or in respect of any employee benefit plan maintained or sponsored by any Subject Entity and for any COBRA continuation coverage provided by any of the same, in each case to the extent those liabilities, obligations and costs arise out of events or circumstances prior to the Closing. Following the Closing, Buyer shall be solely responsible for, and shall indemnify Seller and its affiliates other than the Subject Entities against any Loss or Losses arising under or in respect of any employee benefit plan maintained or sponsored by any Subject Entity and for any COBRA continuation coverage provided by any of the same to the extent those liabilities, obligations and costs arise out of events or circumstances subsequent to the Closing.

5.09 DECEMBER 31, 1998 FINANCIAL STATEMENTS. As soon as practicable, but no later than the later of March 2, 1999 or the filing thereof with insurance regulatory authorities, Seller shall provide to Buyer the Statutory Financial Statements of each of the Insurance Companies for the year ended December 31, 1998, as filed with the departments of insurance of their respective states of domicile, which shall be prepared in a manner consistent with the requirements for Statutory Financial Statements specified in Section 2.08 above (the December 31, 1998 Statutory Financial Statements"). In the event the Closing occurs on or after March 31, 1999, Seller shall provide Buyer with the GAAP Consolidated Financial Statements for the year ended December 31, 1998, which

shall be prepared in a manner which is consistent with the requirements for GAAP Consolidated Financial Statements specified in Section 2.09 above together with the actual audit opinion from the Company's independent auditors. The loss and loss adjustment expense reserve amount shown on the December 31, 1998 Statutory Financial Statements shall be determined in accordance with SAP.

5.10 INTERCOMPANY AGREEMENTS AND BALANCES. As of or prior to the Closing, other than in respect of Taxes, Seller shall cause all intercompany balances between or among the Subject Entities, on the one hand, and Seller and any of the other affiliates of Seller, on the other hand, to be settled. Except as contemplated by this Agreement, at or prior to the Closing, Seller shall terminate, or cause to be terminated, each contract between or among the Subject Entities, on the one hand, and Seller and any of the other affiliates of Seller, on the other hand.

5.11 NAME CHANGE. No later than six (6) months after the Closing Date, Seller shall cause Valley National to amend its articles of incorporation, to change its corporate name and its doing business designations, in each state where it is qualified to do business, to a different name that does not include the word "Valley" in any form. Seller shall forthwith thereafter notify Buyer of such changes and provide copies of all documents filed in connection therewith. In addition, six (6) months after the Closing, Seller and its affiliates shall cease using the name "Valley Group" or "Charter Group" in any manner for commercial purposes.

5.12 COOPERATION. Seller shall execute such documents and other papers, provide such information, and take such further actions as may be reasonably requested by Buyer to carry out the provisions hereof and to consummate the transactions contemplated hereby. Seller shall use its reasonable best efforts to obtain, or assist Buyer in obtaining, all applicable regulatory approval of the reinsurance transaction described in Section 1.03(A)(i)(2).

5.13 CONDITIONS PRECEDENT. Seller shall use its reasonable best efforts to cause all of the conditions precedent to the consummation of the transactions contemplated by this Agreement applicable to it to be met.

5.14 SHAREHOLDER VOTE. Seller will cause its subsidiary, White Mountains Holdings, Inc., and/or each transferee permitted under Section 17.04, to vote all of its shares in the Company in favor of the sale of the Shares to Buyer and will not permit White Mountain Holdings, Inc. to transfer any of its shares in the Company to any other person or entity prior to Closing (except to the extent permitted under Section 17.04).

5.15 TERMINATION OF INVESTMENT ADVISOR AGREEMENT. Seller agrees to cause all investment advisory agreements currently in effect between it and the Subject Entities to be terminated at or prior to Closing.

5.16 VALLEY NATIONAL. The Company and VIC have entered into a definitive agreement, dated October 19, 1998, with Executive Risk Indemnity, Inc. ("ERII") providing for the sale of all of the outstanding capital stock of Valley National to ERII following the reinsurance cession of all of the insurance business of Valley National to certain Subject Entities (the "Valley National Sale Agreement"). Seller hereby agrees to indemnify, defend and hold Buyer and its affiliates harmless from and against (i) any Loss or Losses (as defined in Section 14.01)relating to or arising under the Valley National Sales Agreement and (ii) any Loss or Losses of Valley National incurred prior to the closing of the sale of Valley National pursuant to the Valley National Sale Agreement. Seller agrees to use its best efforts to cause all rights, powers and obligations under the Valley National Sale Agreement to be assigned to Seller or an affiliate of Seller (other than the Subject Entities), thereby substituting such assignee for the Company and VIC. If Seller shall determine that the sale of Valley National to ERII is unlikely to be consummated prior to the anticipated Closing Date, then Seller shall cause ownership of the stock of Valley National to be transferred to Seller or an affiliate of Seller (other than a Subject Entity), whether by dividend or otherwise, prior to the Closing Date.

5.17 PINNACLE. Seller hereby agrees to indemnify, defend and hold Buyer and its affiliates (including, without limitation, following the Closing, each of the Subject Entities) harmless from and against (i) any Loss or Losses relating to or arising under the Pinnacle Acquisition Agreement and (ii) any Loss or Losses of Pinnacle incurred prior to the Closing Date. Seller agrees to use its reasonable best efforts to cause all rights, powers and obligations under the Pinnacle Acquisition Agreement to be assigned to Seller or an affiliate of Seller (other than the Subject Entities) in full substitution for Charter. In the event that Charter acquires Pinnacle prior to the Closing Date, Seller shall use its reasonable best efforts to cause ownership of the stock of Pinnacle to be transferred to Seller or an affiliate of Seller (other than a Subject Entity), whether by dividend or otherwise, prior to the Closing Date.

6. COVENANTS OF BUYER.

6.01 CONSENTS. Buyer shall, as soon as practicable, prepare and make all necessary filings with all governmental or regulatory bodies or other entities and shall use its reasonable best efforts to obtain all consents, waivers, approvals, authorizations, rulings or orders from all governmental or regulatory bodies or other entities listed on the Buyer Consent Schedule and furnish true, correct and complete copies of each to Seller.

6.02 EMPLOYEE MATTERS. Immediately following the Closing, Buyer shall cause the Subject Entities to continue the employment of all employees thereof (including those employees subject to the Employee Transfer) at the same base pay and on terms and conditions not materially less favorable to such employees than those provided for immediately prior to the Closing. In addition, Buyer will give each such person credit for all accrued but unused vacation and paid time off that each such person had with Seller up through the Closing Date. Nothing herein shall be construed as a change in the status of any such employees as employees at will.

6.03 NAME CHANGE. No later than six months after the Closing Date, Buyer shall cause WMIC to amend its articles of incorporation, to change its corporate name and its doing business designation, in each state where it is qualified to do business, to a different name that does not include the words "White Mountains" in any form. Buyer shall forthwith thereafter notify Seller of such changes and provide copies of all documents filed in connection therewith. In addition, after June 30, 1999, Buyer and its affiliates shall cease using the name "White Mountains" in any manner for commercial purposes. It is understood and agreed that Seller shall retain all right, title and interest in and to the "White Mountains" name.

6.04 COOPERATION. Buyer shall execute such documents and other papers, provide such information, and take such further actions as may be reasonably requested by Seller to carry out the provisions hereof and to consummate the transactions contemplated hereby.

6.05 CONDITIONS PRECEDENT. Buyer shall use its reasonable best efforts to cause all of the conditions precedent to the consummation of the transactions contemplated by this Agreement applicable to it to be met.

6.06 CONFIDENTIALITY. Buyer acknowledges that the information being provided to it in connection with the purchase and sale of the Shares and the other transactions contemplated hereby is subject to the terms of a confidentiality agreement between Buyer and Gill and Roeser on behalf of Seller entered into in October, 1998 (the "Confidentiality Agreement"), the terms of which are incorporated herein by reference as if Seller were a party thereto. Effective upon, and only upon, the Closing, the Confidentiality Agreement shall terminate with respect to information relating solely to the Subject Entities; PROVIDED that Buyer acknowledges that any and all other information provided to it by Seller or Seller's representatives concerning Seller or its affiliates (other than the Subject Entities) shall remain subject to the terms and conditions of the Confidentiality Agreement after the Closing Date.

6.07 INDEMNITY. Buyer will indemnify and defend Seller with respect to the following claims: (1) any claim by an employee of any Subject Entity that he or she was not employed as provided in Section 6.02 this Agreement; (2) any claim for payment of vacation or paid time off accrued up through, as well as after, the Closing Date; and (3) any claim by any person relating to employment matters involving the Subject Entities and based on facts or circumstances occurring after the Closing Date including, but not limited to, the termination of employment of any employee of the Subject Entities after the Closing Date, the compensation and benefits such person is entitled to upon termination of employment after the Closing Date, or the compensation and benefits to which such person is entitled by virtue of his or her employment with Buyer after the Closing Date.

7. TAX COVENANTS OF SELLER AND BUYER.

7.01 Seller shall prepare and file, or cause to be prepared and filed, all material Tax Returns for taxable periods ending on or prior to the Closing Date required to be filed (giving effect to any valid extensions of time) including, but not limited to, all calendar year 1998 Tax Returns and those Tax Returns for the short taxable period commencing on January 1, 1999, and ending on the Closing Date and shall pay all Taxes shown thereon to be due. Seller shall prepare such Tax Returns in a manner consistent with the Tax Returns of the Subject Entities filed prior to the Closing for taxable periods ending on or before December 31, 1997 (the "Prior Year Returns"). Buyer shall cause the Subject Entities to pay, or shall itself pay or make provisions to pay on a timely basis, all Taxes to the extent reflected as liabilities on the Closing Date Balance Sheet as adjusted in accordance with Section 7.02. Such payment will exclude any Taxes which are a result of the purchase transaction contemplated herein, in accordance with the Section 338(h)(10) election described in Section 7.09. However, the Closing Date Balance Sheet will not reflect an accrual for the Taxes which result from the Section 338(h)(10) election or other Taxes resulting from the purchase and sale of the Shares or by the Related Transactions.

7.02 Buyer shall prepare and file, or cause to be prepared and filed, all material Tax Returns for taxable periods including (but not ending on) the Closing Date required to be filed (giving effect to any valid extensions of time) and shall pay all Taxes due with respect to such Tax Returns; PROVIDED that Seller shall reimburse Buyer for any amount owed by Seller pursuant to Section 14.01 within 30 days of Buyer's written notification to Seller of Seller's liability pursuant to Section 14.01. Buyer shall prepare such Tax Returns in a manner consistent with the Tax Returns of the Subject Entities filed prior to the Closing and shall furnish such Tax Returns to the Seller for the Seller's approval (which approval shall not be unreasonably delayed or withheld) at least thirty (30) days prior to the due date for filing such Tax Returns.

All liabilities or refunds for Taxes for Tax periods covered in Sections 7.01 and 7.02 which are reflected or which should have been reflected on the Closing Date Balance Sheet shall be adjusted to their correct amount based on the Tax Returns as actually filed. Cash settlement of the difference between the accruals on the Closing Date Balance Sheet and the actual Tax Returns shall be made within 30 days of the filing of such Tax Returns.

Any and all Taxes that arise from this stock purchase transaction in accordance with the Section 338(h)(10) election described in Section 7.09 below shall be entirely borne by Seller.

7.03 Buyer and Seller agree to cause the Subject Entities to file all Tax Returns for the period including the Closing Date on the basis that the relevant taxable period ended as of the close of business on the Closing Date, unless the relevant taxing authority will not accept a Tax Return filed on that basis.

7.04 Seller shall be responsible for filing any amended, consolidated, combined or unitary Tax Returns for taxable years ending on or prior to the Closing Date which are required as a result of examination adjustments made by the Internal Revenue Service or by the applicable state or local taxing authorities for such taxable years as finally determined. For those jurisdictions in which separate Tax Returns are filed by any of the Subject Entities, any required amended returns resulting from such examination adjustments, as finally determined, shall be prepared by Seller and furnished to such Subject Entity, as the case may be for approval (which approval shall not be unreasonably withheld), signature and filing at least 30 days prior to the due date for filing such returns.

7.05 Seller, each of the Subject Entities and Buyer shall reasonably cooperate, and shall cause their respective affiliates, officers, employees, agents, auditors and representatives reasonably to cooperate, in preparing and filing all Tax Returns, including maintaining and making available to each other all records necessary in connection with Taxes and in resolving all disputes and audits with respect to all taxable periods relating to Taxes. Buyer and Seller recognize that Seller and its affiliates will need access, from time to time, after the Closing Date, to certain accounting and Tax records and information held by the Subject Entities to the extent such records and information pertain to events occurring prior to the Closing Date; therefore, Buyer agrees, and agrees to cause each of the Subject Entities, (i) to use its best efforts to properly retain and maintain such records until the applicable statute of limitations has expired, and (ii) to allow Seller and its agents and representatives (and agents or representatives of any of its affiliates), at times and dates mutually acceptable to the parties, to inspect, review and

make copies of such records as Seller may deem necessary or appropriate from time to time, such activities to be conducted during normal business hours and at Seller's expense.

Seller shall provide prompt notice (within thirty (30) days of receiving an Internal Revenue Service Notice of Proposed Adjustment or similar notification from any other taxing authority) to Buyer of any issue raised in any official inquiry, examination or proceeding involving any Taxes relating to any of the Subject Entities for any period prior to and including the Closing Date.

7.06 Any refunds or credits of Taxes other than those accrued on the Closing Date Balance Sheet as adjusted pursuant to Section 7.02, of any of the Subject Entities for any taxable period ending on or before the Closing Date shall be for the account of Seller. Any refunds or credits of Taxes of any of the Subject Entities for any taxable period beginning after the Closing Date shall be for the account of the Buyer. Any refunds or credits of Taxes of any of the Subject Entities for any Straddle Period (as defined in Section 14.01) shall be equitably apportioned between Seller and Buyer as provided by Section 14.01. Buyer shall, if Seller so requests and at Seller's expense, cause any of the Subject Entities to file for and obtain any refunds or credits to which Seller is entitled under this Section 7.06. Buyer shall permit Seller to control the prosecution of any such refund claim and, where deemed appropriate by Seller, shall cause each of the Subject Entities to authorize by appropriate powers of attorney such persons as Seller shall designate to represent such Subject Entity with respect to such refund claim. Buyer shall cause each of the Subject Entities to forward to Seller any such refund within 10 days after the refund is received (or reimburse Seller for any such credit within 10 days after the credit is allowed or applied against other Tax liability); PROVIDED, HOWEVER, that any such amounts payable to Seller shall be net of any Tax cost or benefit to Buyer or such Subject Entity, attributable to the receipt of such refund and/or the payment of such amounts to Seller.

7.07 All sales and use Taxes incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by Buyer, and Seller and Buyer shall cooperate in timely making all filings, returns, reports and forms as may be required to comply with the provisions of such Tax laws.

7.08 On the Closing Date, Buyer shall cause each of the Subject Entities to conduct its business in the ordinary course in substantially the same manner as presently conducted and shall not permit any of the Subject Entities to effect any extraordinary transactions (other than any such transactions expressly required by applicable law or contemplated by this Agreement) that could result in Tax liability to any of the Subject

Entities in excess of Tax liability associated with the conduct of its business in the ordinary course.

On or after the Closing Date, neither Buyer nor any of the Subject Entities shall, with respect to any Pre-Closing Tax Period, (i) file any amended Tax Return, or (ii) carry back any loss or other Tax attribute.

7.09 Buyer and Seller shall join in timely making an election under Section 338(h)(10) of the IRC and similar elections under any applicable state or local income Tax laws with respect to each Subject Entity. Buyer and Seller shall report the transactions consistent with such election under Section 338(h)(10) of the IRC or any similar state or local Tax provision (the "Elections"). Buyer and Seller shall timely execute any and all forms necessary to effectuate the Elections (including, without limitation, Internal Revenue Service Form 8023 and any similar forms under applicable state or local income Tax laws (the "Section 338 Forms")).

Buyer and Seller agree to use all reasonable efforts to enter into an agreement (the "Allocation Agreement") as soon as practicable after the Closing to determine the Modified Aggregate Deemed Sale Price ("MADSP"), pursuant to Section 338(h)(10) of the IRC and the regulations thereunder, of the assets of the Subject Entities. Buyer shall initially prepare a statement(s) setting forth a proposed computation and allocation of MADSP (the "Computation") and submit it to Seller no later than 150 days after the Closing. If within 30 days of Seller's receipt of the Computation, Seller shall not have objected in writing to such Computation, the Computation shall become the Allocation Agreement. If within 60 days of Seller's receipt of the Computation, Seller and Buyer have not adopted an Allocation Agreement, the parties shall submit any disputed matter to the Accounting Firm, and cause the Accounting Firm to deliver a final, binding and conclusive written report resolving all such disputed matters within 30 days of the submission thereof to the Accounting Firm. Seller and Buyer shall each cause the Section 338 Forms to be duly executed by an authorized person for Seller and Buyer, respectively, within 30 days prior to the date such Section 338 Forms are required to be filed, and shall duly and timely file the Section 338 Forms in accordance with applicable Tax laws and the terms of this Agreement.

8. CLOSING AND CLOSING DOCUMENTS.

8.01 CLOSING. The "Closing" under this Agreement shall be held at the offices of Buyer at 10:00a.m., Central Time, at the end of the month during which all the terms and conditions contained in Sections 9, 10 and 11 of this Agreement have been fulfilled or waived, or at such other place and time as may be mutually agreed to by the parties (the day on which Closing takes place being referred to as the "Closing Date").

8.02 SELLER CLOSING MATTERS. At the Closing, Seller shall deliver, or cause to be delivered, to Buyer or take, or cause to be taken, the following actions, as the case may be:

(A) A certificate of Seller, signed by its President, which shall confirm (i) the compliance by Seller in all material respects with its covenants and agreements contained in this Agreement, (ii) the accuracy in all material respects of the representations and warranties made by Seller in this Agreement that are not qualified as to materiality, at and as of the Closing as if made at such time (unless made as of a specific date), and (iii) the accuracy of the representations and warranties made by Seller in this Agreement that are qualified as to materiality, at and as of the Closing as if made at said time (unless made as of a specific date).

(B) A certificate of Seller certifying that the GAAP Consolidated Financial Statements for the year ended December 31, 1998 and the Prior Month-End Balance Sheet have been prepared in accordance with GAAP on a basis consistent with the GAAP Consolidated Financial Statements for the periods ended December 31, 1997 and September 30, 1998 and in accordance with Section 2.09.

(C) Written resignations, effective at the Closing, of the directors of each of the Subject Entities specified on the Directors and Officers Schedule.

(D) Certificates representing the Shares being conveyed by Seller as specified in Section 1 hereto, duly assigned or with executed stock powers to transfer the shares evidenced thereby to Buyer on the stock transfer records of the Company.

(E) The opinion of Brobeck, Phleger & Harrison, LLP, or other counsel to Seller reasonably acceptable to Buyer dated the Closing Date, covering the matters set forth in Exhibit 8.02(E).

(F) All minute books, stock record books and corporate seals of each of the Subject Companies to the extent that they are not already in the possession of the Subject Companies.

(G) Written evidence, reasonably satisfactory to Buyer, from the banking institution or institutions holding the Indebtedness of the extinguishment of the Indebtedness in full.

8.03 BUYER CLOSING MATTERS. At the Closing, Buyer shall deliver, or cause to be delivered, to Seller:

(A) A certificate of Buyer, signed by its President, which shall confirm (i) the compliance by Buyer in all material respects with its covenants and agreements contained in this Agreement, (ii) the accuracy in all material respects of the representations and warranties made by it in this Agreement that are not qualified as to materiality, at and as of the Closing as if made at such time (unless made as of a specific date), and (iii) the accuracy of the representations and warranties made by Buyer in this Agreement that are qualified as to materiality, at and as of the Closing as if made at said time (unless made as of a specific date).

(B) The Estimated Purchase Price in the amount and manner of payment specified in Section 1.02(B).

(C) The opinion of counsel to Buyer reasonably acceptable to Seller, dated the Closing Date, covering the matters set forth in Exhibit 8.03(C).

9. CONDITIONS TO THE OBLIGATIONS OF BUYER.

The obligations of Buyer under this Agreement to cause this Agreement to become effective and have the transactions contemplated hereby be consummated are, at its option, subject to the conditions that:

9.01 VALIDITY OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Seller contained herein that are not qualified as to materiality shall be true in all material respects on and at the Closing (unless made as of a specific date) with the same force and effect as though made on and at the Closing. The representations and warranties of Seller contained herein that are qualified as to materiality shall be true on and at the Closing (unless made as of a specific date) with the same force and effect as though made on and at the Closing.

9.02 CONSENTS. All consents, waivers, approvals, authorizations or orders listed on Seller Consent Schedule shall have been obtained by Seller in substance reasonably satisfactory to Buyer and copies of the same (if reduced to writing) shall have been delivered to Buyer.

9.03 COMPLIANCE WITH COVENANTS. Seller shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants and conditions contained in this Agreement to be performed and complied with at or prior to the Closing (except that any covenants and conditions which are qualified as to materiality shall have been so performed and complied with in all respects).

9.04 NCM/CHARTER COUNTY MUTUAL RELATIONSHIP. The existing General Agency Managerial Contract between NCM and Charter County Mutual under which NCM controls Charter County Mutual shall be in full force and effect on the Closing Date, and shall not have been amended, modified or otherwise altered between the execution of this Agreement and the Closing Date. Except for NCM and the board of directors and officers of Charter County Mutual, no individual, corporation, partnership, joint venture, association, joint stock company, trust, or unincorporated organization shall have any direct or indirect power or authority to direct or cause the direction of the management and policies of Charter County Mutual.

9.05 RESIGNATIONS. The directors of each of the Subject Entities as specified on the Directors and Officers Schedule shall have tendered their resignations in writing, effective at the Closing.

9.06 TRANSFER OF VALLEY NATIONAL AND PINNACLE. All of the issued and outstanding stock of each of Valley National and Pinnacle (if any) owned by any of the Subject Entities shall have been sold or transferred (including by way of dividend or distribution) to Seller or to an affiliate of Seller that is not a Subject Entity or to a third party on terms and conditions reasonably satisfactory to Buyer; PROVIDED, HOWEVER, that in the event Pinnacle has not yet been acquired by Charter as of the Closing Date, Seller shall have caused all rights and obligations under the Pinnacle Acquisition Agreement to be assigned to Seller or an affiliate of Seller (other than the Subject Entities).

9.07 ASSET SALE/EMPLOYEE TRANSFER. The Asset Sale and the Employee Transfer shall have been completed in form and substance reasonably satisfactory to Buyer.

9.08 EXTINGUISHMENT OF INDEBTEDNESS. The Indebtedness shall have been extinguished in full.

10. CONDITIONS OF THE OBLIGATIONS OF SELLER.

The obligations of Seller under this Agreement to cause this Agreement to become effective and have the transactions contemplated hereby be consummated are, at its option, subject to the conditions that:

10.01 VALIDITY OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Buyer contained herein that are not qualified as to materiality shall have been true in all material respects on and at the Closing (unless made as of a specific date) with the same force and effect as though made on and at the Closing. The representations and warranties of Buyer contained herein that are qualified as to materiality shall be true

on and at the Closing (unless made as of a specific date) with the same force and effect as though made on and at the Closing.

10.02 CONSENTS. All consents, waivers, approvals, authorizations or orders listed on the Buyer Consent Schedule shall have been obtained by Buyer in substance reasonably satisfactory to Seller and copies of the same (if reduced to writing) shall have been delivered to Seller.

10.03 COMPLIANCE WITH COVENANTS. Buyer shall have performed in all material respects all obligations and agreements and complied in all material respects with all covenants and conditions contained in this Agreement to be performed and complied with by it at or prior to the Closing (except that any covenants and conditions which are qualified as to materiality shall have been so performed and complied with in all respects).

11. CONDITIONS APPLICABLE TO BUYER AND SELLER.

The obligations of each of Buyer and Seller under this Agreement to cause this Agreement to become effective and have the transactions contemplated hereby be consummated are subject to the following terms and conditions:

11.01 HART-SCOTT-RODINO ACT. Any waiting period applicable to the consummation of the transactions contemplated by this Agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall have expired or been terminated, and no action instituted by the Department of Justice or Federal Trade Commission challenging or seeking to enjoin the consummation of such transactions shall be pending.

11.02 GOVERNMENTAL APPROVALS. A written order approving the purchase and sale of the Shares as contemplated by this Agreement from the insurance departments listed on Seller's and Buyer's Consent Schedules and any additional approvals thereof as may be required by other insurance regulatory authorities for the purchase and sale of the Shares hereunder shall have been obtained at or prior to the Closing.

11.03 INJUNCTION. The consummation of the transactions contemplated by this Agreement shall not have been restrained, enjoined or prohibited by any court or governmental authority of competent jurisdiction. No material litigation or administrative proceeding shall be pending as of the Closing seeking to restrain, enjoin or prohibit the consummation of the transactions contemplated by this Agreement.

11.04 CLOSING. The Closing shall occur no later than 5:00 p.m., Central Time, on June 30, 1999, or such other date as may be mutually agreed to by the parties.

12. TERMINATION.

12.01 TERMINATION. (a) Anything contained herein to the contrary notwithstanding, this Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing Date:

(i) by mutual written consent of Seller and Buyer;

(ii) by Seller if any of the conditions set forth in Section 10 shall have become incapable of fulfillment, and shall not have been waived by Seller;

(iii) by Buyer if any of the conditions set forth in Section 9 shall have become incapable of fulfillment, and shall not have been waived by Buyer;

(iv) by either party if any of the conditions set forth in Section 11 (other than Section 11.04) shall have become incapable of fulfillment, and shall not have been waived by the party seeking termination; or

(v) by either party if the Closing does not occur on or prior to June 30, 1999;

PROVIDED, HOWEVER, that the party seeking termination pursuant to clause (ii), (iii), (iv) or (v) shall only be entitled to terminate this Agreement if it is not in material breach of any of its representations, warranties, covenants or agreements contained in this Agreement.

(b) In the event of termination by Seller or Buyer pursuant to this Section 12, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated, without further action by either party. If the transactions contemplated by this Agreement are terminated as provided herein:

(i) Buyer shall return all documents and other material received from Seller or any Subject Entity relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to Seller; and

(ii) all confidential information received by Buyer with respect to the business of the Subject Entities shall be treated in accordance with the terms of the

Confidentiality Agreement, which shall remain in full force and effect in accordance with its terms notwithstanding the termination of this Agreement.

(c) If this Agreement is terminated and the transactions contemplated hereby are abandoned as described in this Section 12, this Agreement shall become null and void and of no further force or effect, except for the provisions of (i) Section 6.06 relating to the obligation of Buyer to keep confidential certain information and data obtained by it, (ii) Section 17.01 relating to certain expenses, (iii) Section 17.09 relating to attorney fees and expenses, (iv) Section 17.06 relating to publicity, (v) Section 17.10 relating to finder's fees and broker's fees, and (vi) this Section 12. Nothing in this Section 12 shall be deemed to release either party from any liability for any breach by such party of the terms and provisions of this Agreement or to impair the right of either party to compel specific performance by the other party of its obligations under this Agreement.

13. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; COVENANTS.

The representations and warranties in this Agreement and in any certificate or schedule delivered pursuant hereto shall survive until the date which is eighteen (18) months following the Closing Date; provided, however, that the representations and warranties contained in Sections 2.12 (Environmental), 2.17 (Taxes) and 2.19 (Employee Benefits) shall survive until the expiration of the relevant statutes of limitation, and the representations and warranties contained in Sections 2.02 (Subsidiaries; the first two sentences only) and 2.03 (Authorized Stock), shall survive forever. Unless otherwise expressly provided by this Agreement, all covenants and obligations under this Agreement to be performed after the Closing shall survive the Closing in accordance with their respective terms.

14. TAX INDEMNIFICATION.

14.01 In addition to any indemnification obligations arising under Section 16 hereof, Seller hereby agrees upon the terms and conditions and in accordance with the procedures set forth in this Agreement, to indemnify, defend and hold Buyer and its affiliates (including, without limitation, each of the Subject Entities) and their respective officers, directors, agents and employees (the "Seller Indemnitees") harmless from and against any damages (including, without limitation, extraordinary or punitive damages), deficiencies, costs, liabilities, claims or expenses, including, without limitation, interest, penalties and reasonable attorneys' fees (individually a "Loss" and collectively the "Losses"), that any of the Seller Indemnitees shall incur or suffer, regardless of whether Buyer had knowledge of such Loss or Losses at the time of the Closing, resulting from or relating to any and all liability for Taxes (i) of the Subject Entities related to any taxable period ending on or prior to the Closing Date and the portion ending on the Closing Date

of any taxable period that includes (but does not end on) such day ("Pre-Closing Tax Period") and (ii) resulting from the Elections contemplated by Section 7.09 of this Agreement.

Notwithstanding the foregoing, Seller shall not indemnify any Seller Indemnitee from any liability for Taxes attributable to any action taken after the Closing by Buyer, any of its affiliates (including any of the Subject Entities), or any transferee of Buyer or any of its affiliates (other than any such action expressly required by applicable law or by this Agreement) (a "Buyer Tax Act") or attributable to a breach by Buyer of its obligations under this Agreement.

In the case of any taxable period that includes (but does not end on) the Closing Date (a "Straddle Period"):

(i) real, personal and intangible property Taxes ("property Taxes") of the Subject Entities for the Pre-Closing Tax Period shall be equal to the amount of such property Taxes for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days during the Straddle Period that are in the Pre-Closing Tax Period and the denominator of which is the number of days in the Straddle Period; and

(ii) the Taxes of the Subject Entities (other than property Taxes) for the Pre-Closing Tax Period shall be computed as if such taxable period ended as of the close of business on the Closing Date.

14.02 Buyer hereby agrees upon the terms and conditions and in accordance with the procedures set forth in this Agreement to indemnify, defend and hold Seller and its affiliates and its officers, directors, agents and employees (the "Buyer Indemnitees") harmless from and against any Loss or Losses that any of the Buyer Indemnitees shall incur or suffer, regardless of whether Seller had knowledge of such Loss or Losses at the time of the Closing, resulting from or relating to any and all liability for Taxes (i) of the Subject Entities related to any taxable period ending after the Closing Date (except to the extent such taxable period began before the Closing Date, in which case Buyer's indemnity will cover only that portion of any such Taxes that are not for the Pre-Closing Tax Period) and (ii) attributable to a Buyer Tax Act or to a breach by Buyer of its obligations under this Agreement.

14.03 If a claim with respect to Taxes shall be made by any taxing authority, which, if successful, might result in an indemnity payment to an indemnified party pursuant to Section 14.01 or 14.02, the party receiving such claim shall promptly notify the other party in writing of such claim (a "Tax Claim"). If the indemnified party

receives notification of a Tax Claim and fails to notify the indemnifying party within a sufficient period of time to allow the indemnifying party to effectively contest such Tax Claim, or in reasonable detail to apprise the indemnifying party of the nature of the Tax Claim, in each case taking into account the facts and circumstances with respect to such Tax Claim, the indemnifying party shall not be liable to the indemnified party, any of its affiliates or any of their respective officers, directors, agents or employees to the extent that indemnifying party's position is actually prejudiced as a result thereof.

With respect to any Tax Claim relating solely to a Pre-Closing Tax Period, Seller shall control all proceedings taken in connection with such Tax Claim (including selection of counsel) and, without limiting the foregoing, may in its sole discretion pursue or forego any and all administrative appeals, proceedings, hearings and conferences with any taxing authority with respect thereto, and may, in its sole discretion, either pay the Tax claimed and sue for a refund where applicable law permits such refund suits or contest the Tax Claim in any permissible manner.

Buyer, the Subject Entities, and each of their respective affiliates shall cooperate with Seller in contesting any Tax Claim, which cooperation shall include the retention until the applicable statute of limitations has expired and (upon Seller's request) the provision to Seller of records and information which are reasonably relevant to such Tax Claim, and making their employees available on a mutually convenient basis to provide additional reasonably relevant information or explanation of any material provided hereunder or to testify at proceedings relating to such Tax Claim.

In no case shall Buyer, the Subject Entities, or any of their respective officers, directors, agents or employees settle or otherwise compromise any Tax Claim relating to a Pre-Closing Tax Period (excluding Straddle Periods) without Seller's prior written consent.

15. POST-CLOSING RESERVE ADJUSTMENTS.

15.01 CALCULATION AND ADJUSTMENT. As promptly as reasonably practicable after it becomes available, Buyer shall deliver to Seller a true and complete copy of each Annual and Quarterly Statement of each Subject Entity as filed with the appropriate insurance regulatory authority for any period ending at or prior to the Settlement Date (as defined in Section 15.02), together with any actuarial opinion, affirmation or certification filed in connection therewith. Not later than 90 days following the end of each calendar year until the Settlement Date, and not later than 90 days following the Settlement Date, Buyer shall provide Seller with a written report (the "Reserve Report") reflecting the calculation contemplated by Section 15.02 ("Indicated Reserve Amount"), together with all work papers and actuarial memoranda used in establishing the Indicated Reserve Amount. The

calculation of the Indicated Reserve Amount will be prepared in conformity with GAAP as in effect on the Closing Date consistently applied and the books and records of the Subject Entities (with the exception of ULAE which shall be calculated in accordance with Section 15.02), and will present fairly the loss and loss adjustment expense reserves of the Insurance Companies as of the Settlement Date (or earlier date thereof). In the event that the Indicated Reserve Amount reflected on the final Reserve Report prepared as of the Settlement Date exceeds the loss and loss adjustment expense ("LAE") reserves, net of related third party reinsurance, salvage and subrogation recoverables and receivables, as shown in the Closing Date Balance Sheet ("Closing Reserves"), by at least $500,000, Seller shall pay or cause to be paid to Buyer in immediately available funds 90% of the amount (including such $500,000 amount) by which the Indicated Reserve Amount exceeds the Closing Reserves (including such $500,000 amount). In the event that the Closing Reserves exceed the Indicated Reserve Amount by at least $500,000, Buyer shall pay or cause to be paid to Seller in immediately available funds 90% of the amount (including such $500,000 amount) by which the Closing Reserves exceed the Indicated Reserve Amount (including such $500,000 amount). Notwithstanding anything herein to the contrary, Seller shall not in any event be required to pay any amounts hereunder which would individually or in the aggregate exceed $50,000,000.

15.02 CALCULATION METHODOLOGY. The Indicated Reserve Amount will be equal to the sum of (i) the Indicated Loss Reserve Amount as defined in Section 15.03 and (ii) the Indicated ALAE Reserve Amount as defined in Section 15.04 and (iii) 5.4% of the sum of (a) the Indicated Loss Reserve Amount plus (b) the Indicated ALAE Reserve Amount, such percentage representing the agreed-upon unallocated loss adjustment expenses ("ULAE") for the Subject Business, in the case of each of (i) and (ii) and (iii) as of December 31, 2002 (the "Settlement Date") solely with respect to insurance or reinsurance issued, underwritten or assumed prior to the Closing Date by the Insurance Companies (the "Subject Business"). Notwithstanding anything herein to the contrary, and except as otherwise provided by Section 15.07, the Indicated Reserve Amount shall exclude from losses and LAE any losses and LAE liabilities (i) paid or incurred in excess of the limits of any original policy, (ii) constituting an extra-contractual liability, or (iii) arising from the negligence, fraud or bad faith of any Insurance Company or any other of Buyer's affiliates in the handling of the underlying claim, but only to the extent that any such losses and LAE liabilities in the case of each of (i), (ii) and (iii) arise out of acts or omissions occurring after the Closing Date.

15.03 INDICATED LOSS RESERVE AMOUNT. The Indicated Loss Reserve Amount will be the sum of (i) claims paid after the Closing Date for losses occurring on or prior to the Closing Date with respect to the Subject Business, (ii) case loss reserves held as of the Settlement Date for losses occurring on or prior to the Closing Date with respect to the Subject Business, and (iii) the bulk and incurred but not reported ("IBNR") loss

reserves held as of the Settlement Date for losses occurring on or prior to the Closing Date with respect to the Subject Business, less applicable third party reinsurance, salvage and subrogation recoveries received or receivable after the Closing Date and applicable to losses incurred on or prior to the Closing Date. The loss reserves for the Subject Business will be calculated in accordance with GAAP as in effect on the Closing Date consistently applied and generally accepted actuarial practices consistently applied.

15.04 INDICATED ALAE RESERVE AMOUNT. The Indicated ALAE Reserve Amount will be the sum of (i) allocated loss adjustment expenses ("ALAE") paid after the Closing Date for losses occurring on or prior to the Closing Date with respect to the Subject Business, (ii) case ALAE reserves held as of the Settlement Date for losses occurring on or prior to the Closing Date with respect to the Subject Business and (iii) bulk and IBNR ALAE reserves held as of the Settlement Date for losses occurring on or prior to the Closing Date with respect to the Subject Business, less applicable third party reinsurance, salvage and subrogation recoveries received or receivable after the Closing Date and applicable to losses incurred on or prior to the Closing Date. The ALAE reserves for the Subject Business will be calculated in accordance with GAAP as in effect on the Closing Date consistently applied and generally accepted actuarial practices consistently applied.

15.05 DISPUTE RESOLUTION. Following the delivery of the Reserve Report to Seller, Buyer will cause the Subject Entities to allow Seller to have reasonable access , during normal business hours and upon reasonable notice, to the books, records and work papers of the Subject Entities relating to the Indicated Reserve Amount and the Subject Business; PROVIDED, HOWEVER, that such access does not unreasonably disrupt the normal business operations of the Subject Entities, Buyer or its other affiliates. In the event that the Seller has any disagreement with the Indicated Reserve Amount reflected in the Reserve Report then all unresolved disagreements shall be submitted to an independent actuarial firm of national standing and reputation as the parties shall jointly select and retain (the "Independent Actuary") for resolution in accordance with this Agreement. In the event that the parties are unable to jointly select an Independent Actuary, each of the Buyer, on the one hand, and the Seller, on the other hand, shall select an independent certified public accounting firm of national standing and reputation, which firms shall jointly select the Independent Actuary for joint retention by the parties. The parties shall, and Buyer shall cause the Subject Entities to, cooperate in good faith with the Independent Actuary and shall give the Independent Actuary access to all books, records, work papers and other information and documents relating to the items in disagreement as the Independent Actuary may reasonably request for purposes of such resolution. The Independent Actuary shall, within thirty (30) days after its engagement, deliver to the parties a conclusive written resolution of all disagreements submitted to it, which written resolution shall be in accordance with this Agreement and shall be final and binding upon the parties hereto. The Indicated Reserve Amount reflected in the Reserve Report shall

be adjusted accordingly to reflect any such resolution and, as so adjusted, shall be deemed final for purposes of the payments provided in Section 15.01. Seller on the one hand, and Buyer on the other hand, shall each pay one-half of the fees and expenses of the Independent Actuary.

15.06 PAYMENT. Except for any amounts in dispute under Section 15.05, balances due from either party under Section 15.01 shall be paid within 30 days of delivery by Buyer of the final Reserve Report contemplated by Section 15.01. Balances in dispute shall be paid within 30 days after the parties are notified of the determination rendered by the Independent Actuary. Any such amounts shall bear interest at an annual rate equal to the Interest Rate from the date of delivery of the aforesaid report until payment in full.

15.07 CERTAIN COVENANTS. With respect to the Subject Business, from the Closing Date until the Settlement Date, Buyer agrees to cause each Insurance Company to, in good faith, (i) pay and settle claims, and handle the defense of pending or threatened claims, suits or proceedings, in accordance with its standard past practices, but in no case on a basis less favorable to such Insurance Company than those practices of affiliates of Buyer, except to the extent as may otherwise be required by law, (ii) establish reserves for losses and loss adjustment expenses in accordance with generally accepted actuarial standards, but in no case on a basis less favorable to such Insurance Company than those practices of other affiliates of Buyer, and (iii) not delegate any claims adjustment or claims handling authority to any person or entity not affiliated therewith, in each case, other than on a basis more favorable to and involving lesser liabilities, obligations and other costs for such Insurance Company. Notwithstanding anything contained in this Agreement to the contrary, each of Buyer and Seller agree that all claims incurred by any Insurance Company with respect to the Subject Business involving synthetic stucco (sometimes referred to as Exterior and Insulation Finishing System (EIFS) or Dryvit) shall be assigned a date of loss as of the inception of the policy period. While this Section 15 is in effect, Seller shall have the right to inspect and copy, at its own expense, through its duly authorized representatives, the books, records and accounts of each Subject Entity pertaining to the Subject Business and payments of losses and loss adjustment expenses in respect thereof during normal business hours and upon reasonable notice; PROVIDED, HOWEVER, such inspection and copying shall not unreasonable disrupt the normal business operations of any Subject Entity, Buyer or its other affiliates. During the term of this Agreement, Buyer shall advise Seller promptly of any claim relating to the Subject Business and any material subsequent developments pertaining thereto, to the extent Buyer or any of its affiliates is required to notify any reinsurer, retrocessionaire or other assuming company thereof. Upon the written request of Seller, Buyer will afford Seller an opportunity to participate with the relevant Insurance Company, at the sole expense of Seller, in the settlement of any such claim, and the Insurance Company and Seller shall cooperate in every respect in such settlement; PROVIDED, HOWEVER, in the event

that Seller participates in a settlement, and to the extent such participation results in or contributes to (i) liabilities paid or incurred in excess of the limits of any original policy, (ii) liabilities constituting extra-contractual liabilities, or (iii) a finding of negligence, fraud or bad faith as contemplated by Section 15.02, such settlement and all liabilities associated therewith shall be included to such extent in the Indicated Reserve Amount.

16. INDEMNIFICATION.

16.01 INDEMNIFICATION BY SELLER. In addition to any indemnification obligations provided elsewhere herein, Seller hereby agrees upon the terms and conditions and in accordance with the procedures set forth in this Agreement, to indemnify, defend and hold Buyer and its affiliates (including, without limitation, following the Closing, each of the Subject Entities) and their respective officers, directors, agents and employees (the "Seller Indemnitees") harmless from and against any Loss or Losses that any of the Seller Indemnitees shall incur or suffer resulting from or relating to any breach of representation or warranty, or non-fulfillment of any covenant or agreement, by Seller contained in this Agreement or any certificate, schedule, list or other document delivered by Seller to Buyer pursuant to this Agreement. Notwithstanding anything in this Agreement to the contrary, Seller shall not be required hereunder to indemnify, defend or hold Seller Indemnitees, any of their affiliates or any other Person or entity harmless from or against any Losses arising from or relating to (i) insurance or reinsurance losses or loss adjustment expenses (including reserves in respect thereof), except to the extent specifically provided in Section 15, or (ii) Taxes, except to the extent specifically provided in Section 14, or (iii) any Losses reflected on the Closing Date Balance Sheet.

16.02 INDEMNIFICATION BY BUYER. In addition to any indemnification obligations provided elsewhere herein, Buyer hereby agrees upon the terms and conditions and in accordance with the procedures set forth in this Agreement to indemnify, defend and hold Seller and its affiliates and their respective officers, directors, agents and employees (the "Buyer Indemnitees") harmless from and against any Loss or Losses that any of the Buyer Indemnitees shall incur or suffer resulting from or relating to any breach of representation or warranty, or non-fulfillment of any covenant or agreement, by Buyer contained in this Agreement or any certificate, schedule, list or other document delivered by Buyer to Seller pursuant to this Agreement.

16.03 LIMITS ON INDEMNIFICATION. Notwithstanding the foregoing, no party shall be obligated pursuant to Section 16.01 or 16.02, respectively, (i) until the aggregate Losses of the party suffering Loss is in the amount of $250,000 or more, in which case the indemnified party shall be entitled to be indemnified for all such Losses (including such $250,000 amount) and (ii) for any Losses in excess of $5,000,000 in the aggregate for all Losses; PROVIDED, HOWEVER, that the limitation for any Loss or Losses resulting

from or relating to any breach by Seller of the representations and warranties contained in Sections 2.02 or 2.03 shall be an amount equal to the Purchase Price, less any other amounts paid to Buyer pursuant to Section 16.01.

16.04 INDEMNIFICATION PROCEDURES. Any indemnified party entitled to indemnification hereunder pursuant to this Section 16 shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in such indemnified party's judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. If such defense is assumed, the indemnifying party will not be subject to any liability for any settlement made by the indemnified party without the indemnifying party's prior written consent (but such consent will not be unreasonably withheld). An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim. The indemnified party shall have the right to be represented by counsel at its own expense in any such contest, defense, litigation or settlement conducted by the indemnifying party. The indemnifying party also agrees to make such provisions, as are reasonably requested by any indemnified party, for contribution to such party in the event the indemnifying party's indemnification is unavailable for any reason.

17. MISCELLANEOUS.

17.01 PAYMENT OF EXPENSES. Except as otherwise expressly provided herein, whether or not this Agreement shall be consummated, each party hereto shall pay its own expenses incident to preparing for, entering into and carrying out this Agreement and to the consummation of the transactions contemplated hereby.

17.02 ENTIRE AGREEMENT. This Agreement (together with the Schedules and Exhibits hereto and the documents referred to herein) contains, and is intended as, a complete statement of all of the terms of the arrangements between the parties with respect to the matters provided for herein, and supersedes any previous agreements and understandings between the parties with respect to those matters.

17.03 MODIFICATIONS, AMENDMENTS AND WAIVERS. At any time prior to the Closing, the parties hereto may by written agreement (a) extend the time for the performance of any of the obligations or other acts of the parties hereto, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any

document delivered pursuant hereto, (c) waive compliance with any of the covenants or agreements contained in this Agreement, or (d) make any other modification of this Agreement approved by Buyer and Seller. This Agreement shall not be altered or otherwise amended except pursuant to an instrument in writing executed and delivered on behalf of each of the parties hereto.

17.04 ASSIGNMENT. This Agreement shall not be assignable by any of the parties hereto, except that (a) Seller shall have the right, without such consent, to transfer ownership of the Company to another direct or indirect wholly owned subsidiary of Seller prior to the Closing and to assign to such other subsidiary its right and obligation hereunder to sell the Shares to Buyer (PROVIDED, HOWEVER, that, in the event of such assignment, Seller shall guarantee the performance by such other subsidiary of such sale obligation and will remain liable for all its other obligations hereunder) and (b) Buyer shall have the right, without such consent, to assign to a direct or indirect wholly owned subsidiary of Buyer its right and obligation hereunder to purchase the Shares from Seller (PROVIDED, HOWEVER, that, in the event of such assignment, Buyer shall guarantee the performance by such subsidiary of such purchase obligation and will remain liable for all its other obligations hereunder). This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

17.05 SCHEDULES. All information set forth in the Seller Schedule shall be deemed a representation and warranty of Seller as to the accuracy of such information.

17.06 PUBLICITY. Except as may otherwise be required by law, no press release or public announcement concerning this Agreement or the transactions contemplated hereby shall be made prior to the Closing without advance written approval thereof by Seller and Buyer. Seller and Buyer will cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby. Without limiting the foregoing, the parties contemplate issuing a joint press release announcing this transaction promptly upon execution of this Agreement.

17.07 NOTICES. Any notice, request, instruction or other document to be given hereunder by any party to the others shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid, overnight express service or confirmed facsimile transmission, if to Buyer, addressed to Unitrin, Inc., One East Wacker Drive, 10th Floor, Chicago, Illinois 60601, Attention: Richard C. Vie, facsimile: (312) 661-4690 (with a copy to Unitrin, Attention: Scott Renwick, Esq., facsimile: (312) 661-4941); and if to Seller addressed to Fund American Enterprises Holdings, Inc., 80 South Main Street, Hanover, New Hampshire 03755-2053, Attention: Ray Barrette, facsimile:

(603) 643-4562, (with a copy to Brobeck, Phleger & Harrison LLP, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303, Attention: Curtis L. Mo, Esq., facsimile: (650) 496-2715 or to such other persons as may be designated in writing by the parties.

17.08 GLOSSARY. Attached hereto as Exhibit A is a glossary of certain defined terms used in this Agreement.

17.09 ATTORNEY FEES. A party in breach of this Agreement shall, on demand, indemnify and hold harmless the other party from and against all reasonable out-of-pocket expenses, including legal fees, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement. The payment of such expenses is in addition to any other relief to which such other party may be entitled.

17.10 BROKERS' FEES. Seller hereby represents and warrants that (a) the only brokers or finders that have acted for Seller in connection with this Agreement or the transactions contemplated hereby or that may be entitled to any brokerage fee, finder's fee or commission in respect thereof are Gill & Roeser and (b) Seller shall pay all fees or commissions which may be payable to Gill & Roeser. Buyer hereby represents and warrants that (a) the only brokers or finders that have acted for Buyer in connection with this Agreement or the transactions contemplated hereby or that may be entitled to any brokerage fee, finder's fee or commission in respect thereof are Search Information Services and (b) Buyer shall pay all fees or commissions which may be payable to Search Information Services.

17.11 REMEDIES. The parties hereto agree that money damages or other remedies at law would not be a sufficient or adequate remedy for any breach or violation of, or a default under, this Agreement by them and that, in addition to all other remedies available to them, each of them shall be entitled to an injunction restraining such breach, violation or default or threatened breach, violation or default and to any other equitable relief, including specific performance, without bond or other security being required.

17.12 SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of this Agreement, including that provision, in any other jurisdiction. If any restriction or provision of this Agreement is held unreasonable, unlawful or unenforceable in any respect, such restriction or provision shall be interpreted, revised or applied in a manner that renders it lawful and enforceable to the fullest extent possible under law.

17.13 GOVERNING LAW. This Agreement and the rights and obligations of the parties hereto shall be governed by, and construed and enforced in accordance with, the internal laws of the State of New York, without giving effect to the principles of conflict of laws thereof.

17.14 HEADINGS. The Section and paragraph headings in this Agreement are inserted for convenience of reference only, and shall not control or affect the meaning or construction of any provision of this Agreement.

17.15 COUNTERPARTS. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which together shall constitute one and the same instrument.

17.16 NON-COMPETITION/NON-SOLICITATION. During the twenty-four (24) months immediately following the Closing Date, Seller agrees that neither it nor any of its affiliates will, without the written consent of Buyer or its affiliates:

a) directly or indirectly acquire a majority controlling interest (whether by merger, consolidation, purchase of stock or assets, or otherwise) of any Competing Insurer (as defined below);

b) employ or solicit the employment of any employee of the Subject Entities identified on Schedule 17.16 attached hereto; provided, however, nothing herein shall prevent Seller or any of its affiliates from employing any such employee that is terminated by a Subject Entity subsequent to the Closing Date; or

c) induce or attempt to induce any agent of any Insurance Company as of the Closing Date to terminate its agency relationship with such Insurance Company or induce or attempt to induce any agent of any Insurance Company as of the Closing Date to place the renewal of any insurance policies written or assumed by any Insurance Company as of the Closing Date with another insurance company that is owned or controlled by Seller or its affiliates.

For purposes of the above, a "Competing Insurer" shall mean an insurer (or, if Seller or its affiliates acquire a majority controlling interest in any group of affiliated insurers, such affiliated group of insurers) which derived a majority of the gross written premiums, during the calendar year next preceding the date of determination, from property and casualty insurance in Oregon or non-standard automobile insurance in Texas .

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

UNITRIN, INC.

By: _____

Name: _____

Title: _____

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By: _____

Name: _____

Title: _____

EXHIBIT A

GLOSSARY OF CERTAIN TERMS

Term	Agreement Section Reference
Asset Sale	1.03(B)
Buyer Consent Schedule	3.05
Closing Date	8.01
Closing Date Balance Sheet	1.02(C)
Company	First Paragraph
Company Material Adverse Effect	2
Excluded Subsidiaries	7th Whereas
GAAP	1.02(A)
GAAP Consolidated Financial Statements	2.09
Loss and Losses	14.01
Material Agreement	2.07
Prior Month-End Balance Sheet	1.02(B)
Purchase Price	1.01
Related Transactions	1.03
Seller Consent Schedule	2.06
Seller Schedule	2
Shares	1.01
Subsidiary, Subsidiaries	1st Whereas
Taxes	2.17
Tax Returns	2.17

Exhibit 10(o)

TRANSITION SERVICES AGREEMENT

This Transition Services Agreement (this "Agreement"), dated as of March 25, 1999 is entered into by and among Source One Mortgage Services Corporation, a Delaware corporation ("Seller"), and Citicorp Mortgage, Inc., a Delaware corporation ("Purchaser").

RECITALS

A. Seller, Fund American Enterprises Holdings, Inc., a Delaware corporation and the direct or indirect owner of all of the common stock of Seller, and Purchaser have entered into an Asset Purchase Agreement, dated as of March 23, 1999 (the "Asset Purchase Agreement"), pursuant to which Purchaser will (i) acquire from Seller substantially all of the assets used in the Business and (ii) assume certain obligations and liabilities of Seller related to the Business.

B. Seller and Purchaser desire to enter into this Agreement in order to facilitate an efficient transition of the Business of Seller to Purchaser and to assist Seller following the Closing Date.

NOW, THEREFORE, in consideration of the premises and the covenants, conditions and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. DEFINED TERMS. Capitalized terms not otherwise defined in this Agreement shall have the meanings assigned to them in the Asset Purchase Agreement.

Section 2. SERVICES RENDERED. Purchaser or its designee shall provide services to Seller as described herein and in the schedules hereto for the compensation, duration and subject to any limits set forth in the applicable schedule. The party providing a service hereunder may be referred to herein as a Aproviding party" and the party receiving a service hereunder may be referred to herein as a "receiving party." The description of the services to be provided hereunder, the expected timing of the provision thereof, and the manner of performance of any services hereunder do not in any way modify or amend any party's obligations under the Asset Purchase Agreement or any Related Document.

(a) SPECIAL SERVICES.

(i) SCHEDULE I hereto sets forth services to be provided by Purchaser to Seller that require the specific employment of specialized personnel at the providing entity and are charged at the hourly rates set forth on SCHEDULE V. Prior to the Closing Date, services of the type set forth in SCHEDULE I were performed by Seller using Seller's personnel.

(ii) The hourly rates listed in SCHEDULE V have been set based upon the Seller's representation that such amounts are calculated in a manner consistent with the Seller's past practices with respect to their own internal cost allocations.

(b) SERVICING ADMINISTRATION. SCHEDULE II hereto sets forth services (the "Servicing Administration Services") to be provided by Purchaser to the Seller that the Seller requires Purchaser's assistance to perform in respect of (i) certain of Seller's obligations under the Asset Purchase Agreement and (ii) trailing document and pay-off follow-up services with respect to loans paid off prior to the Closing Date.

(c) FREE SERVICES. SCHEDULE III hereto sets forth services to be provided by Purchaser to Seller without charge to Seller.

Section 3. [Reserved.]

Section 4. SCHEDULE AMENDMENTS. The parties contemplate that from time to time a need may arise for transition services not specifically contemplated under this Agreement or the Schedules hereto that both parties deem to be reasonable and appropriate to be provided hereunder, in which event the parties may, but shall have no duty to, amend the appropriate schedule as necessary. The amended schedule shall be initialed by a duly authorized individual from each of Purchaser and Seller.

Section 5. MANNER OF PERFORMANCE AND ACKNOWLEDGMENT. Purchaser agrees that it shall cause its personnel providing services under this Agreement to perform such services with the same degree of care, skill, confidentiality and diligence with which its personnel perform similar services for Purchaser and in a manner consistent with the level of care given to Purchaser's business. Purchaser shall provide all services under this Agreement in accordance with the reasonable written instructions provided by the authorized representatives of Seller, or their designees, or, in the absence of such instructions, as such services have been performed for Seller in the past. Purchaser shall cease providing any services upon the reasonable written instructions of the Seller's authorized representatives or designees to that effect. Purchaser shall be entitled to rely upon any written instructions received from such authorized representatives or designees. The parties hereto acknowledge that services provided hereunder are not being provided at standard commercial rates for such services but (without limiting the prices set forth on the Schedules hereto) are being provided at amounts considered for these purposes to be at cost to most efficiently permit the transition to occur; the parties further acknowledge that Purchaser is not in the business of providing the services rendered under this Agreement. Seller shall reimburse Purchaser for reasonable third-party costs and expenses charged to Purchaser in connection with Purchaser's performance of its duties under this Agreement.

Section 6. PRORATION, INVOICING AND PAYMENT.

(a) PRORATION. In any month during which any services with monthly fees set forth on the applicable Schedule are provided for less than a complete month, such fees shall be prorated on a daily basis based on the actual number of days in the month that such services are provided.

(b) INVOICING. The Purchaser shall submit an invoice to the Seller prior to the tenth day of each month for all services provided hereunder by the Purchaser during the prior calendar month. Amounts invoiced shall be calculated or otherwise determined in accordance

with the applicable Schedules. Upon termination of this Agreement, each providing party shall submit a final invoice to the respective receiving parties within thirty (30) days of such termination.

(c) PAYMENT. Each invoice received by the Seller shall constitute a "claim" under Section 12.04 of the Asset Purchase Agreement. Prior to the first anniversary of the Closing Date, such invoice shall be subject to, and shall be paid in accordance with, the procedures set forth in Section 12.04 of the Asset Purchase Agreement for claims under Section 3.01(a) thereof regarding deductions from the holdback amount. On and after the first anniversary of the Closing Date, such invoice shall be subject to, and shall be paid in accordance with, the procedures set forth in Section 12.04 of the Asset Purchase Agreement for claims under Sections 12.02 and 12.03 (without regard to any provisions of Section 12.04 which reference the expiration of any indemnification obligation or the tolling of any indemnification period under those sections). If the Seller disputes any invoice pursuant to the provisions of Section 12.04(b), the Purchaser shall nevertheless continue to perform all of its obligations under this Agreement pending resolution thereof. If the Seller fails to timely pay invoices (other than with respect to amounts disputed in good faith pursuant to Section 12.04(b)), the Purchaser may, at any time not less than 30 days after the Purchaser has furnished notice to the Seller of its intent to do so, cease to provide the compensated services to be provided by the Purchaser under this Agreement until all undisputed amounts have been paid.

Section 7. RECORDS MAINTENANCE AND AUDITS. Purchaser shall make available to Seller or its representatives access to or copies of Purchaser's records for the purpose of verifying the accuracy of the invoices submitted by Purchaser regarding amounts due such party.

Section 8. INDEMNIFICATION. Purchaser agrees to indemnify and hold Seller harmless for one year following the provision of services under this Agreement from and against any and all claims, actions, liabilities, losses, damages, costs or expenses (including court costs and attorneys' fees) arising out of Purchaser's or its affiliates' gross negligence or willful misconduct in the provision by Purchaser or its affiliates of any services under this Agreement. This indemnity shall survive any termination of this Agreement.

Section 9. RELATIONSHIP OF PARTIES. Purchaser shall act as an independent contractor, and nothing herein shall at any time be construed to create the relationship of employer and employee, partnership, principal and agent, broker or finder, or joint venturers as between Seller and Purchaser. Except as expressly provided herein, no party shall have any right or authority, and no party shall attempt to enter into any contract, commitment or agreement nor incur any debt or liability of any nature, in the name or on behalf of any other party.

Section 10. CONFIDENTIALITY. Each party acknowledges that in connection with its performance under this Agreement, it may gain access to confidential material and information which is identified by the other party as confidential and proprietary to the other party. Each party agrees to maintain the confidentiality of all such information. The requirements under this Section 10 shall survive for a period of eighteen (18) months following the provision of the service out of which such confidential information was acquired.

Section 11. [Reserved.]

Section 12. TERMINATION. At any time, either party may terminate any one or more of the individual services being provided by Purchaser enumerated in this Agreement due to the non-performance of the other party of its obligations hereunder by giving the other party written notice to that effect.

Section 13. ASSIGNMENT. No party shall assign, in whole or in part, any of the rights, obligations or benefits arising under this Agreement without the prior written consent of the other parties; provided, that any party may at any time assign any of its rights or benefits arising under this Agreement to any of its affiliates capable of fulfilling the obligations hereunder upon written notice thereof to the other parties.

Section 14. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflict of laws rules or choice of laws rules thereof.

Section 15. NOTICES. All notices, requests and demands to or upon the respective parties hereto shall be in writing, including by telecopy, and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made (a) if delivered by hand (including by courier), when delivered, (b) in the case of mail, three Business Days after deposit in United States first class mail, postage prepaid, and (c) in the case of telecopy notice, when receipt has been confirmed by the transmitting telecopy operator. In each case notice shall be sent to the address of the party to be notified, as follows, or to such other address as may be hereafter designated by the respective parties hereto in accordance with these notice provisions:

If to the Purchaser, to:

Citicorp Mortgage, Inc.
15851 Clayton Road
Ballwin, Missouri 63011
Telecopy: (314) 916-7201
Attention: Legal Department

With a copy to:

Citigroup Inc.
Corporate Legal Department
425 Park Avenue B 2nd Floor
New York, New York 10043
Telecopy: (212) 793-4401
Attention: Stephen Dietz

If to the Seller or Parent, to:

Source One Mortgage Services Corporation
114 Goodwives Road
Darien, Connecticut 06820
Telecopy: (203) 655-6044
Attention: James H. Ozanne

With a copy to:

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, New Hampshire 03755
Telecopy: (603) 643-4562
Attention: Terry L. Baxter

Section 16. SEVERABILITY. In the event that any portion of this Agreement shall be found by a court of competent jurisdiction to be illegal, unenforceable or invalid, that portion of this Agreement will be null and void and the remainder of this Agreement will be binding on the parties as if the illegal, unenforceable or invalid provisions had never been contained therein.

Section 17. WAIVER. No waiver by any party of any term or any breach of this Agreement shall be construed as a waiver of any other term or breach hereof, or of the same or a similar term or breach on any other occasion.

Section 18. AMENDMENT. Except as contemplated by Section 4, no modification or amendment of this Agreement shall be binding upon any party unless in writing and signed by all parties hereto.

Section 19. ENTIRE AGREEMENT. This Agreement, together with the Asset Purchase Agreement and all Schedules and Exhibits attached hereto and thereto, constitutes the entire agreement between the parties pertaining to the subject matter hereof, and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties hereto regarding the subject matter hereof.

Section 20. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

SOURCE ONE MORTGAGE SERVICES
CORPORATION

By:_____
Name:_____
Title:_____

CITICORP MORTGAGE, INC.

By:_____
Name:_____
Title:_____

Schedule I C Special Services

Purchaser shall cause its personnel to perform the following services, and shall be reimbursed on an hourly basis in accordance with the rates set forth in SCHEDULE V.

Service Description
PERSONNEL SERVICES - A. Purchaser shall cause its personnel, with respect to Seller's obligations related to the calendar year 1998 and any stub period between January 1, 1999 and the Closing Date of the Asset Purchase Agreement (the "Reporting Period"), to (i) provide or assist in providing complete payroll services to Seller and (ii) perform all related subsequent year-end and stub period reporting to individuals, regulators and agencies, as applicable (collectively, the "Payroll Services").
PERSONNEL SERVICES - B. Purchaser shall cause its personnel, with respect to Seller's obligations related to the Reporting Period, to (i) administer or assist in the administration of all Seller employee benefit programs including, without limitation, Seller 401(k) Plan, medical benefits, life and disability insurance benefits, flexible spending accounts and Deferred Compensation Plan, (ii) perform all related subsequent year-end and stub period reporting to individuals, regulators and agencies, as applicable, (iii) assist in the transition of former employees of Seller off of Seller's benefit programs (including any required reporting obligations), and (iv) assist in the 401(k) audit for the 1998 plan year as soon as practicable after the Closing Date (collectively, the "Benefit Plan Services").
PERSONNEL SERVICES - C. Purchaser shall cause its personnel, with respect to Seller's obligations related to the Reporting Period, to assist Seller in performing its reporting obligations under the Securities Exchange Act of 1934, as amended.
PERSONNEL SERVICES - D. Purchaser shall cause its personnel, with respect to Seller's obligations after the Closing Date, to assist Seller in performing its obligations under Section 10.05(b) of the Asset Purchase Agreement.
PERSONNEL SERVICES - E. Purchaser shall cause its personnel to fulfill, under third-party servicing sale agreements, the transfer of servicing obligations.
PERSONNEL SERVICES - F. Purchaser shall cause its personnel to provide certain functions to the Seller following the Closing Date. These services include, but are not limited to, assistance with the following: Preparation of Seller's full 1998, and 1999 short period, tax returns (including, but not limited to, income and franchise tax returns) Responses to federal and state tax audits, including recalculation of servicing amortization

Service Description
Final resolution of loan repurchases (including, but not limited to, dealing with the initial seller/correspondent)

Schedule II C Servicing Administration

Purchaser shall cause its personnel to provide the following services. Where flat fees are indicated below, such fees are best estimates of the projected cost of providing the related services. To the extent such services vary materially from those estimates, the parties agree to renegotiate these fees.

1. TAX REPORTING SERVICES. Purchaser shall cause its personnel to provide such tax information reporting services as may be required for the 1999 tax year, including but not limited to annual reporting on tax forms 1098 and 1099, for every loan Seller serviced or subserviced during calendar year 1999. Such services include customer call support, IRS tape generation, customer year-end information, IRS corrections and follow-up. These services shall be provided at a rate of $0.58 per loan (estimated total fee of $61,224.00).

2. TRAILING DOCUMENTS. Purchaser shall cause its personnel to fulfill Seller's obligations to follow-up on and resolve existing trailing documents as of the Closing Date (the "Trailing Documents"). Seller shall pay for certain full-time employees in accordance with SCHEDULE VI for the periods set forth therein. Following such periods, Purchaser shall offer to provide assistance with Seller's obligations with respect to any remaining Trailing Documents on an hourly rate basis under "Miscellaneous Support" below. With respect to the services provided pursuant to this item 2, Purchaser's indemnity of Seller shall survive for a period of 365 days following the provision of the service from which a claim arises.

3. PAYOFF FOLLOW UP. Purchaser shall cause its personnel to fulfill Seller's obligations to complete mortgage loan payoffs, including processing any filing releases and satisfaction, processing escrow refund checks, cancellation of mortgage guarantee insurance policies, and customer call support for paid in full loans as of the Closing Date. These services shall be provided at a rate of $9.35 per loan (estimated total fee of $140,250.00).

4. ASSIGNMENTS. Purchaser shall cause its personnel to fulfill Seller's obligations under the Asset Purchase Agreement to prepare and record Assignments of Mortgage. Seller shall pay for the cost of preparing and recording such Assignments of Mortgage. Purchaser will charge Seller the hourly rates set forth on SCHEDULE V for performing these services.

5. FILE STORAGE. Purchaser will provide storage, access and retrieval capabilities with respect to stored inactive loan files for loans that were serviced by Seller and that became inactive prior to the Closing Date. Such storage will continue in accordance with the time periods set forth on SCHEDULE IV. These services shall be provided at a monthly rate of $0.25 per box. Final destruction of such records (at the times indicated on SCHEDULE IV) shall be provided at a rate of $0.77 per box.

6. MISCELLANEOUS SUPPORT. Purchaser shall cause its personnel to provide certain functions to the Seller following the Closing Date. Purchaser will charge Seller the hourly rates set forth on SCHEDULE V for performing these services. These services include, but are not limited to, assistance with the following:

Research and follow-up on prior year-end reporting

Research and follow-up on NSF and misapplied payments

Final bank reconciliations

Responses to audit requests

Research and follow-up on loan-level litigation, which will require, as necessary and by way of example and not limitation, Purchaser's personnel to participate in litigation as witnesses

Research and follow-up on inactive loans

Research and follow-up on investor repurchase requests

Final agency pool reconciliations (Test of Expected P&I balanced to the custodial bank accounts) for all pools delivered prior to Closing Date

Final FHLMC, FNMA and GNMA pool to security balance reconciliations for all pools delivered prior to Closing Date

Research and follow-up on outstanding custodial account items

Research and follow-up on outstanding checks (e.g., escrow refunds, GNMA security holder remittances, tax and insurance disbursements)

Research and final resolution of investor loan-level discrepancies

Research and final resolution of outstanding customer investigations

7. SPECIAL PROJECTS. Seller may make requests for other services or for special reports or information, and Purchaser will provide an estimate of the cost and completion date.

SCHEDULE III - Free Services

1. UPDATED MORTGAGE LOAN SCHEDULE. Purchaser shall cause its personnel to perform, on behalf of Seller, Seller's obligations under Section 10.15 of the Asset Purchase Agreement.

2. PRORATION OF CHASE AMOUNT. Within five (5) business days after the Closing Date, Purchaser shall calculate the proration of the Chase Amount as required by Section 3.01(a)(ii) of the Asset Purchase Agreement and shall deliver Schedule 3.01(a)(ii) of the Asset Purchase Agreement to Seller.

3. OTHER SCHEDULES. To the extent that Seller is unable to prepare schedules or updates thereto required under the Asset Purchase Agreement on and after the Closing Date, Purchase shall cause its personnel to perform, on behalf of Seller, Seller's obligations to prepare such schedules or updates.

SCHEDULE IV - File Retention Schedule

The following are the agency guidelines that currently exist for retention of archive records, i.e., Payoffs and Foreclosures.

FHA

All servicing files must be retained for a minimum of the life of the mortgage plus three years. Each claim review file must be retained for at least three years after final or the latest supplemental claim settlement.

VA

VA regulations do not require holders to retain records for any fixed period of time after a Claim is paid, although, it is recommended that they be retained for three years.

GNMA

GNMA has no specific requirements that relate to retention of archive storage records.

FNMA

After a mortgage is liquidated, the servicer must keep the individual mortgage records for at least four years, measured from the date of payoff or the date that any applicable claim proceeds are received.

FHLMC

The servicer must maintain the mortgage file while FHLMC retains an interest in the applicable mortgage and for at least three years from the date FHLMC's interest in the mortgage is satisfied. If the mortgage was foreclosed upon, the servicer must maintain the mortgage file for at least six years from the date FHLMC's interest in the mortgage was satisfied.

The following are the SOMSC's guidelines that currently exist for retention of archive records, i.e., Payoffs and Foreclosures.

DEPARTMENT	TYPE	RETENTION
Foreclosure	Completed	GNMA/FNMA B Four Years
		FHLMC B Six Years
	Reinstated	GNMA/FNMA/FHLMC B Three Years
Payoffs	Paid In Full	GNMA/FNMA/FHLMC B Four Years

A detailed listing of the archive records exists detailing the destruction dates for each box.

SCHEDULE V - Hourly Rates

The fee for any services performed on an hourly rate will be based upon the division of the related personnel, and whether such personnel are management or staff, based upon the following rates:

Division	Management Hourly Rate	Staff Hourly Rate
Financial	$37.00	$22.00
Servicing	$32.00	$14.00
Front Line Production	$54.00	$16.50
Back Room Operations	$32.00	$14.50
Human Resources	$52.00	$24.00
Legal	$52.00	$19.00
Records Management	$20.00	$11.00
Acquisitions	$26.00	$12.00

SCHEDULE VI - Trailing Document Cost Structure

Documents	
Insuring:	
	$60,350 $21,900 one time cost
	$82,250

- --

FTE 60 additional days

- --

- --

- --

Source One Loan File Set Up:

$19,000

- --

- --

- --
Document Retrieval & Corrections:

$140,000

TBD one time cost

- ---

- ---

- ---

Shipping

- ---

Document Control:

	$252,900
	$50,000 one time cost

- ---

- --

- --

Records Management

- --

New Production:	Hourly rates in accordance with SCHEDULE V
	$ 67,768 $ 17,702

- --

- --

Loan Sale Exceptions:

- ---

- --

- --

Investor Reporting Misc. Follow Up

- --

Hourly rates in accordance with SCHEDULE V

- --

Financial	
	Hourly rates in accordance with SCHEDULE V

SubPrime	
	$ 19,500

Exhibit 10(p)

ASSET PURCHASE AGREEMENT

Dated as of

March 23, 1999

by and among

Source One Mortgage Services Corporation,
as Seller,

Fund American Enterprises Holdings, Inc.,
as Parent,

and

Citicorp Mortgage, Inc.,
as Purchaser

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Sections 4.04, 4.05(b), 4.05(c), 4.06(c), 4.06(e), 4.07(a), 4.07(b), 4.07(c), 4.07(d), 4.08(a), 4.10(a), 4.10(f), 4.10(i)(A), 4.10(i)(B), 4.10(j), 4.10(k), 4.10(l), 4.10(q), 4.10(r)(i), 4.10(r)(ii), 4.10(u), 4.10(v)(iii), 4.12, 4.14(a), 4.14(c), 4.14(d), 4.14(f), 4.14(g), 4.17, 4.18(a)(iii), 4.18(a)(vii), 4.18(a)(x)

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT dated as of March 23, 1999, among Source One Mortgage Services Corporation, a Delaware corporation (the "Seller"), Fund American Enterprises Holdings, Inc., a Delaware corporation and the direct or indirect owner of all of the common stock of the Seller (the "Parent"), and Citicorp Mortgage, Inc., a Delaware corporation (the "Purchaser").

W I T N E S S E T H:

WHEREAS, upon the terms and subject to the conditions of this Agreement, the Seller desires to sell, convey, assign, transfer and deliver to the Purchaser, and the Purchaser desires to purchase and acquire from the Seller, substantially all of the assets, subject to certain of the liabilities, of the Seller's business of origination, selling and servicing of residential and commercial mortgage loans and Seller's business relating to the sale of certain insurance products (collectively, the "Business");

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants contained herein, the parties hereby agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

Section 1.01 CERTAIN DEFINITIONS. As used in this Agreement, unless the context requires otherwise, the following terms shall have the meanings indicated, and additional capitalized terms shall have the meanings assigned elsewhere in this Agreement (with terms being defined in the singular having a corresponding meaning in the plural and vice versa):

"ADJUSTMENT SCHEDULE" has the meaning assigned in Section 3.01(c).

"AFFILIATE" of any Person means any other Person, existing or future, directly or indirectly, Controlling, Controlled by or under common Control with the former Person.

"APPLICABLE REQUIREMENTS" means, with respect to a Mortgage Loan, all applicable contractual requirements (including contractual requirements of private investors), all applicable Laws, all requirements of any insurer under any applicable Primary Insurance Policy, and all applicable requirements and guidelines of FNMA, FHLMC, HUD, GNMA, FHA and VA.

"APPRAISED VALUE" means with respect to any Mortgaged Property, the lesser of (i) the purchase price paid for the related Mortgaged Property by the Mortgagor with the proceeds of the Mortgage Loan and (ii) the value thereof as determined by an appraisal made for the originator of the Mortgage Loan at the time of origination of the Mortgage Loan by an appraiser who met the minimum requirements of FNMA, FHLMC and HUD (an "approved appraiser"), provided, however, in the case of a Refinanced Mortgage Loan, either (x) the appraisal was made at the time of origination of such Refinanced Mortgage Loan by an approved appraiser or (y) if a new appraisal was not needed to satisfy the Applicable Requirements, the appraisal was made for the originator of the mortgage loan that was replaced by such Refinanced Mortgage Loan at the time of origination of such initial mortgage loan by an approved appraiser.

"APPROVALS" means franchises, licenses, permits, certificates of occupancy and other approvals, authorizations and consents.

"ASSIGNMENT OF MORTGAGE" means an individual assignment of the Mortgage, notice of transfer or equivalent instrument in recordable form, sufficient under the laws of the jurisdiction wherein the related Mortgaged Property is located to give record notice of the sale of the Seller's interest in the Mortgage to the Purchaser or its designee.

"ASSUMED LIABILITIES" has the meaning assigned in Section 2.03.

"ASSUMPTION AGREEMENT" means a duly executed assumption agreement in substantially the form of Exhibit A hereto.

"BILL OF SALE" means a duly executed bill of sale in substantially the form of Exhibit B hereto.

"BUSINESS" has the meaning assigned in the preamble to this Agreement.

"BUSINESS DAY" means any day on which the Seller, Parent, Purchaser and commercial banks in New York City and Michigan are open for business.

"CLOSING" means the closing of the transactions contemplated by this Agreement.

"CLOSING DATE" means the date on which the Closing actually occurs.

"CLOSING STATEMENT" has the meaning assigned in Section 3.01(a).

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMMERCIALLY REASONABLE EFFORTS" means the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved in the required time frame.

"CONTRACT" means any note, bond, mortgage, indenture, deed of trust, license agreement, franchise, contract, agreement, Lease, instrument or guarantee.

"CONTROL" means the power to direct or cause the direction of the management and policies of another Person, whether through the ownership of voting securities, by contract or otherwise.

"CONVENTIONAL MORTGAGE LOAN" means any Mortgage Loan that is neither an FHA Loan nor a VA Loan.

"CUT-OFF DATE" has the meaning assigned in Section 4.10(b).

"DISCLOSURE SCHEDULE" means the disclosure schedule attached hereto as Schedule 1.01.

"EMPLOYEES" has the meaning assigned in Section 6.01.

"EMPLOYEE PLANS" has the meaning assigned in Section 4.08.

"EMPLOYER" has the meaning assigned in Section 6.01.

"EXCLUDED ASSETS" has the meaning assigned in Section 2.01(b).

"FHA INSURANCE CONTRACT" or "FHA INSURANCE" means the contractual obligation of FHA respecting the insurance of an FHA Loan pursuant to the National Housing Act, as amended.

"FHA LOAN" means a Mortgage Loan which is the subject of an FHA Insurance Contract as evidenced by a Mortgage Insurance Certificate.

"GAAP" means generally accepted accounting principles, applied consistently with the Seller's past practices (to the extent such past practices are consistent with generally accepted accounting principles).

"GAAP BOOK VALUE" means book value determined in accordance with GAAP.

"GOVERNMENTAL AGENCY" means any governmental body or other regulatory or administrative agency or commission (including FNMA, FHLMC and GNMA).

"HAZARDOUS MATERIALS" means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, polychlorinated biphenyls and radon gas; (b) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous waste," "hazardous materials," "extremely hazardous substances," "toxic substances," "toxic pollutants," "contaminants," or "pollutants," or words of similar import, under any applicable Laws; and (c) any materials which could be or are defined by any applicable Law to be hazardous to human health.

"INCOME TAX" means any federal, state, local, or foreign income or franchise tax, and any other tax imposed on or measured by income, including any interest, penalty, or addition thereto, whether disputed or not.

"INCOME TAX RETURN" means any return, declaration, report, claim for refund, or information return or statement relating to Income Taxes, including any schedule or attachment thereto.

"INDEMNIFIABLE LOSS" means a Purchaser Indemnifiable Loss or a Seller Indemnifiable Loss, as such terms are defined in Section 12.02 and Section 12.03, respectively.

"INDEMNIFIED PARTY" has the meaning assigned in Section 12.05.

"INDEMNIFYING PARTY" means a party having indemnification obligations pursuant to Article XII.

"INTELLECTUAL PROPERTY RIGHTS" means any and all of the following used in or related to the Business: (i) trade secrets, inventions, ideas and conceptions of inventions, whether or not patentable, whether or not reduced to practice, and whether or not yet made the subject of a patent application or applications, (ii) United States, international and foreign patents, patent, applications and statutory invention registrations, all rights therein provided by international treaties or conventions and all improvements thereto, (iii) trademarks, service marks, certification marks, collective marks, trade dress, logos, domain names, product configurations, trade names, business names, corporate names, and other source identifiers, whether or not registered, whether currently in use or not, including all common law rights, and registrations and applications for registration thereof, all rights therein provided by international treaties or conventions, and all reissues, extension and renewals of any of the foregoing, (iv) copyrightable works, copyrights, whether or not registered, and registrations and applications for registration thereof in the United States or any foreign country, and all rights therein provided by international treaties or conventions, (v) Software, (vi) technical and business information, including know-how, manufacturing and production processes and techniques, research and development information, technical data, financial, marketing and business data, pricing and cost information, business and marketing plans, and customer and supplier lists and information, whether or not confidential, (vii) copies and tangible embodiments of all the foregoing, in whatever form or medium, (viii) licenses and sublicenses (whether as licensee, sublicensee, licensor or sublicensor) in connection with any of the foregoing, and (ix) all goodwill associated with the foregoing and all rights to sue or recover and retain damages and costs and attorneys' fees for past, present, and future infringement or breach of any of the foregoing; provided that Intellectual Property Rights shall not include readily available commercial products such as off-the-shelf or publicly vended software programs.

"JUDGMENT" means any judgment, ruling, order or decree.

"KNOWLEDGE" by a Person of a particular fact or matter means that a member of senior management of such Person (i.e., a senior vice president or more senior officer), after reasonable investigation, is actually aware of such fact or matter, provided that any such member of senior

management shall be presumed to know such fact or matter based on facts, circumstances or information contained or described in the books, records or files of such Person.

"LAW" means any order, writ, injunction, decree, judgment, ruling, law, decision, opinion, statute, rule or regulation of any governmental, judicial, legislative, executive, administrative or regulatory authority of the United States, or of any state, local or foreign government or any subdivision thereof, or of any Governmental Agency, including, without limitation, any federal, state or local fair lending laws.

"LEASE" means any lease, sublease, easement, license, right-of-way or similar interest in real or personal property.

"LIEN" means any lien, easement, encumbrance, mortgage or other conflicting ownership or security interest in favor of any third party.

"LITIGATION" means any action, suit, claim, proceeding, investigation or written inquiry by or before any Governmental Agency, court or arbitrator.

"LOAN GUARANTY CERTIFICATE" means the certificate evidencing a VA Guaranty Agreement.

"LOAN-TO-VALUE RATIO" or "LTV" means with respect to any Mortgage Loan as of any date of determination, the ratio on such date of the outstanding principal amount of the Mortgage Loan to the Appraised Value of the Mortgaged Property.

"MATERIAL ADVERSE EFFECT" or "MATERIAL ADVERSE CHANGE", with respect to any party or with respect to the Business, means any change, occurrence or effect, direct or indirect, that would have a material adverse effect on the business, operations, properties (including tangible properties), financial condition, assets, obligations or liabilities (whether absolute, accrued or contingent) of such party and its subsidiaries taken as a whole or of the Business taken as a whole, as the case may be.

"MORTGAGE" means the mortgage, deed of trust or other instrument creating a lien on Mortgaged Property securing the Mortgage Note.

"MORTGAGE INSURANCE CERTIFICATE" means the certificate evidencing an FHA Insurance Contract.

"MORTGAGE LOANS" means (i) the mortgage loans (including subprime loans) and Pipeline Loans owned by Seller or the Subsidiaries and (ii) without duplication, the mortgage loans for which Seller or a Subsidiary owns the related Servicing Rights, in each case as identified on the Mortgage Loan Schedule, and all of Seller's or a Subsidiary's rights and benefits with respect thereto, including without limitation rights with respect to related payments and proceeds (including real estate acquired in respect of a mortgage loan).

"MORTGAGE LOAN SCHEDULE" has the meaning assigned in Section 4.10(b).

"MORTGAGE NOTE" means the original executed note or other evidence of the Mortgage Loan indebtedness of a Mortgagor.

"MORTGAGED PROPERTY" means the Mortgagor's real property securing repayment of a related Mortgage Note.

"MORTGAGOR" means the obligor on a Mortgage Note, the owner of the Mortgaged Property and the grantor or mortgagor named in the related Mortgage and such grantor's or mortgagor's successors in title to the Mortgaged Property.

"NET PURCHASE PRICE" has the meaning assigned in Section 3.01(a).

"OWNED MORTGAGE LOANS" means those mortgage loans referred to in clause (i) of the definition of "Mortgage Loans".

"PERSON" means an individual, a corporation, a limited liability company, a partnership, an unincorporated association, a joint venture, a government or Governmental Agency or another entity or group.

"PRE-CLOSING SERVICING OBLIGATIONS" has the meaning assigned in Section 2.03.

"PIPELINE LOAN" means each pending mortgage loan to be secured by residential real property by a mortgage lien (i) with respect to which Seller or its Subsidiaries has (a) issued a commitment or otherwise agreed with an applicant to fund, (b) determined to fund, (c) committed to a specified interest rate or (d) issued a commitment (including, without limitation, bulk commitments or assignments of trades) or otherwise agreed with a broker or correspondent originator or purchaser to purchase and (ii) which has not closed or been purchased from a correspondent as of the Closing Date.

"PRIMARY INSURANCE POLICY" means a policy of primary mortgage guaranty insurance issued by an insurer acceptable to FNMA, FHLMC and any private investor.

"PURCHASED ASSETS" has the meaning assigned in Section 2.01(a).

"QUICS" has the meaning assigned in Section 2.03.

"REFINANCED MORTGAGE LOAN" means a Mortgage Loan the proceeds of which were not used to purchase the related Mortgaged Property.

"RELATED DOCUMENTS" means all other agreements and instruments described in this Agreement that are to be executed and delivered at or prior to the Closing in connection with the transactions contemplated hereby.

"RETAINED LIABILITIES" has the meaning assigned in Section 2.04.

"SELLER IPR" means all Intellectual Property Rights owned by or licensed to the Seller or a Subsidiary.

"SERVICING RIGHTS" means the right, title and interest of the Seller and each Subsidiary in and to the servicing of the Mortgage Loans.

"SOFTWARE" means computer software and subsequent versions thereof developed or currently being developed, manufactured, sold or marketed by the Seller or any Subsidiary or acquired from third parties, including without limitation, source code, object code, objects, comments, screens, user interfaces, report formats, templates, menus, buttons and icons, and all files, data materials, manuals, design notes and other items and documentation related thereto or associated therewith.

"SUBSERVICED MORTGAGE LOANS" means the mortgage loans identified as such on the Mortgage Loan Schedule.

"SUBSERVICING RIGHTS" means the right, title and interest of the Seller and each Subsidiary in and to the subservicing of the Subserviced Mortgage Loans.

"SUBSIDIARIES" means Central Pacific Mortgage Corporation ("CPM"), CMC Insurance Agency, Inc., MHMC Insurance Agency, Inc., SOMSC Services, Inc. and Source One Mortgage Corporation ("SOM"), the wholly owned subsidiaries of the Seller.

"TAXES" (including, with correlative meaning, the term "TAXABLE") means all taxes, charges, fees, duties, levies, or other assessments imposed by any federal, state, local or foreign taxing authority, including without limitation federal, state, local and foreign income, profits, franchise, gross receipts, environmental, customs duty, severances, stamp, payroll, sales, use, employment, unemployment, disability, property, withholding, backup withholding, excise, production, occupation, service, service use, leasing and leasing use, AD VALOREM, value added, occupancy, transfer, and other taxes, of any nature whatsoever, together with all interest, penalties and additions imposed with respect to such amounts and any interest in respect of such penalties and additions.

"TAX RETURNS" means all returns and reports, information returns, or payee statements (including, but not limited to elections, declarations, filings, forms, statements, disclosures, schedules, estimates and information returns) required to be supplied to a Tax authority relating to Taxes.

"THIRD PARTY IPR" means the rights possessed by the Seller or any Subsidiary in any other Person's Intellectual Property Rights, including without limitation, patents, copyrights, trademarks, or trade secrets, which relate to or are used in the Business and which are not owned by the Seller or any Subsidiary.

"TRADE SECRETS" means each trade secret included in the Intellectual Property Rights.

"TRADEMARK ASSIGNMENT" means a duly executed trademark assignment in substantially the form of Exhibit D hereto.

"TRANSFER INSTRUCTIONS" means the transfer instructions identified on Schedule 8.08.

"TRANSITION SERVICES AGREEMENT" has the meaning assigned in Section 10.12.

"VA GUARANTY AGREEMENT" means the obligation of the United States to pay a specific percentage of a Mortgage Loan (subject to a maximum amount) upon default of the Mortgagor pursuant to the Serviceman's Readjustment Act, as amended.

"VA LOAN" means a Mortgage Loan which is the subject of a VA Guaranty Agreement as evidenced by a Loan Guaranty Certificate.

"VA NO-BID" means a VA no-bid or a VA buydown.

"YEAR 2000 COMPLIANT" means, with respect to an internal system, that at all times before, during and after January 1, 2000, such internal system accurately processes and handles date and time data from, into and between the twentieth and twenty-first centuries, and the years 1999 and 2000, including, without limitation, leap year calculations, to the extent that other information technology used in combination with such internal systems and such products and services properly exchange date and time data with it.

ARTICLE II
TRANSFER OF ASSETS AND ASSUMPTION OF LIABILITIES

Section 2.01 ASSETS TO BE SOLD.

(a) Upon the terms and subject to the conditions of this Agreement, at the Closing, the Seller shall sell, convey, assign, transfer and deliver to the Purchaser all of the properties, Contracts, Approvals, rights and assets (of every kind, nature, character and description, real, personal or mixed, tangible or intangible, accrued, contingent or otherwise, and wherever situated) of the Seller, other than the Excluded Assets. Such assets and property shall include, without limitation, all right, title and interest of the Seller in all land, offices, buildings (together with improvements, appurtenances, licenses and permits), motor vehicles, equipment, furniture and fixtures, supplies, stationery, cash and cash equivalents, Owned Mortgage Loans, other loans, the Servicing Rights, the Subservicing Rights, accrued interest, interests in real estate investment conduits, securities, hedging instruments (other than hedges relating to the Servicing Rights), accounts receivable (including written-off accounts), bank accounts (including escrow accounts), credits, deferred

charges, security deposits, advance payments, prepaid expenses, deposits, Approvals of any Governmental Agency or other third party, claims (including insurance claims), suits and judgments against third parties (including warranty claims relating to goods, equipment or real property sold to the Seller and claims arising from the infringement of any Intellectual Property Right), all of the outstanding capital stock of the Subsidiaries, the Seller's investment in MERSCORP, Inc., the right to receive mail, payments on loans and accounts receivable and other communications, Software and licenses and other rights to use Software, lists of customers and suppliers, other files and business records, advertising materials, customer application forms, Seller IPR, Third Party IPR, the Seller's right, title and interest in Contracts and the goodwill associated with the foregoing, but shall not include the Excluded Assets. All the assets to be transferred pursuant to this Agreement are referred to collectively herein as the "Purchased Assets". The Purchased Assets shall include, without limitation, all assets in the categories described on Schedule 2.01(a) owned by the Seller immediately prior to the Closing. For purposes of this Agreement, except where the context requires otherwise, the properties, contracts, rights and assets of the Subsidiaries shall be considered Purchased Assets.

(b) Notwithstanding anything to the contrary in this Agreement, the Purchased Assets shall not include any of the following (the "Excluded Assets"): (i) any deferred Tax assets and current Tax receivables relating to the Seller and the Subsidiaries; (ii) any claims, refunds, credits or overpayments with respect to any Taxes paid or incurred by the Seller and its Affiliates, or any related interest received from the relevant taxing authority for periods ending prior to the Closing Date, and the appropriately prorated portion thereof for periods commencing prior to the Closing Date and ending on or after the Closing Date; (iii) the rights of the Seller under this Agreement and the Related Documents; (iv) the minute books, stock transfer books, seal and general corporate accounting records of the Seller; (v) Contracts relating to any Employee Plans (other than those relating to post-Closing benefits provided to or for the benefit of persons who are employees of CPM on the Closing Date) and Contracts to make any payment to an employee, officer or director of the Seller or an Affiliate; (vi) Contracts between the Seller on the one hand and the Parent or its Affiliates (other than the Subsidiaries) on the other hand, and any claims or rights of the Seller thereunder, except as provided in the Transition Services Agreement; (vii) insurance policies (other than financial guarantee or similar policies insuring other Purchased Assets); (viii) any capital stock of, or other investments in, Financial Security Assurance Holdings Ltd. ("FSA"), US West Inc., Northwest Pacific Mortgage Company ("Northwest Pacific") or any other corporation of which the Seller owns less than all of the outstanding capital stock (except for the Seller's investment in MERSCORP, Inc.), and the Seller's interest in Insurance Partners L.P.; (ix) any mortgage loans or servicing or subservicing rights not identified on the Mortgage Loan Schedule; (x) hedging instruments related to the Servicing Rights; (xi) prepaid expenses related to any of the foregoing; (xii) recorded goodwill; and (xiii) without duplication, all assets listed on Schedule 2.01(b).

(c) The sale, conveyance, assignment, transfer and delivery of the Purchased Assets shall be effected by delivery by the Seller to the Purchaser at the Closing or otherwise in accordance with the Transfer Instructions of (i) the Bill of Sale and the Trademark Assignment, (ii) good and sufficient warranty deeds in recordable or registrable form, with respect to all real property owned by the Seller and included in the Purchased Assets, (iii) certificates representing all

of the outstanding stock of each of the Subsidiaries, duly endorsed in blank or accompanied by stock powers duly endorsed in blank, (iv) endorsements in blank (or otherwise as required by Applicable Requirements) of Mortgage Notes and Assignments of Mortgage with respect to the Seller's and the Subsidiaries' Mortgage Loans sufficient to transfer all of the Seller's and the Subsidiaries' right, title and interest in the Mortgage Loans and (v) such other instruments of conveyance and transfer as the Purchaser shall reasonably request in accordance with the Transfer Instructions or otherwise.

Section 2.02 NONASSIGNABLE PERMITS, LICENSES, LEASES AND CONTRACTS.

(a) To the extent that any Contract or Approval to be included in the Purchased Assets would be subject to termination or restriction or is not capable of being assigned, transferred, subleased or sublicensed without the consent or waiver of the issuer thereof or the other party thereto or any third party, or if such assignment, transfer or sublease would constitute a breach thereof or a violation of any Law, this Agreement shall not constitute an assignment, transfer, sublease or sublicense thereof.

(b) The Seller agrees to use Commercially Reasonable Efforts prior to the Closing to obtain the consents and waivers and to resolve any impracticalities of assignment referred to in Section 2.02(a) and to obtain any other consents and waivers necessary to sell, convey, assign, transfer and deliver title to such Purchased Assets to the Purchaser at the Closing, subject to Section 10.05(b).

(c) To the extent that the consents and waivers referred to in Section 2.02(a) are not obtained by the Seller, or until the impracticalities of transfer referred to therein are resolved, and subject to Section 10.05(b), (i) the Seller shall use Commercially Reasonable Efforts (x) to provide to the Purchaser the benefits of any Contract or Approval intended to be included in the Purchased Assets, (y) to cooperate in any arrangement, reasonable and lawful as to the Seller and the Purchaser, designed to provide such benefits to the Purchaser and (z) at the Purchaser's request, to enforce for the account and at the expense of the Purchaser any rights of the Seller arising from the Contracts and Approvals intended to be included among the Purchased Assets, including the right to elect to terminate or not renew in accordance with the terms thereof on the advice of the Purchaser, which termination shall, upon becoming effective, relieve the Seller of any further obligation under this Section 2.02(c) with respect to such Contract or Approval, and (ii) after the Closing, the Purchaser shall use Commercially Reasonable Efforts to perform the obligations of the Seller arising under such Contracts and Approvals, to the extent the Purchaser receives the benefit thereof. The Seller and the Purchaser shall cooperate with each other to take such actions, including entering into subservicing agreements or similar arrangements, as are reasonably calculated to effectuate the intent of the preceding sentence. Notwithstanding anything to the contrary in the foregoing, the Purchaser may determine, in its reasonable discretion, that any Contract (except with respect to servicing or subservicing agreements) or Approval for which the required consents and waivers referred to in Section 2.02(a) are not obtained by the Seller, or the impracticalities of transfer referred to therein are not resolved, by the Business Day prior to the Closing Date, shall not be a Purchased Asset, and in that event all rights and obligations with respect to such Contract or

Approval shall be retained by the Seller. The Purchaser shall give notice to the Seller of any such determination on or within 30 days after the Closing Date, provided that at the time of such notice such consents and waivers have not been obtained, and such impracticalities of transfer have not been resolved. The Purchaser shall, upon request of the Seller, use Commercially Reasonable Efforts to provide the following assistance to the Seller in connection with its attempting to obtain any consents or waivers required hereunder: (i) providing reasonable access to an appropriate employee or employees of the Purchaser solely for the purpose of speaking with third parties (from whom any consents or waivers are requested by the Seller) concerning the general nature of the business of the Purchaser to the extent it relates to the Purchaser's obligations to acquire the Purchased Assets and the Contracts and (ii) the provision of financial information concerning the Purchaser, subject to customary confidentiality arrangements.

Section 2.03 LIABILITIES ASSUMED BY THE PURCHASER. Upon the terms and subject to the conditions of this Agreement, the Purchaser agrees to assume as of the Closing Date the following liabilities of the Seller (collectively, the "Assumed Liabilities"), and only such liabilities: (i) the liabilities set forth on Schedule 2.03, including without limitation the Seller's obligations under $92 million principal amount of 9% debentures due June 1, 2012 (the "Debentures"), $18.723 million principal amount due October 15, 2001 (the "Notes") and $55.976 million principal amount of quarterly income capital securities (the "QUICS"), provided that such liabilities and obligations that accrue, or arise out of or are based on acts or omissions occurring, prior to the Closing Date shall be Assumed Liabilities only to the extent they are reflected on the Adjustment Schedule; (ii) the liabilities and obligations of the Seller that accrue based on services performed on or after the Closing Date under all Contracts and Approvals included in the Purchased Assets; (iii) subject to Section 12.02(d), liabilities relating to VA No-bids in connection with Mortgage Loans originated or committed prior to the Closing Date; and (iv) subject to Section 12.02(e), obligations ("Pre-Closing Servicing Obligations") with respect to (A) customary representations and warranties made in connection with Mortgage Loans sold prior to the Closing Date, with Servicing Rights retained by the Seller and (B) performance by the Seller prior to the Closing Date of its duties under the Servicing Rights in accordance with their terms. For the avoidance of doubt, it is understood that Pre-Closing Servicing Obligations shall not include (i) any credit-related or other recourse, indemnification or similar obligations (other than for breaches of customary representations and warranties) and (ii) any liabilities or obligations of the Seller based on or arising out of any violations of Law (provided that the failure of an individual Mortgage Loan to conform to the Applicable Requirements shall not be considered a violation of Law for these purposes) or any intentional or bad faith violation of the Seller's contractual obligations. The assumption of the Assumed Liabilities shall be effected by delivery by the Purchaser to the Seller at the Closing of the Assumption Agreement, whereby the Purchaser shall assume and agree to pay and discharge in accordance with their terms the Assumed Liabilities.

Section 2.04 LIABILITIES NOT ASSUMED BY THE PURCHASER. All obligations and liabilities of the Seller not constituting Assumed Liabilities, including any other obligations and liabilities that arise before, on or after the Closing Date based on or arising out of an act or omission occurring before the Closing Date (whether or not disclosed to the Purchaser), are hereinafter referred to as the "Retained Liabilities". Retained Liabilities shall include, but not be limited to, (i) any deferred

Tax liabilities and current Tax liability relating to the Seller and its subsidiaries, except for current Taxes payable attributable to periods beginning before the Closing Date and ending after the Closing Date, (ii) any pension or employee benefits liabilities, (iii) any obligation of the Seller under any servicing sale agreement (including, without limitation, servicing transfer obligations at the expiration of interim or subservicing agreements, repurchase or indemnification provisions, or purchase price adjustments due to prepayments, delinquencies or document deficiencies), (iv) any obligations to repurchase, or otherwise indemnify or reimburse any third party for losses or claims with respect to, mortgage loans (other than the Pre-Closing Servicing Obligations), (v) any VA-vendee indemnifications, and (vi) any liabilities arising out of Litigation which is pending on the Closing Date or which arises after the Closing Date based on an act or omission occurring before the Closing Date. In addition, any obligations and liabilities of the Subsidiaries (other than the normal operating liabilities of the Subsidiaries set forth on Schedule 2.04, which shall be treated as Assumed Liabilities for purposes of the Closing Statement and the Adjustment Schedule) that arise before, on or after the Closing Date based on an act or omission occurring before the Closing Date (including, without limitation, all liabilities of the types referred to in the preceding sentence) shall be Retained Liabilities for all purposes of this Agreement. Notwithstanding anything to the contrary in the foregoing, any liabilities of the Subsidiaries arising out of Litigation which is pending on the Closing Date or which arises after the Closing Date based on an act or omission occurring before the Closing Date, whether or not described on Schedule 2.04, shall be Retained Liabilities for all purposes of this Agreement. The obligations and liabilities of the Subsidiaries which are Retained Liabilities as described in this Section 2.04 shall be assumed by the Seller and the Parent at the Closing pursuant to an appropriate assumption agreement. The Purchaser shall not assume or be liable with respect to the Retained Liabilities.

ARTICLE III
PAYMENT

Section 3.01 CALCULATION OF PAYMENT.

(a) (i) In consideration of the transfer of the Purchased Assets and the covenants of the Seller and the Parent in this Agreement, the Purchaser shall deliver or cause to be delivered to the Seller at the Closing the Assumption Agreement, and the Purchaser shall pay to the Seller, by wire transfer of immediately available funds to an account designated by the Seller, the amount reflected on a statement (the "Closing Statement") prepared in accordance with the procedures detailed on Schedule 3.01(a), which amount (the "Net Purchase Price") shall be equal to: (A) the value of the Servicing Rights plus (B) the GAAP Book Value (except as otherwise indicated on Schedule 3.01(a)) of the other Purchased Assets plus (C) $65 million minus (D) the GAAP Book Value of the Assumed Liabilities minus (E) (without duplication with (D)) the mark-to-market adjustment for the debt obligations included in the Assumed Liabilities; provided, however, that the Purchaser shall retain $2,000,000 as a holdback amount. The Purchaser shall reimburse itself from the holdback amount for amounts owing from the Seller to the Purchaser under this Agreement or any Related Document in accordance with Section 12.04 (Procedures for Making Claims Against Indemnifying Party). At the time the Adjustment Amount is paid pursuant to Section 3.01(d), the

Purchaser shall pay to the Seller the amount, if any, by which the holdback amount (taking into account all reimbursements previously made to the Purchaser from such amount and any amounts owing to the Purchaser in respect of the Adjustment Amount) exceeds $500,000. Thereafter, within three Business Days after the end of each month, the Seller will make any payment to the Purchaser required to keep the holdback amount at $500,000 until the first anniversary of the Closing Date. On the first anniversary of the Closing Date, the Purchaser shall remit to the Seller any monies remaining in the holdback amount less any amounts for pending claims identified by the Purchaser. Retention of the monies until the first anniversary of the Closing Date and release of any remaining funds after such anniversary in no manner abrogates or modifies the indemnification or other obligations of the Seller or the Parent under this Agreement.

(ii) The provisions of Section 2.02(c) shall apply with respect to any Contract if the parties have not received, by the Business Day before the Closing Date, the written consent of each other party to that Contract to the assignment of the Seller's rights thereunder to the Purchaser; provided that if consents have not been so obtained with respect to the subservicing agreements with Chase Manhattan Mortgage Corp. ("Chase"), for all purposes of calculating the purchase price under this Agreement, including for purposes of the Closing Statement and the Adjustment Schedule, the value of the Purchased Assets shall be reduced by $8 million (the "Chase Amount"). The Chase Amount will be allocated to each of the four Chase subservicing agreements in accordance with Schedule 3.01(a)(ii), which the Purchaser and the Seller will jointly prepare within five Business Days after the Closing Date. The Purchaser will pay to the Seller 1/24th of the amount allocated to each Chase subservicing agreement for each month such agreement has not been terminated by Chase after the Closing. Such payment shall be made by wire transfer of immediately available funds no later than the third Business Day after the end of the relevant month. If, after the Closing Date, Chase consents to the assignment of a subservicing agreement, the Purchaser will pay to the Seller the remainder of the Chase Amount allocated to that agreement; if Chase terminates an agreement, the Purchaser will retain the remainder of the portion of the Chase Amount allocated to that agreement. Notwithstanding anything to the contrary in the foregoing, if Chase terminates any subservicing agreement because of a breach of such agreement by the Seller or its Affiliates occurring prior to the Closing, the Purchaser will retain (or the Seller will repay to the Purchaser) the unearned portion of the Chase Amount allocated to that agreement, and if Chase terminates any such agreement because of a breach of such agreement by the Purchaser or its Affiliates occurring after the Closing, the Purchaser will pay (or the Seller will retain) the unearned portion of the Chase Amount allocated to that agreement to the Seller.

(b) The Seller shall prepare the Closing Statement as of a date no more than five Business Days prior to Closing and (except as otherwise described in Section 3.01(a)) as if the Closing had occurred on such earlier date, provided that the GAAP Book Value of the Purchased Assets and the Assumed Liabilities (other than the "mark-to-market" debt adjustment) shown thereon shall be determined as of the last day of the prior month. The Closing Statement shall be delivered to the Purchaser no less than two Business Days prior to the Closing Date. The Purchaser and its representatives shall have full access to the accounting records from which the Closing Statement was prepared.

(c) Not later than 30 calendar days after the Closing Date, the Purchaser shall prepare or cause to be prepared a statement of the items shown on the Closing Statement (the "Adjustment Schedule"). The Adjustment Schedule shall be prepared in the same manner as the Closing Statement, except that all amounts shall be determined as of the Closing Date, and the Adjustment Schedule shall reflect the reduction of the holdback amount in accordance with Section 3.01(a)(i). The Seller and its representatives shall have full access to the accounting records from which the Adjustment Schedule was prepared.

(d) Subject to Section 3.01(e), the Seller shall pay to the Purchaser the Adjustment Amount (as defined below) if such amount is a negative number, and the Purchaser shall pay to the Seller the Adjustment Amount if such amount is a positive number, in either event promptly after its determination, by wire transfer of immediately available funds equal to such excess, together with interest thereon for each day after the Closing Date to the date of such payment at 5% per annum (the "Interest Rate"), to an account to be designated in writing by the Purchaser or the Seller, as the case may be. "Adjustment Amount" means a positive or negative number equal to (i) the Net Purchase Price reflected on the Adjustment Schedule (as modified pursuant to Section 3.01(e), if appropriate) minus (ii) the Net Purchase Price reflected on the Closing Statement.

(e) If, within 30 calendar days after the delivery of the Adjustment Schedule to the Seller pursuant to Section 3.01(c), the Seller determines in good faith that the Net Purchase Price reflected therein is inaccurate, the Seller shall give notice to the Purchaser within such 30-day period (i) setting forth the Seller's determination of the Net Purchase Price and (ii) specifying in reasonable detail the Seller's basis for its disagreement with the Purchaser's computation of the Net Purchase Price. The failure by the Seller so to express its disagreement within such 30-day period shall constitute acceptance of the Net Purchase Price reflected on the Adjustment Schedule. If the Seller and the Purchaser are unable to resolve their disagreement within 30 days after receipt by the Purchaser of notice of such disagreement, the items in dispute shall be referred to independent accountants selected by the Purchaser and the Seller (the "Accountants"). The Accountants shall make a determination (which shall not constitute an audit or valuation with respect to the Adjustment Schedule or any item thereon) as to each of the items in dispute, which determination shall be (A) in writing, (B) furnished to each of the Seller and the Purchaser as promptly as practicable after the items in dispute have been referred to the Accountants and (C) final, conclusive and binding on the parties hereto. The Adjustment Schedule shall thereupon be modified in accordance with the Accountants' determination. The fees and expenses of the Accountants shall be shared equally by the Seller and Purchaser. Within three Business Days after either (i) the expiration of the 30-day period referred to in this Section 3.01(e) if the Seller does not within such period give the notice of disagreement provided for above, or (ii) the date on which the Accountants furnish to the Seller and the Purchaser such firm's written determination, the appropriate party shall make payment in accordance with Section 3.01(d) hereof.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES
OF THE SELLER AND THE PARENT

The Seller and the Parent, jointly and severally, represent and warrant to the Purchaser as follows:

Section 4.01 ORGANIZATION OF THE SELLER AND THE PARENT. Each of the Seller and the Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with the requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted.

Section 4.02 SUBSIDIARIES.

(a) The Seller owns, beneficially and of record, all of the capital stock of each Subsidiary, free and clear of all Liens. The outstanding stock of each Subsidiary has been validly issued and is fully paid and non-assessable. There are no outstanding options, rights or warrants to acquire any equity interest in any Subsidiary. Each of the Subsidiaries has been duly organized and is validly existing and in good standing under the laws of its jurisdiction of organization, with the requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted.

(b) Other than (i) the investments identified as Excluded Assets in Section 2.01(b), (ii) shares of the capital stock of the Subsidiaries and the Seller's investment in MERSCORP, Inc. and (iii) interests, acquired and held in the ordinary course of the Business, in real estate investment conduits and other entities organized for the exclusive purpose of holding mortgage loans, the Seller does not, directly or indirectly, own, control or have the power to vote any equity securities of any other corporation, partnership, joint venture, trust or other business entity.

Section 4.03 POWER AND AUTHORITY. Each of the Seller and the Parent has the requisite corporate power and authority to execute and deliver this Agreement and the Related Documents to which it is or will be a party and to perform the transactions contemplated hereby and thereby to be performed by it. All corporate action on the part of the Seller and the Parent, necessary to approve or to authorize the execution and delivery of this Agreement and the Related Documents to which it is a party, and the performance of the transactions contemplated hereby and thereby to be performed by it, has been duly taken. This Agreement is a valid and binding obligation of the Seller and the Parent, enforceable in accordance with its terms.

Section 4.04 NO CONFLICTS. Except as may be required under the Hart-Scott-Rodino Antitrust Improvements Act (the "HSR Act") and except as set forth in Section 4.04 of the Disclosure Schedule (which Section the Seller agrees to provide to the Purchaser within five Business Days after the date of this Agreement), neither the execution or delivery by the Seller and the Parent of this Agreement or any Related Document to which it is or will be a party nor the performance of the transactions contemplated hereby or thereby to be performed by it shall:

(i) conflict with or result in a breach of any provision of the Certificate of Incorporation (or other charter documents) or Bylaws of the Parent, the Seller or any Subsidiary;

(ii) violate any Law applicable to the Parent, the Seller or any Subsidiary or by which the Parent, the Seller or any Subsidiary or any of their properties is bound; or

(iii) constitute an event of default under, permit the termination of, give rise to a right to accelerate any indebtedness under, or otherwise violate, breach or conflict with, any material Contract or Approval binding on the Parent, the Seller or any Subsidiary, or by which any material asset which will be a Purchased Asset is bound, or result in the creation of any Lien upon any asset which will be a Purchased Asset, other than such Liens that may be imposed by or as a result of any action of the Purchaser or any of its Affiliates; or require any consent, approval, authorization or other order or action of, or notice to, or declaration, filing or registration with any Governmental Agency or other third party.

Section 4.05 LITIGATION; COMPLIANCE WITH LAWS.

(a) To the Seller's Knowledge, neither the Seller nor any Subsidiary (i) is in violation of, or has received any notice alleging a violation of, any applicable Law or any Approval issued or required to be obtained thereunder or (ii) has any unsatisfied liability or obligation in respect of any such violation. The Seller and the Subsidiaries own or possess in the operation of the Business all Approvals which are necessary for the conduct of the Business.

(b) Except as set forth in Section 4.05(b) of the Disclosure Schedule, there is no pending or, to the Knowledge of the Seller, threatened Litigation by or before any Governmental Agency, court or arbitrator, to which the Seller or any Subsidiary is a party or by which any asset that will be a Purchased Asset may be bound or affected, nor, to the Knowledge of the Seller, is there any reasonable basis therefor. Since January 1, 1996, no Governmental Agency has initiated any proceeding or, to the Seller's Knowledge, any investigation into the business or operations of the Parent, the Seller or any Subsidiary, except for routine audits and similar proceedings that did not result in the determination of any violations, criticisms, citations or exceptions that, if not cured, would have a Material Adverse Effect on the Business. There are no unresolved violations, criticisms, citations or exceptions by any Governmental Agency with respect to any examinations of the Seller or any Subsidiary that, if not cured, would have a Material Adverse Effect on the Business.

(c) Except as set forth in Section 4.05(c) of the Disclosure Schedule, on the date hereof, neither the Seller nor any of its Subsidiaries is a party to any consent decree and, to the Knowledge of the Parent and the Seller, none are threatened, pending or contemplated.

Section 4.06 FINANCIAL STATEMENTS; SEC REPORTS.

(a) Since January 1, 1997, the Seller has filed all required reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated therein) with the Securities and Exchange Commission (the "SEC"). As of their respective dates, such documents (the "Seller SEC Documents") complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and the rules of the SEC applicable to such Seller SEC Documents, and no Seller SEC Document when filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Attached hereto as Appendix I is a draft of the Seller's financial statements for the year ended December 31, 1998 (the "1998 Financial Statements"). The 1998 Financial Statements include a balance sheet of the Seller and its consolidated subsidiaries as of December 31, 1998 (the "1998 Balance Sheet"), together with related statements of operations, changes in shareholder's equity and cash flows of the Seller and its consolidated subsidiaries (and notes thereto) for such period. The 1998 Financial Statements fairly present, and the Seller's audited 1998 financial statements as filed with the SEC will fairly present, in all material respects the consolidated financial position and the consolidated results of operations and cash flows of the Seller and its consolidated subsidiaries for the period therein identified in conformity with GAAP (except as may be indicated in the notes thereto).

(c) Except for (i) liabilities or obligations incurred by the Seller or its consolidated subsidiaries in the ordinary course of business and not required by GAAP to be set forth on the 1998 Balance Sheet (all material known items of which are described in Section 4.06(c) of the Disclosure Schedule) and (ii) liabilities of and obligations incurred by the Seller and the consolidated subsidiaries in the ordinary course of business since December 31, 1998 (none of which known items could reasonably be expected to cause a Material Adverse Effect on the Business), there is no material liability or obligation (whether absolute, accrued or contingent) that is not set forth on the 1998 Balance Sheet.

(d) The Seller has previously delivered to the Purchaser copies of the Seller's internally prepared accounting reports for January 1999, and will deliver such reports for February 1999 when available (such reports collectively, the "Internal Reports"). The statements of income for the months ended January 31 and February 28, 1999 and the balance sheets as of January 31 and February 28, 1999 included in the Internal Reports were or will be prepared consistently with the 1998 Financial Statements in accordance with GAAP as appropriate for the preparation of interim reports of that type.

(e) Since December 31, 1998 there has been no Material Adverse Change in the operations, business or financial condition of the Business (other than as a result of changes in general economic, political or industry conditions including, without limitation, rises and falls in interest rates and/or prepayment rates or forecasts or changes due to military action or war). Since

December 31, 1998, except as identified on Section 4.06(e) of the Disclosure Schedule, there has been no action taken by the Seller or any of its Subsidiaries of the type described in Section 10.04(a).

Section 4.07 PURCHASED ASSETS; REAL PROPERTY; LEASES AND OTHER CONTRACTS; INSURANCE.

(a) Except as described in Section 4.07(a) of the Disclosure Schedule, the Seller has good and marketable title to the Mortgage Loans included in the Purchased Assets, and good and indefeasible title to, a leasehold interest in or the right to use all other Purchased Assets, and at the Closing will (subject to Section 2.02) have the right to convey and transfer to the Purchaser, all Purchased Assets, and the Subsidiaries have good and indefeasible title to, a leasehold interest in or the right to use all their assets, in each case free and clear of all Liens, except for Liens for Taxes not yet due and payable or which are being contested in good faith by appropriate proceedings. All of the tangible assets which will be Purchased Assets and the assets leased or licensed under Contracts which will be Purchased Assets are in good operating condition and repair, reasonable wear and tear excepted. The assets that will be Purchased Assets and Excluded Assets, taken together, include all material properties, Contracts, rights and assets which are being used in the conduct of the Business at the date hereof. The Purchased Assets, together with any Contracts otherwise excluded from the definition of "Purchased Assets" pursuant to Section 2.02(c) and 3.01(a), comprise all the material properties, Contracts, rights and assets required by the Seller and its Subsidiaries to conduct the Business. The Purchased Assets are not subject to any option to purchase or right of first refusal.

(b) Section 4.07(b) of the Disclosure Schedule contains a brief description of all real property owned in fee simple or held pursuant to a Lease by the Seller or a Subsidiary that will be included in the Purchased Assets, other than REO properties. Except as set forth in Section 4.07(b) of the Disclosure Schedule, (i) no condemnation proceedings have been instituted or, to the Knowledge of the Seller, threatened with respect to any such real property, and (ii) the Leases are all in full force and effect and no notices of default have been given or received thereunder. Section 4.07(b) of the Disclosure Schedule accurately sets forth all payment obligations under the Leases, expiration dates of the Leases and options to renew or cancel the Leases.

(c) Section 4.07(c) of the Disclosure Schedule contains a complete and correct list of all Contracts that will be included in the Purchased Assets or the Assumed Liabilities. Except as set forth in Section 4.07(c) of the Disclosure Schedule, all such Contracts listed or required to be listed pursuant to the preceding sentence are in full force and effect and are valid and binding obligations of the Seller or a Subsidiary and, to the Seller's Knowledge, of the other parties thereto. The Seller has provided to the Purchaser true and complete copies of all such Contracts. Except as set forth in Section 4.07(c) of the Disclosure Schedule, no party to any such Contract is in default in any material respect under any such Contract; nor to the Knowledge of the Seller, does there presently exist any event or condition which, with the passage of time or giving of notice or both, would be reasonably expected to constitute such a default. The accounts receivable of the Seller and the Subsidiaries to be reflected on the Closing Statement represent bona fide amounts receivable for services rendered in the ordinary course of the Business. The values at which accounts receivable,

net of reserves, are carried on the books and records of the Seller and the Subsidiaries reflect the amounts deemed collectible in accordance with GAAP.

(d) Section 4.07(d) on the Disclosure Schedule contains a complete and correct list of (i) all material insurance policies under which the Seller or a Subsidiary is a named insured and that provide coverage with respect to the Purchased Assets and (ii) any outstanding claims under such insurance policies related to the Purchased Assets. Neither Seller nor any Subsidiary has received notice of cancellation of any such policies.

Section 4.08 EMPLOYEE BENEFIT AND PENSION PLAN MATTERS.

(a) Section 4.08(a) on the Disclosure Schedule lists all material pension, retirement, profit sharing, deferred compensation, stock option, stock purchase, stock ownership, stock appreciation right, savings, bonus, severance, vacation, incentive, medical, dental or health, life, accident, disability or other employee benefit plans, programs, agreements, understandings or arrangements, including, without limitation, all employee benefit plans as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), for the benefit of any of the present or former directors or employees of the Business or their beneficiaries or dependents, or which are maintained or sponsored by the Seller or a Subsidiary, or to which the Seller or a Subsidiary makes, or is required to make, contributions (collectively, "Employee Plans").

(b) Except to the extent that any of the following would not, individually or in the aggregate, have a Material Adverse Effect on the Business, (i) each of the Employee Plans and its administration and operation are in compliance in all material respects with all applicable Laws and, except as otherwise permitted or required by applicable Law, the provisions of such Employee Plan and (ii) all contributions, premiums, benefits or other payments required to be made to or with respect to any Employee Plan which is a welfare plan within the meaning of Section 3(1) of ERISA for all periods preceding the Closing Date and for the period including the Closing Date have, or prior to the Closing Date will have, been made.

Section 4.09 LABOR RELATIONS. With respect to any employees of the Business, neither the Seller nor any Subsidiary is a party to any collective bargaining agreement with a labor organization certified by the National Labor Relations Board (the "NLRB"), and (a) there is no unfair labor practice charge or complaint against the Seller or a Subsidiary pending before the NLRB, (b) there is no labor strike, or organized dispute, slowdown, work stoppage or other form of collective labor activity actually pending or, to the knowledge of the Seller or a Subsidiary, threatened against or affecting the Seller or a Subsidiary, (c) there is no union representation claim or petition pending before the NLRB and (d) neither the Seller nor any Subsidiary has experienced any organized dispute, slowdown, work stoppage or other form of collective activity in the past three years.

Section 4.10 MORTGAGE LOANS.

(a) Except as otherwise described with respect to SOM in Section 4.10(a) of the Disclosure Schedule, each of the Seller, CPM and SOM is (i) an approved seller/servicer of mortgage loans for Fannie Mae ("FNMA") and Freddie Mac ("FHLMC") in good standing, (ii) a Department of Housing and Urban Development ("HUD") approved mortgagee pursuant to Section 203 of the National Housing Act, (iii) authorized by Government National Mortgage Association ("GNMA") as an eligible issuer/servicer and in good standing to service GNMA loans and (iv) a Federal Housing Administration ("FHA") approved mortgagee and (except for SOM) a Veterans Administration ("VA") approved lender in good standing to originate and service FHA and VA loans. Neither the Seller nor either such Subsidiary has been suspended as a mortgagee or servicer by the FHA, the VA, FHMLC, FNMA or GNMA, and each of the Seller and CPM has facilities, procedures and experienced personnel necessary for the sound servicing of FHA, VA, FHMLC, FNMA and GNMA loans. No event has occurred, including but not limited to a change in insurance coverage, which would make the Seller or either such Subsidiary unable to comply with FNMA, FHLMC, HUD, GNMA, FHA or VA eligibility requirements or which would require notification by the Seller or either such Subsidiary to FNMA, FHLMC, HUD, GNMA, FHA or VA.

(b) In connection with the execution of this Agreement, Seller has delivered to Purchaser in a computer tape format reasonably acceptable to Purchaser, a report that identifies the Mortgage Loans (and which identifies the Mortgage Loans that are Owned Mortgage Loans) and the Subserviced Mortgage Loans (the "Mortgage Loan Schedule," which term includes, except where the context requires otherwise, the updated schedule to be prepared and delivered in accordance with Section 10.15 (Updated Mortgage Loan Schedule)). The Mortgage Loan Schedule identifies each Mortgage Loan owned, or serviced by the Seller and the Subsidiaries and each Subserviced Mortgage Loan subserviced by the Seller and the Subsidiaries (identifying any third party owner or servicer) and sets forth the following information with respect to each such Mortgage Loan and Subserviced Mortgage Loan (or, with respect to each Pipeline Mortgage Loan, such of the following information as is then available) as of the close of business on the last day of the preceding month (the "Cut-off Date"): (1) the Seller's mortgage loan identifying number; (2) the mortgagor's first and last name; (3) the street address of the mortgaged property including the state and zip code; (4) a code indicating whether the mortgaged property is owner-occupied; (5) the type of dwelling constituting the mortgaged property; (6) the original term to maturity in months; (7) the original date of the mortgage; (8) to the extent available, the LTV at origination; (9) the mortgage interest rate in effect on the Cut-off Date; (10) the date on which the first monthly payment was due; (11) the stated maturity date; (12) the amount of the monthly payment of principal and interest at origination; (13) the amount of the monthly payment as of the Cut-off Date; (14) the last due date on which a monthly payment was actually applied to the unpaid principal balance; (15) the original principal amount; (16) [reserved]; (17) to the extent available, a code indicating the purpose of the loan (e.g., purchase financing, rate/term refinancing, cash-out refinancing); (18) the mortgage interest rate at origination; (19) to the extent available, a code indicating the documentation style (i.e., full, alternative or reduced); (20) a code indicating if the Mortgage Loan or Subserviced Mortgage Loan is subject to a Primary Insurance Policy; (21) a code indicating if the Mortgage

Loan or Subserviced Mortgage Loan is an FHLMC, FNMA or GNMA loan, is owned by the Seller or a Subsidiary or has been sold to private investors; (22) a code indicating if the Mortgage Loan or Subserviced Mortgage Loan is an FHA or VA loan; (23) a code indicating if the mortgage loan servicing is owned, interim serviced or subserviced, (24) to the extent available, the appraised value of the mortgaged property as of a given date; (25) to the extent available, the sale price of the mortgaged property, if applicable; (26) the actual unpaid principal balance of the Mortgage Loan or Subserviced Mortgage Loan as of the Cut-off Date; (27) the servicing fee, including any excess servicing fee retained by the Seller; (28) any guarantee fees; (29) whether the Mortgage Loan or Subserviced Mortgage Loan is in foreclosure (provided that this information will be included on the updated Mortgage Loan Schedule only) or is an REO property; and (30) with respect to each adjustable rate Mortgage Loan: (i) the first adjustment date; (ii) the applicable index and margin; (iii) the maximum mortgage interest rate; (iv) the minimum mortgage interest rate; (v) the periodic rate cap; (vi) the first adjustment date following the Cut-off Date; and (vii) a code indicating whether the Mortgage Loan is a convertible mortgage loan. With respect to all such Mortgage Loans and Subserviced Mortgage Loans in the aggregate for each investor or owner or servicer, the Mortgage Loan Schedule sets forth the following information, as of the related Cut-off Date: (1) the number of Mortgage Loans; (2) the aggregate principal balance; (3) the weighted average mortgage interest rate; and (4) the weighted average maturity. The information set forth in the Mortgage Loan Schedule is complete, true and correct in all material respects as of the date hereof.

(c) The Mortgage Loans have been underwritten, originated, held and serviced in compliance in all material respects with all Applicable Requirements. In the case of all Mortgage Loans described in the Mortgage Loan Schedule or the Seller's and the Subsidiaries' books and records as FHA Loans or VA Loans, the related Mortgage is guaranteed by the VA to the maximum extent permitted by law or fully insured by the FHA, all necessary steps have been taken to make and keep such guarantee or insurance valid, binding and enforceable, and the related FHA Insurance Contract or VA Guaranty Agreement is the binding, valid and enforceable obligation of the VA or the FHA, as the case may be, without surcharge, set-off or defense.

(d) The Mortgage Notes evidencing the Mortgage Loans and the notes and other evidences of indebtedness and related security agreements for all other loans to be included among the Purchased Assets are correct in original amount, genuine as to signatures of makers and endorsers, and accurate as to lien priority and in all material respects as to description of collateral; the related mortgages and other liens have been recorded and perfected in accordance with the Applicable Requirements; and such notes and other evidences of indebtedness and related security agreements were given for valid consideration and constitute legally binding and enforceable claims against the makers and endorsers thereof (except as enforceability may be limited by bankruptcy, insolvency and other laws relating to creditors' rights generally or by general equitable principles), without any set-off, defense or counterclaim, for the full amounts shown on the books and records of the Seller and the Subsidiaries. All insurance products for which the Seller or a Subsidiary has acted as agent have been underwritten, marketed and sold in compliance with applicable Law and constitute legally binding and enforceable claims against the insurer and the insured (except as enforceability may be limited by bankruptcy, insolvency and other laws relating to creditors' rights generally or by general equitable principles).

(e) The Parent and its subsidiaries have not, and the Seller and the Parent have no Knowledge that any other person has, taken any action or omitted to take any reasonably required action, which action or omission would impair the rights of the Seller, the Subsidiaries or (after the Closing) the Purchaser in the Mortgage Loans or prevent any such person from collecting any amounts due thereunder.

(f) Except as disclosed in Section 4.10(f) of the Disclosure Schedule, the Seller has no Knowledge that any taxes, ground rents, water charges, sewer rents, assessments (including assessments payable in future installments), insurance premiums, leasehold payments or other outstanding charges affecting the related Mortgaged Properties with respect to any Mortgage Loan, in each case that are due, have not been paid.

(g) The terms of each Mortgage Note and each Mortgage with respect to any Mortgage Loan have not been impaired, waived, altered or modified in any respect, except (i) in the case of a Conventional Mortgage Loan, by written instrument, recorded in the applicable public recording office if necessary to maintain the lien priority of the Mortgage, and the substance of any such waiver, alteration or modification has been approved by the insurer under the Primary Insurance Policy, if any, and the title insurer, to the extent required by the related policy, and (ii) in the case of an FHA Loan or a VA Loan, by written instrument, and the substance of any such waiver, alteration or modification has been approved by the FHA or the VA, as the case may be, to the extent required by the applicable insurance agreement, and in each case, the substance of any waiver, alteration or modification is reflected on the Mortgage Loan Schedule. No instrument of waiver, alteration or modification has been executed, and no Mortgagor has been released, in whole or in part, except in connection with an assumption agreement approved by the insurer under the Primary Insurance Policy, if any, and the title insurer, to the extent required by the policy, and which assumption agreement has been delivered to the custodian and the terms of which are reflected in the Mortgage Loan Schedule.

(h) No Mortgage with respect to any Mortgage Loan has been satisfied, cancelled, subordinated or rescinded, in whole or in part, and the related Mortgaged Property has not been released from the lien of the Mortgage, in whole or in part, nor has any instrument been executed that would effect any such satisfaction, cancellation, subordination, rescission or release, except in connection with an assumption agreement which has been delivered to the related custodian and which has been approved (a) in the case of a Conventional Mortgage Loan, by the insurer under the Primary Insurance Policy, if any, and (b) in the case of an FHA Loan or a VA Loan, by the FHA or the VA, as the case may be, to the extent required by the applicable insurance agreement; and, in any event, any such release is reflected on the Mortgage Loan Schedule.

(i) Each Mortgage with respect to any Mortgage Loan is a valid, existing and enforceable first lien on the related Mortgaged Property (except for those identified in Section 4.10(i)(A) of the Disclosure Schedule, all of which are valid, existing and enforceable second liens subordinate only to a first lien), including all improvements on the Mortgaged Property, subject only to (i) the lien of current real property taxes and assessments not yet due and payable, (ii)

covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording being acceptable to mortgage lending institutions generally and the FHMLC, FNMA, GNMA, HUD, FHA or the VA, as the case may be, and any private investor and specifically referred to in the lender's title insurance policy or attorney's opinion of title delivered to the originator of the Mortgage Loan and which do not adversely affect the Appraised Value of the Mortgaged Property, and (iii) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the Mortgage or the use, enjoyment, value or marketability of the related Mortgaged Property and which shall not in any way prevent realization of the benefits of any FHA Insurance Contract or VA Guaranty Agreement, if applicable. All of the Mortgage Properties securing the Mortgage Loans are residential properties, except for those identified in Section 4.10(i)(B) of the Disclosure Schedule. Except to the extent identified in Section 4.10(i)(A) of the Disclosure Schedule, any security agreement, chattel mortgage or equivalent document related to and delivered in connection with any such Mortgage Loan establishes and creates a valid, existing and enforceable first lien and first priority security interest on the property described therein and the Seller has full right to sell and assign the same to the Purchaser. Except to the extent identified in Section 4.10(i)(A) of the Disclosure Schedule, the Mortgaged Property was not, at the time of origination of the Mortgage Loan, subject to a mortgage, deed of trust, deed to secure debt or other security instrument creating a lien subordinate to the lien of the Mortgage, which subordinate lien could cause such Mortgage Loan not to be saleable to FHLMC, FNMA or GNMA.

(j) Except for Mortgage Loans identified in Section 4.10(j) of the Disclosure Schedule, the proceeds of each Mortgage Loan have been fully disbursed to or for the account of the related Mortgagor and there is no obligation for the Mortgagee to advance additional funds thereunder and any and all requirements as to completion of any on-site or off-site improvement and as to disbursements of any escrow funds therefor have been complied with. All costs, fees and expenses incurred in making or closing each Mortgage Loan and the recording of the Mortgage have been paid, and the related Mortgagor is not entitled to any refund of any amounts paid or due to the Mortgagee pursuant to the Mortgage Note or Mortgage.

(k) Each Mortgage Loan is covered by an American Land Title Association or similar lender's title insurance policy (or a title commitment or title binder committing the title company to issue such title insurance policy) or, where customary, an attorney's opinion of title, in each case meeting the Applicable Requirements, issued by an insurer acceptable to FNMA, FHLMC, HUD, GNMA, FHA or VA, as applicable, and any private investor and qualified to do business in the jurisdiction where the Mortgaged Property is located, insuring the Seller or a Subsidiary, its successors and assigns as to the lien of the Mortgage in the original principal amount of the Mortgage Loan and against any loss by reason of the invalidity or unenforceability of the lien. Additionally, such lender's title insurance policy affirmatively insures (or, for Pipeline Loans, will insure at the Closing Date or when the Mortgage Loan is closed) ingress and egress to and from the Mortgaged Property, and against encroachments by or upon the Mortgaged Property or any interest therein. The Seller or a Subsidiary is (or, for Pipeline Loans, will be at the Closing Date or when the Mortgage Loan is closed) the sole insured of each lender's title insurance policy, and each lender's title insurance policy is (or, for Pipeline Loans, will be at the Closing Date or when the

Mortgage Loan is closed) in full force and effect and will be in full force and effect upon the consummation of the transactions contemplated by this Agreement. To the Seller's and the Parent's Knowledge, except as disclosed in Section 4.10(k) of the Disclosure Schedule, no claims have been made under a lender's title insurance policy, and no prior holder of the related Mortgage, including the Seller, has done, by act or omission, anything which would impair the coverage of any lender's title insurance policy.

(l) Each appraisal made in connection with the origination of a Mortgage Loan was performed in accordance with the requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. Except as disclosed in Section 4.10(l) of the Disclosure Schedule or to the extent otherwise permitted or required by the Applicable Requirements, each Conventional Mortgage Loan (other than second mortgage loans identified on Section 4.10(i)(A) of the Disclosure Schedule) with an LTV at origination in excess of 80% is subject to a Primary Insurance Policy, which insures as to payment defaults that portion of the Mortgage Loan in excess of the portion of the Appraised Value of the Mortgaged Property required by FNMA and FHLMC, whether or not such Mortgage Loan has been sold to FNMA or FHLMC. All provisions of such Primary Insurance Policy have been and are being complied with, such policy is in full force and effect, and all premiums due thereunder have been paid. Except as disclosed in Section 4.10(l) of the Disclosure Schedule, any Mortgage subject to any such Primary Insurance Policy obligates the Mortgagor thereunder to maintain such insurance and to pay all premiums and charges in connection therewith. The Mortgage Interest Rate for the Mortgage Loan does not include any such insurance premium.

(m) (i) No material error, omission, misrepresentation, negligence, fraud or similar occurrence with respect to a Mortgage Loan has taken place on the part of any Person, including without limitation the Mortgagor, any appraiser, any builder or developer, any correspondent or broker, any employee of the Seller or a Subsidiary, or any other party involved in the origination of the Mortgage Loan or in the application of any insurance in relation to such Mortgage Loan, and (ii) no action has been taken or failed to be taken, no event has occurred and no state of facts exists or has existed on or prior to the Closing Date (whether or not known to the Seller on or prior to such date) which has resulted or will result in an exclusion from, denial of, or defense to coverage under any Primary Insurance Policy (including, without limitation, any exclusions, denials or defenses which would limit or reduce the availability of the timely payment of the full amount of the loss otherwise due thereunder to the insured) whether arising out of actions, representations, errors, omissions, negligence, or fraud of the Seller, the related Mortgagor or any party involved in the application for such coverage, including the appraisal, plans and specifications and other exhibits or documents submitted therewith to the insurer under such insurance policy, or for any other reason under such coverage, but not including the failure of such insurer to pay by reason of such insurer's breach of such insurance policy or such insurer's financial inability to pay.

(n) The brokers and correspondents involved in the origination of any Mortgage Loan have complied in all material respects with all internal policies and procedures of the Seller or CPM with respect to the origination of such Mortgage Loans.

(o) To the Seller's Knowledge, all contracts or agreements between the Seller or any Subsidiary on the one hand, and any broker or correspondent on the other hand, require any such broker or correspondent to repurchase from the Seller or a Subsidiary the Mortgage Loans originated by such broker or correspondent on terms and conditions substantially identical to the related repurchase obligations of the Seller or a Subsidiary to FNMA, GNMA, FHLMC, HUD, FHA, VA or any private investor with respect to such Mortgage Loans.

(p) The Seller has no Knowledge, with respect to any Mortgage Loan, that the Mortgaged Property is not in material compliance with all applicable environmental Laws, including, without limitation, Laws relating to asbestos and other Hazardous Materials. The Seller has not, and the Seller has no Knowledge that the related Mortgagor has, received any notice of any violation or potential violation of any such Law.

(q) Except as disclosed in Section 4.10(q) of the Disclosure Schedule, the Seller has no Knowledge that the file relating to a serviced Mortgage Loan does not contain all documentation necessary for the Purchaser to service such Mortgage Loan following the Closing.

(r) Except as disclosed in Section 4.10(r)(i) of the Disclosure Schedule, all Mortgage Loans have been initially certified, finally certified and/or recertified in accordance with Applicable Requirements. All Mortgage Loans listed in Section 4.10(r)(i) of the Disclosure Schedule have no impediment to final certification and/or recertification by the applicable deadline, giving effect to any available extension. The mortgage loan documents to be delivered to the Purchaser will include all documents necessary (other than Assignments of Mortgage that are to be delivered after the Closing Date and other than documents identified in Section 4.10(r)(ii) of the Disclosure Schedule) in order for the Purchaser's document custodian to finally certify or recertify, as applicable, the Mortgage Loans by applicable deadlines, giving effect to any available extension. Each Mortgage Loan included in a mortgage loan pool meets all the eligibility requirements of the investor for inclusion in such mortgage pool. After reconciliation required hereunder, each security of each mortgage pool will be balanced to the collateral and the expected cash will be deposited in the applicable custodial account.

(s) All flood and hazard insurance policies and flood certifications with respect to Mortgage Loans were obtained where required, are in compliance with applicable Laws and remain in full force and effect.

(t) Except for Mortgage Loans that are delinquent or in default, or which have been foreclosed, the Seller has no Knowledge of any circumstances or conditions with respect to the Mortgage, the Mortgaged Property, the Mortgagor or the Mortgagor's credit standing that can reasonably be expected to cause institutional investors investing in loans of the same type as a Mortgage Loan to regard such Mortgage Loan to be an unacceptable investment or adversely affect the value of the Mortgage Loan.

(u) Except for Mortgage Loans disclosed in Section 4.10(u) of the Disclosure Schedule, all of the Mortgage Loans have been sold to investors, and are being serviced, without recourse to the Seller or any Subsidiary (other than for breaches of customary representations and warranties).

(v) With respect to the Subserviced Mortgage Loans:

(i) The Subserviced Mortgage Loans are being subserviced in compliance in all material respects with the provisions of the applicable subservicing agreements.

(ii) The Parent and its subsidiaries have not, and the Seller and the Parent have no Knowledge that any other person has, taken any action or omitted to take any reasonably required action, which action or omission would impair the rights of the Seller, the Subsidiaries or (after the Closing) the Purchaser in the Subserviced Mortgage Loans or prevent any such person from collecting any amounts due thereunder.

(iii) Except as disclosed in Section 4.10(v)(iii) of the Disclosure Schedule, the Seller has no Knowledge that the file relating to a Subserviced Mortgage Loan does not contain all documentation necessary for the Purchaser to subservice such Subserviced Mortgage Loan in accordance with the related subservicing agreement following the Closing.

(iv) All of the Subserviced Mortgage Loans are being subserviced without recourse to the Seller or any Subsidiary (other than for breaches of customary representations and warranties).

Section 4.11 [RESERVED]

Section 4.12 TRANSACTIONS WITH AFFILIATES. Since January 1, 1997, except as set forth in Section 4.12 of the Disclosure Schedule, neither the Seller nor any Subsidiary has purchased, acquired or leased any property or services from or sold, transferred or leased any property or services to, or lent or advanced any money to, or borrowed any money from, or acquired any capital stock, obligations or securities of, or made any management consulting or similar fee agreement with the Parent or any other Affiliate of the Parent or any officer, director or employee of the Seller or any Affiliate of the Seller.

Section 4.13 INTEREST RATE RISK MANAGEMENT INSTRUMENTS. All interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements entered into for the account of the Seller or the Subsidiaries were entered into in the ordinary course of business and in accordance with prudent business practice and applicable rules, regulations and policies of any Governmental Agency and with counterparties believed to be financially responsible and are legal, valid and binding obligations of the Seller or one of the Subsidiaries and, to the Seller's Knowledge, of the other parties thereto, enforceable against the Seller or the applicable Subsidiary, and to the Seller's Knowledge, in accordance with their terms (except as enforceability may be limited by bankruptcy, insolvency and other laws relating to creditors' rights generally or by general equitable

principles), without any set-off, defense or counterclaim, and are in full force and effect with respect to the Seller or the applicable Subsidiary and, to the Seller's Knowledge, the other parties thereto. The Seller and the Subsidiaries have duly performed all of their material obligations thereunder to the extent that such obligations to perform have accrued, and there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

Section 4.14 INTELLECTUAL PROPERTY.

(a) Section 4.14(a) of the Disclosure Schedule sets forth a list of all trademarks, trade names, service marks, copyrights and patents, or applications therefor, which constitute material Seller IPR. The Seller IPR constitutes all of the Intellectual Property Rights necessary to conduct the Business. Except as set forth in Section 4.14(a) of the Disclosure Schedule, the Seller or one of the Subsidiaries is the sole owner of all right, title and interest in, or a valid right to use, the Seller IPR, free and clear of all Liens. All renewal fees and actions reasonably required to be taken for the maintenance or protection of the Seller IPR have been paid and taken. Except as set forth in Section 4.14(a) of the Disclosure Schedule, the Seller or one of the Subsidiaries has the exclusive, unqualified right to use the Seller IPR and to transfer the Seller IPR to the Purchaser. Neither the Seller nor the Parent has received any charge, complaint, claim, demand or notice alleging that the ownership or use of the Seller IPR constitutes any interference with or infringement or misappropriation of any rights of any Person, and the Seller has no Knowledge of any reasonable basis therefor. To the Seller's Knowledge, no Person has interfered with, infringed or misappropriated any Seller IPR. The Seller IPR is not subject to any outstanding Judgment or Contract prohibiting or restricting the use thereof by the Seller or its Subsidiaries with respect to the Business or prohibiting or restricting the licensing or transfer thereof by the Seller and its Subsidiaries to the Purchaser or any other Person, or restricting the use thereof by the Purchaser or any other Person.

(b) The Seller and its Subsidiaries have the unqualified right to use the Third Party IPR in connection with and for the Business, and there is no prohibition or restriction against the Purchaser's use of any of the Third Party IPR following the Closing, except to the extent that the right to use such Third Party IPR arises under a Contract which is deemed to be an Excluded Asset pursuant to Section 3.01(a).

(c) Except to the extent set forth in Section 4.14(c) of the Disclosure Schedule, neither the Seller nor any Subsidiary has entered into any agreement to indemnify any Person against any charge of infringement of any Intellectual Property Right or misappropriation of any trade secret.

(d) Except as set forth in Section 4.14(d) of the Disclosure Schedule, all Software, computer hardware and other systems currently used in the Business are Year 2000 Compliant. Except as set forth in Section 4.14(d) of the Disclosure Schedule, each third party whose systems interface with the Business' internal systems has advised the Seller that such third party's systems will be Year 2000 Compliant, and by the Closing Date, the Seller will have used Commercially Reasonable Efforts to verify the accuracy of such advice.

(e) The Seller and each of the Subsidiaries have taken all reasonable, customary and usual measures to protect the trade secrets used in or related to the Business. To the extent that information of a confidential nature has been used in relation to the Business in the five-year period prior to the date of this Agreement, such information (except insofar as it has fallen into the public domain through no fault of the Seller or the Subsidiaries) has been kept strictly confidential and has not been disclosed otherwise than subject to a customary confidentiality agreement.

(f) Except as set forth in Section 4.14(f) of the Disclosure Schedule, all records and systems (including without limitation computer systems) and all data and information of the Business is owned by the Seller or one or more of the Subsidiaries, and is recorded, stored, maintained or operated or otherwise held by the Seller or one or more of the Subsidiaries and is not wholly or partly dependent on any facilities which are not under the exclusive ownership or control of the Seller or one or more of the Subsidiaries and which are included in the Purchased Assets.

(g) None of the operations of the Business involve the unlicensed or unauthorized use of confidential information. To the Seller's Knowledge, the processes employed, the services provided, the business conducted and the products used or dealt in by the Seller and each of the Subsidiaries in the conduct of the Business do not infringe any Intellectual Property Rights of any unaffiliated Person. Except as set forth in Section 4.14(g) of the Disclosure Schedule, none of the operations of the Business give rise to any royalty or like payment obligation for the use of any Third Party IPR.

(h) Neither the Seller, any Subsidiary nor, to the Seller's Knowledge, any Person with which the Seller or any Subsidiary have contracted, is in breach in any material respect of any license, sublicense, Contract or assignment granted to or by it with respect to any Intellectual Property Rights, including but not limited to the use, maintenance, or support of any Software or hardware, nor does the Seller have any Knowledge of any disputes or disagreements with respect thereto.

(i) There are no issued patents or registered copyrights included in the Intellectual Property Rights. All marks included in the Intellectual Property Rights ("Marks") that have been registered with the United States Patent and Trademark Office are currently in compliance with all formal legal requirements (including the timely postregistration filing of affidavits or use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within 90 days after the Closing Date, except where the failure thereof would not reasonably be expected to result in a Material Adverse Effect on the Business. All products and materials containing a Mark bear the proper federal registration notice where permitted by law, except where the failure thereof would not reasonably be expected to result in a Material Adverse Effect on the Business.

(l) The Seller and its Subsidiaries have taken all reasonable customary and usual precautions to protect the secrecy, confidentiality, and value of their Trade Secrets. The Seller or one of its Subsidiaries has good title and an absolute right to use the Trade Secrets. To the Seller's Knowledge, none of the Trade Secrets are part of the public knowledge or literature, or have been

used, divulged, or appropriated either for the benefit of any Person (other than the Seller or its Subsidiaries) or to the detriment of the Seller or one of its Subsidiaries. No Trade Secret is subject to any adverse claim or, to the Seller's Knowledge, has been challenged or threatened in any way.

Section 4.15 ENVIRONMENTAL LIABILITY. Neither the Seller nor, to the Seller's Knowledge, any third party has engaged in the generation, use, manufacture, treatment, transportation, storage or disposal of any Hazardous Material on any of the properties included in the Purchased Assets, and the Seller has no Knowledge that any such properties, as currently used and occupied, do not comply in all material respects with applicable Laws and Approvals, including those relating to land use, pollution, Hazardous Materials and the environment. There is no Litigation and there are no private investigations or remediation activities or governmental investigations pending or, to the Seller's Knowledge threatened, seeking to impose, or that would reasonably be expected to result in the imposition, on the Seller or any Subsidiary of any material obligation or liability under any Law relating to pollution, Hazardous Materials or the environment, nor does the Seller know of any reasonable basis therefor.

Section 4.16 BROKERS. Neither the Parent nor any Affiliate has retained any broker or finder, and no broker or finder has acted on behalf of the Parent or any Affiliate in connection with this Agreement or the transactions provided for hereby (other than Cohane Rafferty Securities, Inc., all of whose fees and expenses are for the Seller's account).

Section 4.17 INFORMATION SUPPLIED; ACCURACY OF DATA.

(a) The written materials (including computer tapes and disks) identified in Section 4.17 of the Disclosure Schedule provided by or on behalf of the Parent, the Seller, any of its Subsidiaries or any of their Affiliates to the Purchaser or any of its Affiliates in connection with the negotiation of this Agreement and the consummation of the transactions contemplated hereby are true, complete and correct in all material respects; provided, however, that all forward-looking information (including, without limitation, forecasts and budgets) shall be excluded from the purview of this Section 4.17(a); and, provided, further, that in the event that any matter identified in Section 4.17 of the Disclosure Schedule is covered specifically by any other representation and warranty made by the Seller and Parent hereunder, such other representation and warranty shall control.

(b) The records (including computer records), files and other information in written or recorded form relating to, or used by the Seller and the Subsidiaries in connection with, the Business accurately reflect in all material respects the information supplied to the Seller by third parties and the actions taken by the Seller. To the Seller's Knowledge, all servicing accounts maintained by or on behalf of Seller or any of its Subsidiaries accurately reflect all transactions in such accounts and all information supplied to the Seller by third parties.

Section 4.18 TAXES. (a) With respect to Taxes:

(i) for the purposes of this Section 4.18, the term "Sellers" shall include the Seller and each of the Subsidiaries, the capital stock of which is included among the Purchased Assets;

(ii) all Income Tax Returns that are required to be filed by or with respect to the Parent or the Sellers have been timely filed, and all Income Taxes required to be shown thereon as owing have been paid, except where the failure to file Income Tax Returns or to pay Income Taxes would not have a Material Adverse Effect on the Sellers;

(iii) except to the extent disclosed on Section 4.18(a)(iii) of the Disclosure Schedule, no adjustments relating to Taxes of the Subsidiaries have been proposed by the Internal Revenue Service or any state, local or foreign taxing authority, whether informally or in writing, and to the Sellers' Knowledge no basis exists for such an adjustment;

(iv) to the Seller's Knowledge, there are no pending or threatened actions or proceedings for the assessment or collection of Taxes against the Subsidiaries, other than as set forth on Section 4.18(a)(iii) of the Disclosure Schedule;

(v) to the Seller's Knowledge, there are no Tax liens on any Purchased Assets other than for taxes that are not yet due and payable, or for Taxes that are being contested in good faith and that are properly reflected on the Closing Statement;

(vi) no Subsidiary has been, at any time, a member of any partnership or joint venture or the holder of a beneficial interest in any trust for any period for which the applicable statute of limitations for any Income Tax has not expired;

(vii) except as disclosed in Section 4.18(a)(vii) of the Disclosure Schedule, no waivers of statutes of limitation have been given by the Subsidiaries or requested with respect to any Tax Return of the Subsidiaries;

(viii) there are no requests for information by any Governmental Agency currently outstanding relating to the Taxes of the Subsidiaries;

(ix) to the Seller's Knowledge, there are no proposed reassessments of the Purchased Assets or any property owned by the Subsidiaries, or other proposals that could increase the amount of Tax to which the Subsidiaries would be subject; and

(x) Except as disclosed in Section 4.18(a)(x) of the Disclosure Schedule, no penalties under Section 6721, 6722 or 6723 of the Code have been assessed against the Seller or any of the Subsidiaries, or if penalties have been assessed, all such penalties have been abated.

(b) Sellers have delivered to the Purchaser a true and complete copy of each Tax sharing, Tax allocation or Tax payment agreement or arrangement involving the Subsidiaries, and a true and complete description of all such unwritten or informal agreements or arrangements.

(c) Except as otherwise provided in this Agreement, on the Closing Statement reserves and allowances will have been provided, adequate to satisfy all liabilities for Taxes relating to the Subsidiaries for periods through the Closing Date.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Seller and the Parent as follows:

Section 5.01 ORGANIZATION OF THE PURCHASER. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the requisite power and authority to own, operate and lease its properties and to carry on its business as now being conducted.

Section 5.02 POWER AND AUTHORITY. The Purchaser has the requisite power and authority to execute and deliver this Agreement and the Related Documents to which it is or will be a party and to perform the transactions contemplated hereby and thereby to be performed by it. All corporate action on the part of the Purchaser necessary to approve or to authorize the execution and delivery of this Agreement and the Related Documents to which it is or will be a party and the performance of the transactions contemplated hereby and thereby to be performed by it has been duly taken. This Agreement is a valid and binding obligation of the Purchaser, enforceable in accordance with its terms.

Section 5.03 NO CONFLICTS. Except as may be required under the HSR Act and except as set forth on Schedule 5.03, neither the execution or delivery by the Purchaser of this Agreement or the Related Documents to which it is or will be a party nor the performance by the Purchaser of the transactions contemplated hereby or thereby to be performed by it, shall:

(i) conflict with or result in a breach of any provision of the Certificate of Incorporation or Bylaws of the Purchaser;

(ii) violate any Law applicable to the Purchaser or by which the Purchaser or any of its properties is bound; or

(iii) require any consent, approval, authorization or other order or action of, or notice to, or declaration, filing or registration with, any Governmental Agency or other third party.

Section 5.04 BROKERS. The Purchaser has not retained any broker or finder, and no broker or finder has acted on behalf of the Purchaser, in connection with this Agreement or the transactions provided for hereby.

Section 5.05 LICENSES. The Purchaser is (i) an approved seller/servicer of mortgage loans for FNMA and FHLMC in good standing, (ii) a HUD approved mortgagee pursuant to Section 203 of the National Housing Act, (iii) authorized by GNMA as an eligible issuer/servicer and in good standing to service GNMA loans and (iv) a FHA approved mortgagee and a VA approved lender in good standing to originate and service FHA and VA loans. The Purchaser has not been suspended as a mortgagee or servicer by the FHA, the VA, FHLMC, FNMA or GNMA, and the Purchaser has facilities, procedures and experienced personnel necessary for the sound servicing of FHA, VA, FHLMC, FNMA and GNMA loans.

ARTICLE VI
EMPLOYEES AND EMPLOYEE-RELATED MATTERS

Section 6.01 BASIC EMPLOYMENT MATTERS.

(a) Effective as of the Closing Date, the Purchaser or an Affiliate of the Purchaser (the "Employer") shall offer to employ, at their then-current rates of base pay, all employees of the Seller employed in the Business on the day before the Closing Date, but excluding (i) any employees who are absent from work due to an approved leave of absence (but excluding any absence reasonably expected to be of short duration taken in accordance with Seller's standard policy for such absences, including, but not limited to, vacation, jury duty, bereavement and illness) or on corrective action or job discontinuance, (ii) any employees identified on Schedule 6.01(a), which the Purchaser agrees to deliver to the Seller at least ten Business Days before the Closing Date, and (iii) at the Employer's discretion, any persons referred to as "excluded employees" in Section 10.04(a)(vi). The employees to whom the Employer is obligated or otherwise elects to offer employment pursuant to the preceding sentence and who accept such employment are referred to collectively herein as the "Employees," which term, unless the context requires otherwise, includes the employees of the Subsidiaries employed in the Business on the Closing Date (it being understood that, as of the Closing and for purposes of this Article VI, such employees of the Subsidiaries will continue to participate in any applicable separate employee benefit and compensation plans maintained by the employing Subsidiary, rather than the Employer's corresponding plan).

(b) Notwithstanding anything to the contrary in the foregoing, any employee of the Seller referred to in clause (i) of Section 6.01(a) employed in the Business who is absent from work on the Closing Date due to a leave of absence as referred to above and who, within six months after the commencement of such absence, reports for employment and is able to return to active employment with the Employer, shall be eligible to return to his or her former position if it is then available or, if such position is not available, shall be eligible to seek another position with the Employer for a 30-day period (and shall be offered employment by the Employer for at least such

30-day period at the same rate of base pay); provided, however, that employees referred to in this sentence shall be considered Employees for purposes of this Agreement from and after the time they report for employment and are able to return to active employment with the Purchaser.

(c) The Seller will pay all targeted bonuses and any other incentive compensation to the Employees for the period between January 1, 1999 and the Closing Date in accordance with the Seller's and the Subsidiaries' existing incentive compensation plans. With respect to those employees listed on Schedule 6.01(c), the Employer shall "reinstate" their prior service with Seller upon the first anniversary of their reemployment date with Seller (as set forth on Schedule 6.01(c)) for purposes of this Article VI.

(d) The Employer will, subject to changes necessitated by or in response to regulatory considerations, business performance or matters of fairness and equity, maintain incentive compensation plans substantially consistent with the Seller's existing plans (other than any bonuses or other compensation in respect of the sale of the Business). Subject to this Article VI, after the Closing Date, the Employer may modify, alter or terminate, in its sole and exclusive discretion, any of the terms and conditions of employment of the Employees. Nothing in this Agreement shall prevent the Employer from terminating the employment of any Employee at any time after the Closing Date, in its sole and exclusive discretion. Any non-competition agreements between an Employee and the Seller or any of its Affiliates shall terminate as of the time such Employee commences employment with the Employer.

Section 6.02 DEFINED BENEFIT PLANS. Effective as of the day before the date the person becomes an Employee, such Employee shall cease to be an active employee for purposes of the Seller's Retirement Plan (the "Retirement Plan"). As of the date the person becomes an Employee (for each such person, the "Employment Date"), the Employer shall cause such Employee who participated in the Retirement Plan to participate and commence to accrue benefits under the Employer's pension plan on the same terms and conditions applicable to other comparably situated employees of the Employer and its participating Affiliates. The Employer shall grant past service credit for purposes of eligibility for participation and vesting (but not for purposes of benefit credit) under the Employer's pension plan to such Employee for all service credited as of the Employment Date under the Retirement Plan.

Section 6.03 DEFINED CONTRIBUTION PLANS. Effective as of the day before the Employment Date, each Employee shall cease to be an active employee for purposes of the Seller's Savings Incentive Plan (the "SIP"). As of the Employment Date the Employer shall cause each Employee who was eligible to participate in the SIP to be eligible to participate in the Employer's savings investment plan on the same terms and conditions applicable to other comparably situated employees of the Employer and its participating Affiliates. The Employer shall grant past service credit for purposes of eligibility and vesting to each Employee under the Employer's savings investment plan ("ESIP") for all service credited to such Employee as of the Employment Date under the SIP. The Employees shall be eligible to make direct rollovers from the SIP to the ESIP in the form of cash and participant notes held by the SIP.

Section 6.04 SEVERANCE ARRANGEMENTS. From the Employment Date until the date which is six months after the Closing Date, each Employee shall be entitled to severance benefits in accordance with the Seller's existing severance program. After the date which is six months after the Closing Date, the Employer shall provide each Employee with the Employer's severance program (as the same may be amended) on the same basis as applicable to other comparably situated employees of the Employer and its participating affiliates providing benefits in the event of termination of employment. The Employer will grant past service credit for all purposes under its severance program to each Employee for all service credited to such Employee as of the Employment Date under the corresponding severance programs of the Seller. The Seller and the Purchaser shall share, in accordance with the following sentence, the obligation for all severance benefits in the aggregate payable in accordance with the Seller's or the applicable Subsidiary's severance plans ("covered severance payments") to (i) all Employees whose employment with the Employer and its Affiliates is terminated within six months after the Closing Date and (ii) all employees to whom the Employer is not required to offer employment because they are identified on Schedule 6.01(a) and whose employment with the Seller or its Affiliates is terminated within six months after the Closing Date. The Seller shall be responsible for the first $1,500,000 of covered severance payments; the Seller shall be responsible for 75%, and the Purchaser shall be responsible for the balance, of covered severance payments between $1,500,001 and $2,500,000; the Purchaser and the Seller shall each be responsible for 50% of covered severance payments between $2,500,001 and $3,500,000; the Purchaser shall be responsible for 75%, and the Seller shall be responsible for the balance, of covered severance payments between $3,500,001 and $4,500,000; and the Purchaser shall be responsible for all covered severance payments above $4,500,000. Each party shall reimburse the other promptly after receipt of reasonable documentary evidence for amounts owed pursuant to the preceding sentence. The Employer and its Affiliates will not hire or rehire any such employee in respect of whom the Seller has made any portion of such severance payments, and the Parent and its Affiliates will not hire or rehire any such employee in respect of whom the Purchaser has made any portion of such severance payments (other than Employees whose employment with the Employer and its Affiliates has been terminated), in either case until the first anniversary of such employee's termination.

Section 6.05 OTHER EMPLOYEE BENEFITS.

(a) As of the Employment Date, the Employer shall cause each Employee to participate in the welfare benefit plans (as defined in Section 3(1) of ERISA) sponsored or maintained by the Employer and its participating Affiliates on the same terms and conditions applicable to other comparably situated employees of the Employer and its participating Affiliates. The Employer will waive any pre-existing conditions clause and will grant past service credit for all purposes under each such welfare plan, other than retiree medical, to each Employee for all service credited as of the Employment Date under the corresponding welfare plans of the Seller. The Employer shall also cause the welfare benefit plans referred to in this Section 6.05(a) to give each Employee credit for the portion of 1999 deductibles that were satisfied prior to the Employment Date. Notwithstanding anything herein to the contrary, the Seller shall be responsible for (i) all covered welfare benefit claims under its and the Subsidiaries' employee benefit plans by each Employee or eligible dependents that arise for treatment received prior to the Employment Date, and with respect to

Employees or their eligible dependents who were hospitalized on the Closing Date, that arise by reason of events occurring before such Employees or eligible dependents are discharged from the hospital and (ii) workers' compensation payments in respect of events occurring prior to the Closing Date.

(b) During 1999, the Employer shall grant to all Employees the number of vacation days for which they would be eligible had they continued to be employees of the Seller, except for any days which have been used as of the Employment Date. Starting as of January 1, 2000, the Employer shall provide the Employees with vacation time under the vacation policies applicable to other comparably situated employees of the Employer and its Affiliates and will grant past service credit for all purposes under such policies to Employees for all service credited as of the Employment Date under the vacation policies of the Seller.

ARTICLE VII
CLOSING

Section 7.01 THE CLOSING. The Closing shall be held at 10:00 a.m. on the earliest date that is five Business Days after the satisfaction or waiver of all of the conditions to Closing set out in Articles VIII and IX hereto (other than any condition to be satisfied or waived at the Closing) at the offices of the Purchaser at 750 Washington Boulevard, Stamford, Connecticut, or at such other time and place as may mutually be agreed upon by the parties hereto. At the Closing, the appropriate parties shall take all other actions not previously taken but required to be taken hereunder on or prior to the Closing Date. The transfer of the Purchased Assets to the Purchaser and the assumption of the Assumed Liabilities by the Purchaser shall be deemed to occur at 12:01 a.m. on the Closing Date.

ARTICLE VIII
CONDITIONS TO OBLIGATIONS OF THE PURCHASER TO CONSUMMATE THE TRANSACTION

The obligations of the Purchaser to be performed at the Closing shall be subject to the satisfaction or waiver, at or prior to the Closing, of the following conditions:

Section 8.01 REPRESENTATIONS AND WARRANTIES; COMPLIANCE WITH COVENANTS. The representations and warranties of the Seller and the Parent contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though such representations and warranties were made at the Closing except for changes expressly permitted or contemplated by this Agreement; the covenants required to be performed by the Seller and the Parent at or prior to the Closing pursuant to the terms of this Agreement shall have been duly performed in all material respects; and the Purchaser shall have received a certificate of the President or a Vice President of each of the Seller and the Parent to that effect.

Section 8.02 NO INJUNCTION. No Judgment shall have been rendered in any Litigation which has the effect of enjoining the consummation of the transactions contemplated by this Agreement.

Section 8.03 APPROVALs. All Approvals required from any Governmental Agency in order to consummate the transactions contemplated by this Agreement and to conduct the Business following the Closing shall have been obtained (other than Approvals of which the failure to obtain, individually or in the aggregate, would not have a Material Adverse Effect on the Business), and all applicable waiting periods under the HSR Act and other applicable Laws shall have expired or been terminated, without the imposition of any materially burdensome restrictions or conditions on the Purchaser.

Section 8.04 THIRD PARTY CONSENTS. Each of the Approvals set forth in Schedule 8.04 of this Agreement shall have been obtained.

Section 8.05 BILL OF SALE, ETC. The Seller shall have duly authorized, executed and delivered to the Purchaser the Bill of Sale and the Trademark Assignment, each dated as of the Closing Date, and the deeds and other instruments of conveyance referred to in Section 2.01(c).

Section 8.06 SURVEY; TITLE POLICIES. The Purchaser shall have received the surveys and commitments to issue title policies with respect to the real property owned by the Seller, as specified in Section 10.14.

Section 8.07 EMPLOYMENT AGREEMENT. Those persons identified on Schedule 8.07 shall have executed employment agreements with the Purchaser effective as of the Closing Date, in form and substance satisfactory to the Purchaser, provided that (i) the Purchaser will offer each such person comparable compensation and benefits to those he or she has currently and will not require relocation as a condition of such employment and (ii) unless the Purchaser notifies the Seller within 30 days after the date of this Agreement that it elects to terminate this Agreement on account of the failure of this condition (in which event the Agreement shall be deemed to have been terminated by the parties' mutual consent pursuant to Section 13.01(a)), this condition shall be deemed to have been waived by the Purchaser.

Section 8.08 TRANSFER INSTRUCTIONS. The Transfer Instructions identified on Schedule 8.08 to be completed prior to the Closing Date shall have been completed in all material respects.

ARTICLE IX
CONDITIONS TO OBLIGATIONS OF THE SELLER AND THE PARENT TO CONSUMMATE THE TRANSACTION

The obligations of the Seller and the Parent to be performed at the Closing shall be subject to the satisfaction or waiver, at or prior to the Closing, of the following conditions:

Section 9.01 REPRESENTATIONS AND WARRANTIES; COMPLIANCE WITH COVENANTS. The representations and warranties of the Purchaser contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though such representations and warranties were made at the Closing except for changes expressly permitted or contemplated by this Agreement; the covenants required to be performed by the Purchaser at or prior to the Closing pursuant to the terms of this Agreement shall have been duly performed in all material respects; and the Seller shall have received a certificate of the President or a Vice President of the Purchaser to such effect.

Section 9.02 NO INJUNCTION. No Judgment shall have been rendered in any Litigation which has the effect of enjoining the consummation of the transactions contemplated by this Agreement.

Section 9.03 APPROVALS. All Approvals required from any Governmental Agency in order to consummate the transactions contemplated by this Agreement shall have been obtained (other than Approvals of which the failure to obtain, individually or in the aggregate, would not have a Material Adverse Effect on the Seller or the Parent), and all applicable waiting periods under the HSR Act and other applicable laws shall have expired or been terminated, without the imposition of any materially burdensome restrictions or conditions on the Seller.

Section 9.04 THIRD PARTY CONSENTS. Each of the Approvals identified on Schedule 9.04 shall have been obtained.

Section 9.05 ASSUMPTION AGREEMENT. The Purchaser shall have duly authorized, executed and delivered to the Seller the Assumption Agreement, dated as of the Closing Date, and shall have acknowledged the Bill of Sale.

ARTICLE X
COVENANTS

Section 10.01 HSR FILINGS. As soon as practicable after the execution of this Agreement, the parties shall make all filings with the appropriate Governmental Agencies of the information and documents required or contemplated by the HSR Act with respect to the transactions contemplated by this Agreement. The Seller and the Parent, on the one hand, and the Purchaser, on the other hand, shall use their respective best efforts to comply as expeditiously as possible with all lawful requests of such Governmental Agencies for additional information and documents.

Section 10.02 INJUNCTIONS. If any court having jurisdiction over any of the parties hereto issues or otherwise promulgates any restraining order, injunction, decree or similar order which prohibits the consummation of any of the transactions contemplated hereby or by any Related Document, the parties hereto shall use Commercially Reasonable Efforts to have such restraining order, injunction, decree or similar order dissolved or otherwise eliminated as promptly as possible and to pursue the underlying Litigation diligently and in good faith. Notwithstanding anything to the contrary contained in this Agreement, nothing contained in this Section 10.02 shall limit the respective rights of the parties to terminate this Agreement pursuant to Section 13.01 or shall limit or otherwise affect the respective conditions to the obligations of the parties set forth in Articles VIII and IX hereof.

Section 10.03 ACCESS TO INFORMATION. Between the date of this Agreement and the Closing Date, the Seller shall, and shall cause its Affiliates to, upon reasonable request by the Purchaser, (i) provide the Purchaser and its accountants, counsel and other authorized representatives reasonable access, during normal business hours and under reasonable circumstances, to any and all premises, properties, Contracts, commitments, books, records and other information of or relating to the Business and to the officers, employees and agents of the Business and (ii) cause its officers to furnish to the Purchaser and its authorized representatives any financial, environmental, health and safety, technical and operating data and other information pertaining to the Business, as the Purchaser shall from time to time reasonably request and which is either normally available to the Seller in the ordinary and usual course of business or which may be obtained or produced by the Seller at a de minimis cost to the Seller; PROVIDED, HOWEVER, that such access may be limited to the location at which the relevant information is normally maintained and shall not unreasonably interfere with the operations of the Seller and its Affiliates, and the Seller and its Affiliates shall not be required to give the Purchaser access to any information relating solely to the Excluded Assets.

Section 10.04 NO EXTRAORDINARY ACTIONS BY THE SELLER.

(a) In each case except as (x) consented to or approved by the Purchaser in writing (which consent shall not be unreasonably withheld, bearing in mind the Purchaser's plans to operate the Business after the Closing), (y) required by this Agreement or the Related Documents or (z) related to the Excluded Assets or the Retained Liabilities, from the date hereof until the Closing, the Parent and the Seller shall not take any action that would cause their representations and warranties herein to be untrue in any material respect and shall conduct the Business only in the

ordinary course and in accordance with its present policies and procedures (including loan collection and chargeoff practices) and use Commercially Reasonable Efforts to preserve intact its present business organization, keep available the services of its present management and employees and preserve its relationships with suppliers and customers and others having business dealings with it (including, to the extent consistent with the provisions of this Agreement, the Parent and its Affiliates) so that the Business shall not be impaired in any material respect, and the Seller and the Subsidiaries will not (and the Parent will cause the Seller and the Subsidiaries not to):

(i) Permit or allow any of the assets that will be Purchased Assets to be subjected to any Lien, except as set forth in Section 4.07 of the Disclosure Schedule and except for Liens for Taxes not yet due and payable or which are being contested in good faith by appropriate proceedings;

(ii) Sell, transfer or otherwise dispose of or agree to dispose of, or acquire or agree to acquire, any material assets that would be Purchased Assets except in the ordinary course of business, or sell, transfer or otherwise dispose of or agree to dispose of any material servicing rights, other than pursuant to Contracts identified on Section 4.07(c) of the Disclosure Schedule or extensions thereof on substantially similar terms. To the extent the Seller needs to sell servicing rights in the ordinary course of business, the Seller shall sell such servicing rights to the Purchaser in accordance with the flow matrix set forth on Exhibit A to Schedule 3.01(a)(i)(A);

(iii) Grant any general increase or implement any general decrease in the compensation of officers or employees (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or grant any increase in the compensation payable or to become payable to any officer or employee, other than (A) in the ordinary course of business or pursuant to promotions or (B) bonuses payable by the Seller in connection with the consummation of the transactions contemplated by this Agreement;

(iv) Other than as set forth in Schedule 10.04(a)(iv), make any single capital expenditure or commitment in excess of $50,000 for additions to property, plant, equipment or intangible capital assets that would be included in the Purchased Assets or make aggregate capital expenditures and commitments for such purposes in excess of $200,000;

(v) Enter into any agreement for real estate tax service or any other agreement (other than Mortgage Loans or commitments to make Mortgage Loans) for a non-cancelable term in excess of one year or involving aggregate payments by the Seller in excess of $25,000; or

(vi) Except as set forth in Schedule 10.04(a)(vi), hire any person who would become an Employee, provided that the Seller may hire (A) any non-exempt employee to fill a vacancy or (B) any other person, it being understood that (x) any person described in this clause (B) to whose employment the Purchaser has not consented shall be an "excluded employee" to whom the Employer will not be required to offer employment under Section 6.01 and (y) the Seller will advise each such employee to that effect in connection with its offer of employment.

(b) The Parent and the Seller agree to cooperate with the Purchaser throughout the period prior to the Closing to meet with employees of the Business at such times as shall be approved by a representative of the Parent or the Seller, for purposes of retaining such employees.

(c) From the date hereof until the Closing or the earlier termination of this Agreement, the Seller and the Parent will not, and will cause their officers, directors, employees and agents not to, initiate contact with, solicit any inquiries from, request or invite submission of any proposal or offer from, or provide any confidential information to, or participate in any negotiations with, any third party in connection with any possible proposal by such third party regarding a sale of all or any substantial portion of the assets of the Business, provided that the provisions of this paragraph shall not apply to any assets that would be Excluded Assets.

Section 10.05 COMMERCIALLY REASONABLE EFFORTS; FURTHER ASSURANCES.

(a) Upon the terms and subject to the conditions hereof, the Seller and the Parent, on the one hand, and the Purchaser, on the other hand, agree to use Commercially Reasonable Efforts to take or cause to be taken all actions, and to do or cause to be done all things, necessary, proper or advisable to ensure that the conditions set forth in Articles VIII and IX are satisfied and to consummate and make effective the transactions contemplated by this Agreement and the Related Documents (including without limitation, the preparation of supplemental indentures and other documents in connection with assumption of the Debentures, the Notes and the QUICS), insofar as such matters are within their respective control.

(b) Except as otherwise expressly provided for in this Agreement, through the date which is 180 days after the Closing Date (i) each of the Purchaser and the Seller shall, and shall cause each of their respective Affiliates to, use Commercially Reasonable Efforts to obtain at the earliest practicable date, whether before or after the Closing Date, all consents required to be obtained by it for the performance of the transactions contemplated by this Agreement and the Related Documents, (ii) the Seller shall use Commercially Reasonable Efforts to obtain, whether before or after the Closing Date, any amendments, novations, releases, waivers, consents or approvals with respect to all outstanding Contracts of the Seller which are necessary either to cure any defaults thereunder existing immediately prior to the Closing Date or for the consummation of the transactions contemplated by this Agreement and the Related Documents, and (iii) each party hereto shall execute and deliver such instruments, certificates and other documents and take such other actions as any other party hereto may reasonably require in order to carry out this Agreement or any of the Related Documents and the transactions contemplated hereby and thereby; PROVIDED, HOWEVER, that (A) in obtaining any such amendments, novations, releases, waivers, consents or approvals, no party hereto shall, or shall permit any of its Affiliates to, agree to any amendment of any such instrument which imposes any obligation or liability on another party without the prior written consent of such other party, and (B) except as otherwise expressly provided by this Agreement, no party hereto shall be obligated to execute any guarantees or undertakings or otherwise incur or assume any expense or liability (other than for filing fees and similar costs required in connection with the purchase and sale of the Purchased Assets) in obtaining any such release, novation, approval, consent, authorization or waiver.

(c) The Purchaser, on the one hand, and the Seller and the Parent, on the other hand, shall provide such information and cooperate fully with each other party hereto in making such applications, filings and other submissions which may be required or reasonably necessary in order to obtain all approvals, consents, authorizations and waivers as may be required from any Governmental Agency or other third party in connection with the transactions contemplated by this Agreement and the Related Documents and shall promptly use Commercially Reasonable Efforts to make each such application, filing or other submission, including without limitation, any supplemental filing.

Section 10.06 BULK SALES LAWS. The Purchaser hereby waives compliance by the Seller with the provisions of the "bulk sales" or similar laws of any jurisdiction and all bulk sales tax provisions in all states. The Seller and the Parent shall indemnify the Purchaser and hold it harmless from and against any and all claims, losses, damages, liabilities, costs and expenses incurred by the Purchaser or any of its Affiliates as a result of any failure to comply with any such laws.

Section 10.07 INSURANCE AND BENEFITS CONTRACTS. The Seller shall use Commercially Reasonable Efforts to maintain all insurance policies and binders relating to the Business in full force and effect at all times up to and including the Closing Date and shall pay all premiums, deductibles and retro-adjustment billings, if any, with respect thereto covering all periods, and ensuring coverage of the Business, up to and including the Closing Date.

Section 10.08 USE OF NAMES.

(a) As soon as reasonably practicable after the Closing, the Seller shall (i) change its corporate name to one not including the words "Source One" or any confusingly similar words and (ii) cease to use (including use through the internet) any written materials, including, without limitation, signs, labels, packing materials, letterhead, advertising and promotional materials and forms, which include the words "Source One" or any trademark, trade name, domain name, service mark or trade dress owned by the Seller and the Subsidiaries prior to the Closing Date.

(b) As soon as reasonably practicable after the Closing, the Purchaser shall cease to use any written materials, including, without limitation, labels, packing materials, letterhead, advertising materials and forms, that identify the Business as an Affiliate of the Parent; PROVIDED, HOWEVER, that the Purchaser may use signs, inventory, checks, application forms, sales literature, letterhead, business cards or the like in existence as of the Closing Date until the earlier of the exhaustion of such materials or the date six months after the Closing Date.

Section 10.09 TRANSFER OF MORTGAGE LOANS. The Seller shall, both before and after the Closing, at its expense, complete the steps required by the Transfer Instructions in accordance with the applicable timetable and take all such other actions and pay such other costs as are, in the Purchaser's reasonable judgment, necessary to effect and evidence the transfer of all of the Seller's and the Subsidiaries' right, title and interest in and to the Mortgage Loans.

Section 10.10 MAIL RECEIVED AFTER CLOSING. Following the Closing, (i) the Purchaser may receive and open all mail addressed or directed to the Seller at the offices of the Business, (ii) to the extent that such mail and the contents thereof relate to the Purchased Assets, the Business or to any of the Assumed Liabilities, the Purchaser may deal with the contents thereof in its sole discretion and (iii) the Purchaser shall forward any other such mail to the Seller.

Section 10.11 CONFIDENTIALITY; PUBLICITY. Each party shall hold, and shall use its best efforts to cause its employees and agents to hold, in strict confidence all information concerning another party furnished to it by such other, all in accordance with the Confidentiality Agreement previously executed and delivered by the parties in connection with the transactions contemplated hereby, which shall remain in full force and effect and shall survive any termination of this Agreement for a period of one year. Any release to the public of information with respect to the matters contemplated by this Agreement (including without limitation any termination of this Agreement) shall be made only in the form and manner approved by the Purchaser, the Seller and the Parent, provided that if a party is required by law to make any disclosure concerning such matters, such party shall discuss in good faith with the other parties the form and content of such disclosure prior to its release.

Section 10.12 TRANSITION SERVICES. At the Closing, the parties will execute and deliver an agreement substantially in the form of Exhibit C (the "Transition Services Agreement").

Section 10.13 ACCESS TO RECORDS AFTER THE CLOSING.

(a) The Seller, on the one hand, and the Purchaser, on the other hand, recognize that subsequent to the Closing they may have information and documents which relate to the Business, its employees, its properties, the Purchased Assets, the Excluded Assets, the Retained Liabilities, the Excluded Liabilities and Taxes and to which the other party may need access subsequent to the Closing. Each party shall provide the other party access, during normal business hours on reasonable notice, to all such information and documents, and to such of its employees, which such other party reasonably requests. The Purchaser, on the one hand, and the Seller, on the other hand, agree that prior to the destruction or disposition of any such documents or any books or records pertaining to or containing such information at any time within five years (or, in any matter involving Taxes, until the later of the expiration of all applicable statutes of limitations (including extensions thereof) or the conclusion of all litigation (including exhaustion of all appeals relating thereto) with respect to such Taxes) after the Closing Date, each party shall provide not less than 30 calendar days prior written notice to the other of any such proposed destruction or disposal. If the recipient of such notice desires to obtain any such documents, it may do so by notifying the other party in writing at any time prior to the scheduled date for such destruction or disposal. Such notice must specify the documents which the requesting party wishes to obtain. The parties shall then promptly arrange for the delivery of such documents. All out-of-pocket costs associated with the delivery of the requested documents shall be paid by the requesting party.

(b) With respect to audits conducted by federal, state and local taxing authorities, Purchaser agrees to provide Parent with responses to information document requests presented by such taxing authorities within 30 calendar days. Such information document requests may include, but shall not be limited to, all tax matters related to Seller and subsidiaries for all tax years currently open under the relevant jurisdictions' statute of limitation.

Section 10.14 TITLE COMMITMENTS; SURVEYS.

(a) The Seller shall, not less than 30 days prior to the Closing Date, deliver to the Purchaser a commitment of a title insurance company reasonably satisfactory to the Purchaser to issue an owner's policy of title insurance on a standard American Land Title Association form covering title to each parcel of real property owned by the Seller described in Section 4.07(b) in an amount reasonably satisfactory to the Purchaser naming the Purchaser as the insured. The Seller agrees to pay the cost of such title insurance commitments.

(b) As soon as reasonably practicable after the execution of this Agreement, the Seller shall, at its expense, furnish to the Purchaser a current on-the-ground staked "as-built" survey of the owned premises included in the Purchased Assets made in accordance with the "Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys" jointly established by ALTA and ACSM in 1992 and meeting the accuracy requirements of an Urban Class Survey, as defined therein, including Items 1-44, 6-11 and 13 on Table A contained therein (the "Survey") prepared by a registered land surveyor licensed in the state where such premise is located (the "Surveyor"), and which survey shall otherwise be acceptable to the Purchaser, in its reasonable discretion, and the title company for deletion of the exceptions pertaining to areas and boundaries. The Survey (including specifically the certificate of the Surveyor forming a part thereof) shall be in form and substance acceptable to the Purchaser, in its reasonable discretion, and to the title insurance company and shall locate all existing improvements, easements and rights-of-way (which shall show recording data, if applicable), encroachments, conflicts and protrusions affecting such premises, water, sewer, gas and electric lines, telephone and television cable lines and the size and capacity thereof, parking spaces and the size of each, shall set forth the outside perimeter of the premises, shall contain a metes and bounds description of the premises and shall set forth the acres included within the premises. The Survey shall contain a statement on the face thereof certifying as to the Zone Designation by the Secretary of Housing and Urban Development with reference to the appropriate Flood Insurance Rate Map Number (which Flood Insurance Rate Map Number shall be the current Flood Insurance Rate Map for the community in which the premises is located). In the event the Survey shows any easement, right-of-way, encroachment, conflict or protrusion affecting the premises that is unacceptable to the Purchaser, in its reasonable discretion, the Purchaser shall within 20 days after receipt of such Survey, the title commitment and a legible copy of each exception document, notify the Seller in writing of such fact. The Seller shall then promptly undertake to eliminate or modify such unacceptable matters to the satisfaction of the Purchaser, as determined in its reasonable discretion. In the event the Seller is unable to do so prior to the Closing, the Purchaser may accept such title to the premises as the Seller can deliver and receive a credit against the purchase price in an amount reasonably acceptable to the Purchaser.

Section 10.15 UPDATED MORTGAGE LOAN SCHEDULE. Within five Business Days after the Closing Date, the Seller shall deliver to the Purchaser an updated copy of the Mortgage Loan Schedule as of the Closing Date. The information set forth in such updated Mortgage Loan Schedule shall be complete, true and correct in all material respects as of its date.

Section 10.16 SYSTEM UPGRADE. Prior to the Closing Date, the Seller will complete the upgrade of its investor accounting system in accordance with Schedule 10.16 to the extent the timetable on such Schedule would require completion by such date.

Section 10.17 FINAL CERTIFICATION AND RECERTIFICATION, ETC.

(a) The Seller shall use Commercially Reasonable Efforts prior to the Closing Date to (i) obtain final certification or recertification, as applicable, of any Mortgage Loan pool and (ii) obtain any Mortgage Loan documents that are missing.

(b) The Seller shall use Commercially Reasonable Efforts prior to the Closing Date to ensure that all investor reporting is fully reconciled and balanced. The Seller will reimburse the Purchaser for any reasonable post-Closing out-of-pocket expenses required to reconcile and balance investor reporting in respect of the Mortgage Loans and to maintain such reconciliation until the scheduled completion of the investor accounting upgrade contemplated by Section 10.16, or arising out of the failure of such reporting to be reconciled and balanced on the Closing Date.

(c) From the date of this Agreement until the Closing Date, the Seller shall provide reports and documentation to the Purchaser every two weeks regarding the status of the matters referred to in this Section 10.17.

Section 10.18 REPURCHASE OF MORTGAGE LOANS.

(a) If the Purchaser determines that a Mortgage Loan will or may be required to be repurchased from a third party or may be subject to a claim for indemnification pursuant to Section 12.02, in either case arising out of (x) the Pre-Closing Servicing Obligations or (y) a breach of the representations and warranties contained in Section 4.10, then in order to mitigate any losses the Seller may bear with respect to such Mortgage Loan, the Purchaser shall take such steps as it would take with respect to other comparable mortgage loans in its own portfolio. Such steps shall include using Commercially Reasonable Efforts to enforce any contractual remedies that may be available to the Purchaser under any agreement with any broker or correspondent; provided, however, that no failure of a broker or correspondent to perform its obligations under the applicable Contract shall relieve the Seller of its obligations hereunder. Such steps may also include entering into indemnification agreements with the applicable investors in lieu of repurchase; provided, however, that as a condition of entering into any such indemnification agreement with an investor, the Purchaser may require that the Seller provide to the Purchaser a "back-to-back" indemnification agreement with respect to the applicable Mortgage Loan(s).

(b) If the Purchaser repurchases a Mortgage Loan as contemplated by the first sentence of the preceding paragraph, the Seller shall purchase such Mortgage Loan from the Purchaser for the price paid by the Purchaser to repurchase such Mortgage Loan. The Purchaser shall service each Mortgage Loan so repurchased by the Seller pursuant to a Services Agreement in form agreeable to the parties. In addition, with respect to each such repurchased Mortgage Loan, the Purchaser shall, at the Seller's request, exercise any contractual remedies that may be available against any applicable broker or correspondent. The Seller's obligations under this Section 10.18(b) shall terminate on the date which is eight years and six months after the Closing Date. For purposes of the monetary limitation described in Section 12.05(c) on the Seller's indemnification obligations with respect to Mortgage Loan Claims after the seventh anniversary of the Closing Date, only actual monetary losses incurred by the Seller upon complete liquidation of a Mortgage Loan repurchased pursuant to this Section 10.18 (rather than any gross repurchase price paid to the Purchaser) shall be considered Purchaser Indemnifiable Losses arising out of Mortgage Loan Claims.

(c) After the Closing Date, the Seller may repurchase mortgage loans in connection with the Retained Liabilities and request the Purchaser to service such mortgage loans on the Seller's behalf. In the event the Seller requests the Purchaser to perform such servicing, the Seller and the Purchaser shall enter into a Services Agreement in form agreeable to the parties.

(d) The Seller shall indemnify the Purchaser for any losses or out-of-pocket costs or expenses incurred by the Purchaser in performing its duties under Section 10.18, except for any such losses, costs or expenses arising from the negligence or willful misconduct of the Purchaser.

Section 10.19 AGREEMENT NOT TO COMPETE; NON-SOLICITATION.

(a) Each of the Parent and the Seller agrees that during the period ending on the fifth anniversary of the Closing Date, neither the Parent nor the Seller nor any other entity of which the Parent or the Seller owns, directly or indirectly, 25% or more of the voting stock or other similar equity interests (collectively, the "Parent's Affiliates"; provided that FSA and any of its majority-owned subsidiaries will not be considered a Parent's Affiliate unless Parent directly or indirectly (x) owns 50% or more of FSA's voting stock or similar equity interests or (y) otherwise has the power to elect, or has designated, a majority of FSA's board of directors) will engage in the business of originating, selling or servicing residential mortgage loans in the United States (the "mortgage business"). Nothing in this paragraph (a) shall restrict any Parent's Affiliate from investing in the debt or equity securities of, or lending funds or rendering advice or other services to, any other entity, or from engaging in any other business activity, except in each case as specifically provided in the preceding sentence.

(b) Notwithstanding anything to the contrary in paragraph (a) of this Section 10.19, any Parent's Affiliate may acquire any entity or business which engages in the mortgage business (a "covered business"), provided that (i) such acquired entity or business is primarily engaged in one or more non-mortgage businesses and (ii) if more than 25% of such acquired entity's gross revenues are derived from the covered business during the twelve full calendar months immediately

preceding such acquisition, then within one year after the date of such acquisition, the Parent's Affiliate shall have ceased conducting the covered business or shall have entered into a binding agreement (which may be an agreement with the Purchaser) for the disposition of the covered business. If any such binding agreement shall terminate prior to the completion of the sale of the covered business, the Parent's Affiliate shall cease conducting the covered business or enter into a new binding agreement for its disposition within three months after the date of such termination.

(c) Each of the Seller and the Parent agrees that (i) from the date of this Agreement to the Closing Date, it will not solicit any customers of the Business or use any list of customers, suppliers, brokers, correspondents or other business contacts of the Business maintained by the Seller or any of its Subsidiaries for any purpose except to promote the Business, and from and after the date of this Agreement it will not allow any unaffiliated party to use such lists or information for any purpose, (ii) from and after the Closing Date, it will not solicit on a targeted basis any person who became a customer of the Seller or any of its Subsidiaries in connection with the Business or use any list of customers, suppliers, brokers, correspondents or other business contacts maintained by the Seller or any of its Subsidiaries in connection with the Business and (iii) from the date of this Agreement until the third anniversary of the Closing Date, the Parent and its Affiliates not engaged in the Business will not, and from the Closing Date until the third anniversary of the Closing Date, the Seller will not, solicit for employment or employ any employee of the Business, other than any such employee who will not be or has not been offered post-closing employment pursuant to Section 6.01 or whose employment with the Seller or the Purchaser has otherwise been terminated, whether voluntarily or involuntarily; provided that this provision shall not be violated by any general solicitation or advertising not directed at any such employee or group of employees.

Section 10.20 PARENT GUARANTEE. The Parent hereby unconditionally and irrevocably guarantees all of the obligations of the Seller pursuant to this Agreement and the Related Documents.

Section 10.21 REDEMPTION OF QUICS. The Seller will cause notice of redemption of the QUICS to be sent to the holders thereof on the Closing Date, and will use Commercially Reasonable Efforts in order to cause the QUICS to be redeemed as soon as reasonably practicable following the Closing Date.

Section 10.22 COLLECTION OF RECEIVABLES.

(a) The Seller will indemnify the Purchaser and hold it harmless against any losses arising out of the failure of any accounts receivable included in the Purchased Assets to be collectible in accordance with their terms. The Purchaser agrees to use Commercially Reasonable Efforts after the Closing to collect such accounts receivable. The Purchaser may require the Seller to comply with this Section 10.22 by repurchasing at the face amount plus accrued interest any such accounts receivable which have not been collected by 180 days after their due date (or such other date as is shown on Schedule 10.22).

(b) For purposes of this Section 10.22, the Purchased Assets shall include the right to receive interest at 7% per annum on the face amount of those receivables included in the Purchased Assets related to sales of mortgage loans or mortgage loan servicing prior to the Closing Date, provided that the Seller shall receive a credit against the amount of such interest for any interest received by the Purchaser in accordance with the terms of such receivables. Such interest shall be computed from the Closing Date to the date each such receivable is (i) collected by the Purchaser or (ii) repurchased by the Seller in accordance with Section 10.22(a). The Purchaser may deduct amounts owing under this Section 10.22(b) from the holdback amount or request such amount from the Seller in accordance with Section 12.04.

Section 10.23 SOM. The Seller will use Commercially Reasonable Efforts to obtain all Approvals for SOM listed on Section 4.10(a) of the Disclosure Schedule and Schedule 10.23. The Purchaser will cooperate with and assist the Seller in obtaining such Approvals and shall reimburse Seller for its reasonable out-of-pocket costs and expenses incurred in seeking such Approvals (including up to $150,000 for such costs and expenses paid or incurred prior to the date of this Agreement); provided that any such reimbursed amounts shall not be included in the value of the Purchased Assets for purposes of the Closing Statement and the Adjustment Schedule. If the parties determine that such Approvals will not be obtained before the Closing, the Purchaser and the Seller will cooperate in using Commercially Reasonable Efforts to make alternative arrangements.

Section 10.24 PRIVATE LABEL SUBSERVICING CAPABILITY. Prior to the Closing, the Seller will use Commercially Reasonable Efforts to complete and test enhancements to its servicing system sufficient to enable customer service, collections, delinquency and default management of Subserviced Mortgage Loans under a name different from that used in connection with the servicing of the Mortgage Loans (or any subset thereof). The Seller will reimburse the Purchaser for its reasonable and necessary expenses (including but not limited to the incremental internal and external costs to complete the aforementioned enhancements). The parties agree that if Chase terminates a subservicing agreement on account of a failure to so complete and test such enhancements, the Seller shall pay to the Purchaser, as liquidated damages and not as a penalty, the unearned portion of the Chase Amount allocated to such agreement, and the Purchaser shall not be entitled to any other remedy from the Seller or the Parent for such termination or the resulting loss of prospective benefits or advantages. The previous sentence notwithstanding, the Seller shall indemnify the Purchaser for any out-of-pocket losses arising out of a failure of the servicing system to operate in a manner substantially similar to the manner in which it operated prior to the implementation of the enhancements contemplated by this Section 10.24.

Section 10.25 NORTHWEST PACIFIC. Prior to the Closing, the Seller will transfer the stock of Northwest Pacific, in a manner that will not adversely affect the operation of the Business after the Closing, so that such stock is directly owned by the Seller or will liquidate Northwest Pacific in a manner that its assets and liabilities are transferred directly to the Seller and will be Excluded Assets and Retained Liabilities.

ARTICLE XI
TAX MATTERS

Section 11.01 ALLOCATION OF RESPONSIBILITY.

(a) All Taxes based on the ownership of property (other than any sales, use, transfer, income or franchise Taxes) imposed with respect to the Purchased Assets for a tax or assessment period that included the Closing Date shall be apportioned between the Seller and the Purchaser, with the Seller bearing a portion of such taxes based on the number of days in the tax or assessment period prior to the Closing Date and the Purchaser bearing a portion of such Taxes based on the number of days in the tax or assessment period on or after the Closing Date.

(b) Taxes described in Section 11.01(a) shall initially be timely paid as provided by applicable Law and the paying party shall be entitled to reimbursement from the non-paying party in accordance with the obligations of the parties described in such Section except that the Purchaser shall not be entitled to reimbursement until the amount of Taxes described in Section 11.01(a) to be reimbursed by the Seller to the Purchaser exceeds the amount of the "real estate taxes payable" and "personal property taxes payable" recorded on the Adjustment Schedule. The paying party shall promptly notify the non-paying party in writing of the payment of any such tax and the non-paying party shall make such reimbursement within ten business days after it receives such notice. Any payment not made within such time shall bear interest at a rate per annum equal to the Interest Rate.

(c) Seller shall pay all sales, use, transfer, real property transfer, recording, gains, stock transfer and other similar taxes and fees ("Transfer Taxes") arising out of or in connection with the transactions effected pursuant to this Agreement, and shall indemnify, defend, and hold harmless the Purchaser (and its Affiliates) against Transfer Taxes in excess of such amount. Seller shall file all necessary documentation and Tax Returns with respect to such Transfer Taxes, and Purchaser shall cooperate with Seller with respect to such filings.

Section 11.02 TAX RETURNS.

(a) Parent and Seller shall join and Seller shall cause the Subsidiaries to join, for any taxable year or portion thereof ending on or prior to the Closing Date, in (i) the consolidated federal Income Tax Returns and (ii) any combined, consolidated or unitary state or local income or franchise tax returns with respect to which the Seller and the Subsidiaries are required to be included or have been included in accordance with the most recent past practice of the Seller. Seller shall properly prepare (or cause to be prepared) and timely file (or cause to be timely filed) all applicable separate company state, local, and foreign Income Tax Returns of the Seller and the Subsidiaries for any taxable year ending on or before the Closing Date, and Seller or the Subsidiaries, as applicable, shall timely and fully pay all Income Taxes shown thereon. Purchaser shall, subject to Seller's consent (which shall not be withheld unreasonably), properly prepare (or cause to be prepared), and Purchaser shall file (or cause to be timely filed) all separate company income and franchise tax returns of the Subsidiaries for any taxable year or period commencing prior to the Closing Date and ending subsequent to the Closing Date. Purchaser shall provide drafts

of such returns to Seller for Seller's review and comment no later than 30 days prior to filing. Purchaser shall accept all reasonable comments of the Seller with respect to such Tax Returns. All such returns shall be consistent with the most recent equivalent returns filed with respect to such Subsidiaries. Seller shall, upon written notice from Purchaser, provide Purchaser with funds to timely pay the portion of the tax liability shown on such income or franchise tax returns which is described as being the responsibility of the Seller under this Agreement, and Purchaser shall timely pay over (or cause to be paid over) such amounts to the appropriate authority.

(b) Subject to Seller and the Seller's Subsidiaries making or causing to be made the payments required by it and providing the information it is required to provide or cause to be provided hereunder, Purchaser shall prepare and file all other Tax Returns required of Seller and Seller's Subsidiaries (including without limitation all information returns and payee statements required under the Code or applicable state law for the entire calendar year), shall cause to be paid all Taxes payable with respect thereto, and shall cause to be reported on such Tax Returns any transactions or payments by or relating to Seller, and Seller's subsidiaries occurring after the Closing Date.

Section 11.03 TAX SHARING AND TAX PAYMENT AGREEMENTS.

(a) Any amounts (including deferred taxes which become current through the end of the Closing Date by virtue of the transactions which are the subject of this Agreement) that would be required to be paid pursuant to any Tax Sharing or Tax Payment Agreement to which either the Seller or the Seller's Subsidiaries is a party shall be paid prior to the Closing Date and all such agreements shall be terminated as to the Seller, and the Seller's Subsidiaries as of the Closing Date, and the Seller and the Seller's Subsidiaries shall have no further obligations thereunder, provided all such payments have been made. For purposes of this section the term "Tax Sharing Agreement" and "Tax Payment Agreement" includes any agreement or arrangement, whether or not written, providing for the sharing or allocation of liability for Taxes of the parties thereto.

Section 11.04 ASSISTANCE AND COOPERATION. After the Closing Date Seller and Purchaser shall:

(a) assist in all reasonable respects (and cause their respective affiliates to assist) the other party in preparing any Tax Returns or reports for which such other party is responsible for under this Agreement;

(b) cooperate in all reasonable respects in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns of the Seller and the Subsidiaries;

(c) provide timely notice to the other in writing of any pending or threatened tax audits or assessments of the Seller and the Subsidiaries for Taxable periods for which the other may have a liability under this Agreement; and

(d) furnish the other with copies of all correspondence received from any taxing authority in connection with any tax audit or information request with respect to such Taxable period.

Section 11.05 RECORD RETENTION. After the Closing Date Seller shall retain, until the applicable statutes of limitation (including extensions) have expired, copies of the Subsidiaries' separate company returns, supporting work schedules, and other records or information in the possession of the Seller which may be relevant to such returns for all tax periods or portions thereof ending before or including the Closing Date and shall not destroy or otherwise dispose of any such records without first providing the Purchaser with a reasonable opportunity to review and copy the same.

Section 11.06 CONTEST. Purchaser shall have the right to exercise, at Purchaser's expense, complete control of any issue raised in any inquiry, examination or proceeding with respect to Taxes imposed on or with respect to the assets purchased by the Purchaser, and the Taxes of Seller's Subsidiaries for which the Purchaser is required to bear the tax burden hereunder or for which Purchaser gets the tax benefit hereunder of any refund or credit, except that prior to settling any issue in any way that affects the tax benefits available to the Seller for any time period after the Closing Date, Purchaser will consult with the Seller. Seller shall have the right to exercise, at Seller's expense, complete control of any issue raised in any inquiry, examination or proceeding with respect to Taxes imposed on or with respect to the assets purchased by the Purchaser, and the Taxes of the Seller's Subsidiaries for which the Seller is required to bear the tax burden hereunder or for which Seller gets the tax benefit hereunder of any refund or credit, except that prior to settling any issue in any way that affects the tax benefits available to the Purchaser for any time period up to the Closing Date, Seller will consult with the Purchaser. Each party shall notify the other in writing upon learning of that any such issue has been raised.

Section 11.07 SECTION 338(h)(10) ELECTION.

(a) Seller, the Subsidiaries and Purchaser shall jointly make timely and irrevocable elections under Section 338(h)(10) of the Code and, if permissible, similar elections under any applicable state or local income tax laws, and Purchaser shall make timely and irrevocable elections under Section 338(g) of the Code. Seller and Purchaser shall report the transaction consistent with such elections under Section 338(g) and Section 338(h)(10) of the Code or any similar state or local tax provisions (the "Elections"), and shall take no position contrary thereto unless and to the extent required to do so pursuant to a determination (as defined in Section 1313(a) of the Code or any similar state or local tax provision).

(b) To the extent possible, Seller and Purchaser shall execute at or prior to the Closing any and all forms necessary to effectuate the Elections (including, without limitation, Internal Revenue Service Form 8023 and any similar forms under state and local income tax laws (the "Section 338 Forms")). In the event, however, any Section 338 Forms are not executed at the Closing, the Seller and the Purchaser shall prepare and complete each Section 338 Form no later than 60 days prior to the date such Section 338 Form is required to be filed. Seller and Purchaser

shall each cause the Section 338 Form to be duly executed by an authorized person for Seller and Purchaser in each case, and shall duly and timely file the Section 338 Forms in accordance with applicable Tax laws and the terms of this Agreement.

Section 11.08 ALLOCATION OF PURCHASE PRICE.

(a) After giving effect to the allocation required by Section 3.01, Purchaser and Seller shall act together in good faith to determine and agree upon the amount of the MADSP (as defined under Treasury Regulation Section 1.338(h)(10)-1(f)) and the allocation of such MADSP among the Purchased Assets. The tax allocation of the Purchase Price among the Purchased Assets (as determined by Section 3.01 of this Agreement, except that with respect to the Seller's Subsidiaries, the Purchase Price shall be allocated to the assets of the Seller's Subsidiaries) shall be made by Purchaser and Seller acting together and in good faith, all in accordance with Section 1060 of the Code, the applicable regulations thereunder and with Treasury Regulation Section 1.338(h)(10)-1(f). Any issue that remains unresolved with respect to the amount or allocation of the Purchase Price on the date that is 120 days prior to the date on which the Section 338 Forms are required to be filed shall be referred to a nationally recognized accounting firm jointly selected by Seller and Purchaser (the "Neutral Auditors"), and the Neutral Auditors shall resolve such issue no later than 60 days prior to the date on which the Section 338 Forms are required to be filed. The fees and expenses of the Neutral Auditors shall be borne equally by Seller and Purchaser. Seller and Purchaser shall (i) be bound by such allocation for purposes of determining any Taxes, (ii) prepare and file all Tax Returns to be filed with any taxing authority in a manner consistent with such allocation and (iii) take no position inconsistent with such allocation in any Tax Return, any proceeding before any taxing authority or otherwise. Appropriate adjustment shall be made to such allocation to specific categories of assets to reflect any Purchase Price adjustment pursuant to this Agreement or other adjustment required pursuant to law. In the event such allocation is disputed by any taxing authority, the party receiving notice of such dispute shall promptly notify the other party of such dispute, and Seller and Purchaser shall cooperate in good faith in responding to such challenge in order to preserve the effectiveness of such allocation.

(b) Each of the Purchaser and the Seller shall timely file a Form 8594 Asset Acquisition Statement of Allocation consistent with the Adjustment Schedule, shall provide a copy of such form to the other party hereto and shall file a copy of such form with its federal income Tax Return for the periods that includes the Closing Date. Each of the Purchaser and Seller further agrees not to take any position inconsistent with the allocations contemplated by this Section for any Tax purpose.

Section 11.09 PURCHASER ACTIVITY ON CLOSING DATE AND POST-CLOSING.

(a) On the Closing Date, Purchaser shall cause the Subsidiaries to conduct their business in the ordinary course in substantially the same manner as presently conducted and shall not permit the Subsidiaries to effect any extraordinary transactions (other than any such transactions expressly required by applicable law or by this Agreement) that could result in Tax liability in excess of the Tax liability associated with the conduct of its business in the ordinary course.

(b) Purchaser shall not, with respect to any Taxable year or period ending on or before the Closing Date (or, with respect to any Taxable year or period beginning before and ending after the Closing Date, the portion of such taxable period ending on and including the Closing Date) (a "Pre-Closing Period", and any Taxable year and period (or portion thereof) not included in a Pre-Closing Period, a "Post-Closing Period"), (i) file any amended Tax Return with respect to the Subsidiaries, (ii) carry back any loss or other Tax attribute of the Subsidiaries, or (iii) take any position with respect to Taxes of the Subsidiaries that would have the effect of shifting income from a Post-Closing Period to a Pre-Closing Period unless, in each case, Seller shall have consented in writing to such action by Purchaser, provided, in each case, Seller's consent shall not be withheld unreasonably.

Section 11.10 LIABILITY FOR TAXES AND RELATED MATTERS.

(a) Except to the extent of any amounts reserved for Taxes (other than reserves for deferred taxes, if any) on the Closing Statement, Parent and Seller shall be responsible for and indemnify and hold harmless Purchaser, against any and all liability (including reasonable fees for attorneys and other outside consultants incurred in contesting or otherwise in connection with any such liability as reasonably agreed to by Seller and parent) for (i) Taxes of the Subsidiaries for any Taxable year or period ending on or before the Closing Date, (ii) Taxes relating to the Purchased Assets for any Taxable year or period ending on or before the Closing Date, (iii) with respect to any Taxable year or period beginning before and ending after the Closing Date, Taxes of the Subsidiaries and Taxes relating to the Purchased Assets for the portion of such taxable period ending on and including the Closing Date, (iv) all income, franchise or similar Taxes measured by income or gain realized on the deemed sale of assets resulting, directly or indirectly, from the Elections, (v) all liability for income Taxes of Seller or any affiliate (other than liability for Income Taxes of the Subsidiaries arising out of a Post-closing Period) thereof arising from the application of Treasury Regulations ss. 1.1502-6 or any analogous state or local tax provision. Seller shall be entitled to all refunds with respect to Taxes for which Seller has responsibility hereunder, other than refunds resulting from carrybacks from taxable years beginning after the Closing Date.

(b) Purchaser shall be liable for and indemnify Seller for the Taxes (and reasonable fees for attorneys and other outside consultants incurred in contesting or otherwise in connection with an such liability as reasonably agreed to by Purchaser) that are not allocated to Seller pursuant to Paragraph (a).

(c) For purposes of Sections 11.10(a) and 11.10(b), whenever it is necessary to determine the liability for Taxes of the Subsidiaries or Taxes relating to the Purchased Assets for a portion of a Taxable year or period that begins before and ends after the Closing Date, the determination of such Taxes for the portion of the year or period ending on, and the portion of the year or period beginning after, the Closing Date shall be determined by assuming that the Seller, or the Subsidiaries, as applicable, had a Taxable year or period which ended at the close of the Closing Date, except that (A) exemptions, allowances or deductions that are calculated on an annual basis, such as the deduction for depreciation, and (B) all taxes that are imposed on a periodic basis with

respect to the Purchased Asset or otherwise measured by the level of any item such Taxes or items shall be apportioned pro rata by day. For purposes of Section 11.10(a) and 11.10(b), any state net operating losses that are available as of the Closing Date shall, to the extent permitted by applicable law, be applied first to reduce the gain realized for state Tax purposes on the deemed asset sale resulting from the Elections.

(d) Parent, Seller and Purchaser will treat any payment by Purchaser or Seller under this Agreement as an adjustment to the Purchase Price unless otherwise required by a final and non-appealable decision, in which case any such payment shall be made on an after tax basis.

(e) The indemnity set out above in this Section 11.10 shall, anything in this Agreement to the contrary notwithstanding, survive until the expiration of the applicable statutes of limitation, including extensions thereof, and Article XII hereof shall not apply to Taxes.

ARTICLE XII
SURVIVAL AND INDEMNIFICATION

Section 12.01 SURVIVAL. The representations and warranties in Article IV and Article V hereof shall survive the Closing but shall terminate and be of no further force and effect on the third anniversary of the Closing Date; provided that the representations and warranties in Section 4.10 (Mortgage Loans) shall terminate and be of no further force and effect on the date which is eight years and six months after the Closing Date. Unless a specific period is set forth in this Agreement (in which event such specified period shall control), all other covenants and agreements contained in this Agreement shall survive the Closing and remain in effect indefinitely. With respect to a claim for indemnification that may fall under more than one provision of Section 12.02 or 12.03, the expiration of the survival period for a claim under one applicable provision shall not impact in any way a party's right to bring a claim under another applicable provision, the survival period of which has not yet expired.

Section 12.02 INDEMNIFICATION BY THE SELLER. On the terms set forth herein, the Seller and the Parent, jointly and severally, shall indemnify, defend and hold harmless the Purchaser, each of its Affiliates and each of their respective past, present and future directors, officers, agents and representatives (together, the "Purchaser Indemnitees") from and against any and all liabilities, obligations, claims, suits, damages, civil and criminal penalties and fines, out-of-pocket costs and expenses, including without limitation any reasonable and necessary attorney's and other professional fees, after deducting any insurance proceeds received by the Purchaser Indemnitees in connection therewith ("Purchaser Indemnifiable Losses"), relating to, resulting from or arising out of the following:

(a) any breach of any representation, warranty, covenant or undertaking by the Seller or the Parent contained in this Agreement or any Related Document;

(b) any Retained Liabilities or any matters related to the Excluded Assets;

(c) any claim by any Employee based on or arising out of matters occurring before the Closing Date;

(d) any VA No-bids relating to Mortgage Loans originated or committed before the Closing Date; provided that the Seller's and the Parent's obligations pursuant to this clause (d) shall expire on the second anniversary of the Closing Date; and

(e) any Pre-Closing Servicing Obligations; provided that the Seller's and the Parent's obligations pursuant to this clause (e) shall expire on the date which is eight years and six months after the Closing Date.

The items described in clauses (a) through (e) above are collectively referred to herein as "Purchaser Claims".

Section 12.03 INDEMNIFICATION BY THE PURCHASER. On the terms set forth herein, the Purchaser shall indemnify, defend and hold harmless the Seller, each of its Affiliates (including the Parent), and each of their respective past, present and future directors, officers, agents and representatives (together, the "Seller Indemnitees"), from and against any liabilities, obligations, claims, suits, damages, civil and criminal penalties and fines, out-of-pocket costs and expenses, including without limitation any reasonable and necessary attorney's and other professional fees, after deducting any insurance proceeds received by the Seller Indemnitees in connection therewith ("Seller Indemnifiable Losses") relating to, resulting from or arising out of any of the following:

(a) any breach of any representation, warranty, covenant or undertaking of the Purchaser contained in this Agreement or any Related Document;

(b) any Assumed Liabilities;

(c) any matters related to the Purchased Assets based on or arising out of matters occurring after the Closing Date; and

(d) any claim by any Employee based on or arising out of matters occurring on or after the Closing Date.

The items described in clauses (a) through (d) above are collectively referred to herein as "Seller Claims".

Section 12.04 PROCEDURES FOR MAKING CLAIMS AGAINST INDEMNIFYING PARTY.

(a) Except with respect to third party claims made under Section 12.06 (which shall be governed by that Section), from time to time on or before the first anniversary of the Closing Date, in the case of Section 3.01(a), or the expiration, if any, of the applicable indemnification obligation, in the case of Section 12.02 or Section 12.03, the Purchaser or the Indemnified Party, as the case

may be (a "claimant"), may give notice in substantially the form of Exhibit E hereto to the Seller or the Indemnifying Party, as the case may be, specifying in reasonable detail the nature and dollar amount of any deduction the Purchaser has made from the holdback amount under Section 3.01(a) or any claim under Section 12.02 or Section 12.03 of this Agreement (each a "claim"); a claimant may from time to time make more than one claim (including any supplements thereto) with respect to any underlying state of facts. If the Seller or the Indemnifying Party, as the case may be, gives notice disputing any claim (a "counter notice") within 30 days following receipt of the notice regarding such claim, such claim shall be resolved as provided in Section 12.04(b). If no counter notice is received by the claimant within such 30-day period, then the dollar amount of the claim as set forth in the original notice shall be deemed established for purposes of this Agreement and, at the end of such 30-day period, in the case of a claim under Section 12.02 or Section 12.03, the Indemnifying Party shall make a payment to the Indemnified Party in the dollar amount claimed in the notice. Any claim pending at the expiration of the indemnification period under Section 12.01, Section 12.02(d) or Section 12.02(e) shall be tolled until such claim has been resolved and the Indemnifying Party has made any required payments to the Indemnified Party.

(b) If the counter notice as described in Section 12.04(a) is timely received with respect to a claim, the parties shall attempt in good faith to agree on resolution of the disputed amount. The Indemnifying Party shall pay to Indemnified Party all non-disputed amounts in accordance with the time period specified in Section 12.04(a). Any amount mutually agreed upon or awarded to the Indemnified Party under a final and non-appealable Judgment of a court of competent jurisdiction shall be paid by the Indemnifying Party within five Business Days following agreement or Judgment, as applicable. If the parties' agreement or the Judgment determines that a withdrawal of monies from the holdback under Section 3.01(a) was not appropriate, the Purchaser shall replace those monies in the holdback amount, or if the time for maintaining the holdback has expired under Section 3.01(a), pay those monies directly to Seller within five Business Days after such determination.

Section 12.05 LIMITATIONS AND RULES OF CONSTRUCTION REGARDING INDEMNIFICATION OBLIGATIONS.

(a) Notwithstanding any other provision in this Agreement, the liability of an Indemnifying Party to indemnify the Purchaser Indemnitees or the Seller Indemnitees, as the case may be (the "Indemnified Party") pursuant to Section 12.02 or Section 12.03 against any Indemnifiable Losses arising out of a breach of a representation or warranty included in Article IV or Article V or pursuant to Section 12.02(d) (relating to VA No-bids) or Section 12.02(e) (relating to Pre-Closing Servicing Obligations) shall be limited to claims as to which the Indemnified Party has given to the Indemnifying Party written notice of a claim within the survival period set forth in Section 12.01, Section 12.02(d) or Section 12.02(e), as the case may be, whether or not any such Indemnifiable Losses have then actually been sustained.

(b) For purposes of Section 12.02 and Section 12.03, in determining whether a representation or warranty included in Article IV (except for Section 4.15) or Article V has been breached, any qualification in such representation or warranty with respect to the Indemnifying

Party's Knowledge shall be disregarded (i.e., a breach shall be deemed to have occurred whether or not the Indemnifying Party had Knowledge of the facts giving rise to the breach). For purposes of Section 12.02, in determining whether a representation or warranty included in Article IV has been breached, the Sections of the Disclosure Schedule identified on Schedule 12.05(b) shall be disregarded (i.e., a breach shall be deemed to have occurred whether or not the relevant Section of the Disclosure Schedule gives notice of exceptions to the representation or warranty).

(c) Notwithstanding anything to the contrary in this Agreement, (i) the Parent's and the Seller's liability for any Purchaser Claims arising out of a breach of the representations and warranties contained in Article IV (other than Section 4.10), and the Purchaser's liability for any Seller Claims arising out of a breach of the representations and warranties contained in Article V, shall be limited as follows: the Indemnifying Party shall be liable for (A) 90% of the first $1,000,000 of all related Indemnifiable Losses, and all such Indemnifiable Losses in excess of $1,000,000, to the extent such Indemnifiable Losses arise from claims made on or before the first anniversary of the Closing Date, (B) 80% of the first $1,000,000 of all related Indemnifiable Losses, and all such Indemnifiable Losses in excess of $1,000,000, to the extent such Indemnifiable Losses arise from claims made after the first anniversary of the Closing Date and on or before the second anniversary of the Closing Date and (C) 50% of all related Indemnifiable Losses to the extent such Indemnifiable Losses arise from claims made after the second anniversary of the Closing Date and on or before the last date on which claims may be made pursuant to this Agreement, and (ii) the Parent's and the Seller's aggregate liability for Mortgage Loan Claims (as defined below) made after the seventh anniversary of the Closing Date and on or before the last date on which claims may be made pursuant to this Agreement shall be limited to the amount, if any, by which $15 million exceeds the amount of all Mortgage Loan Claims previously determined to be Purchaser Indemnifiable Losses pursuant to this Agreement (including, without limitation, pursuant to Section 10.18(b)). "Mortgage Loan Claims" means any Purchaser Claims arising out of (x) a breach of the representations and warranties contained in Section 4.10 or (y) the Pre-Closing Servicing Obligations.

Section 12.06 DEFENSE OF CLAIMS.

(a) If an Indemnified Party shall receive written notice of the assertion of any third party claim with respect to which an Indemnifying Party is obligated under this Agreement to provide indemnification, such Indemnified Party shall give the Indemnifying Party prompt notice thereof; PROVIDED, HOWEVER, that the failure of any Indemnified Party to give such notice shall not relieve any Indemnifying Party of its obligations under this Article XII, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe the claim in reasonable detail, and, if practicable, shall indicate the estimated amount of the Indemnifiable Loss that has been or may be sustained by such Indemnified Party.

(b) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably satisfactory to the Indemnified Party), may elect to defend any third party claim; and if it so elects, it shall, within 20 Business Days after receiving notice of such third party claim (or sooner, if the nature of such third

party claim so requires), notify the Indemnified Party of its intent to do so, and such Indemnified Party shall cooperate in the defense of such third party claim. Such Indemnifying Party shall pay such Indemnified Party's reasonable out-of-pocket expenses incurred in connection with such cooperation. After notice from an Indemnifying Party to an Indemnified Party of its election to assume the defense of a third party claim, such Indemnifying Party shall not be liable to such Indemnified Party under this Article XII for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense thereof; PROVIDED, HOWEVER, that such Indemnified Party shall have the right to employ one counsel to represent such Indemnified Party and all other persons entitled to indemnification in respect of such claim hereunder (which counsel shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnified Party's reasonable judgment, either a conflict of interest between such Indemnified Party and such Indemnifying Party exists in respect of such claim or there may be defenses available to such Indemnified Party which are different from or in addition to those available to such Indemnifying Party, and in that event (i) the reasonable fees and expenses of such separate counsel shall be paid by such Indemnifying Party and (ii) each of such Indemnifying Party and such Indemnified Party shall have the right to direct its own defense in respect of such claim. If any Indemnifying Party elects not to defend against a third party claim, or fails to notify an Indemnified Party of its election within a reasonable period of time, such Indemnified Party may defend, compromise and settle such third party claim; PROVIDED, HOWEVER, that no such Indemnified Party may, without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld), settle or compromise any third party claim or consent to the entry of any Judgment which does not include as an unconditional term thereof the delivery by the claimant to the Indemnifying Party of a written release from all liability in respect of such third party claim. The Indemnifying Party may defend, compromise and settle any third party claim on such terms as it deems appropriate, PROVIDED, HOWEVER, that no Indemnifying Party may, without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld), settle or compromise any third party claim or consent to the entry of any Judgment which does not include as an unconditional term thereof the delivery by the claimant to the Indemnified Party of a written release from all liability in respect of such third party claim.

Section 12.07 REMEDIES EXCLUSIVE. The remedies provided to the parties in this Article XII for the matters set forth in this Article XII shall be exclusive and shall preclude assertion by them of all other rights and the seeking of all other remedies for such matters against any other party hereto; provided that any party hereto shall not be precluded from (i) seeking specific performance or any other available remedy for a breach of a covenant or agreement contained in this Agreement or in any Related Document or (ii) seeking any other remedy explicitly provided by any other provision of this Agreement or a Related Document.

ARTICLE XIII
TERMINATION

Section 13.01 TERMINATION. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual consent of the parties hereto;

(b) upon written notice by any party hereto, if (i) any court of competent jurisdiction in the United States or any other Governmental Agency shall have issued a Judgment or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and (ii) such Judgment or other action shall have become final and nonappealable; or

(c) upon written notice at any time on or after June 30, 1999 by the Purchaser or the Seller, if the Closing has not occurred by such date, provided that the failure to close is not the result of a material breach of this Agreement by the terminating party.

Section 13.02 OBLIGATIONS SHALL CEASE. In the event that this Agreement shall be terminated pursuant to Section 13.01 hereof, all obligations of the parties hereto under this Agreement shall terminate and there shall be no liability of any party hereto to any other party except (a) for the obligations with respect to confidentiality and publicity contained in Section 10.11 hereof and (b) as set forth in Section 13.03; provided that nothing contained in this Section shall relieve any party of liability for its bad faith or willful violation of the provisions of this Agreement.

Section 13.03 FEES AND EXPENSES. Except as otherwise specifically provided herein, each party hereto shall pay all of the fees and expenses incurred by it in connection herewith.

ARTICLE XIV
MISCELLANEOUS

Section 14.01 COMPLETE AGREEMENT. This Agreement, the Related Documents, the Confidentiality Agreement and the exhibits attached hereto and thereto and the documents referred to herein and therein shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

Section 14.02 WAIVER, DISCHARGE, ETC. This Agreement may not be released, discharged, abandoned, waived, changed or modified in any manner, except by an instrument in writing signed on behalf of each of the parties hereto by their duly authorized representatives. The failure of any party hereto to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way be construed to affect the validity of this Agreement or any part thereof or the right of any party thereafter to enforce each and every

such provision. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach. If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal or unenforceable, the other provisions shall not be affected, but shall remain in full force and effect.

Section 14.03 NOTICES. All notices, requests and demands to or upon the respective parties hereto shall be in writing, including by telecopy, and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made (a) if delivered by hand (including by courier), when delivered, (b) in the case of mail, three Business Days after deposit in United States first class mail, postage prepaid and (c) in the case of telecopy notice, when receipt has been confirmed by the transmitting telecopy operator. In each case notice shall be sent to the address of the party to be notified, as follows, or to such other address as may be hereafter designated by the respective parties hereto in accordance with these notice provisions:

If to the Purchaser, to:

Citicorp Mortgage, Inc.
15851 Clayton Road
Ballwin, Missouri 63011
Telecopy: (314) 916-7201
Attention: Legal Department

With a copy to:

Citigroup Inc.
Corporate Legal Department
425 Park Avenue - 2nd Floor
New York, New York 10043
Telecopy: (212) 793-4401
Attention: Stephen Dietz

If to the Seller or Parent, to:

Source One Mortgage Services Corporation
114 Goodwives Road
Darien, Connecticut 06820
Telecopy: (203) 655-6044
Attention: James H. Ozanne

With a copy to:

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, NH 03755
Telecopy: (603) 643-4562
Attention: Terry L. Baxter

Section 14.04 GOVERNING LAW; WAIVER OF JURY TRIAL.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflict of law principles.

(b) Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement or any Related Document.

Section 14.05 HEADINGS. The descriptive headings of the several Articles and Sections of this agreement are inserted for convenience only and do not constitute a part of this Agreement.

Section 14.06 SUCCESSORS. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto except with the prior written consent of the other parties or by operation of law, provided that without such consent the Seller may assign its rights and obligations hereunder to the Parent or any of the Parent's direct or indirect wholly owned subsidiaries, and the Purchaser may assign its rights and obligations hereunder to Citigroup Inc. or any of its direct or indirect wholly owned subsidiaries, in which event such assignee shall be substituted for the assignor for purposes of this Agreement to the extent appropriate, but without affecting any liability of the assignor hereunder.

Section 14.07 THIRD PARTIES. Except as specifically set forth or referred to herein (including, without limitation, in Article XII), nothing herein expressed or implied is intended or shall be construed to confer upon or given any person or entity, other than the parties hereto and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

Section 14.08 COUNTERPARTS. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and each of which shall be deemed an original.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representatives as of the day and year first above written.

SOURCE ONE MORTGAGE SERVICES CORPORATION,
as Seller

By: _____
Name:
Title:

FUND AMERICAN ENTERPRISES HOLDINGS, INC.,
as Parent

By: _____
Name:
Title:

CITICORP MORTGAGE, INC.
as Purchaser

By: _____
Name:
Title:

Exhibit 16

Securities and Exchange Commission
Washington, D.C. 20549

March 26, 1999

Ladies and Gentlemen:

We were previously principal accountants for Fund American Enterprises Holdings, Inc. and, under the date of February 12, 1999, except for note 20, which is as of March 25, 1999, we reported on the consolidated financial statements of Fund American Enterprises Holdings, Inc. and subsidiaries as of and for the years ended December 31, 1998 and 1997. On March 10, 1999, our appointment as principal accountants was terminated. We have read Fund American Enterprises Holdings, Inc.'s statements included under Item 9 of its December 31, 1998 Form 10-K, and we agree with such statements, except that we are not in a position to agree or disagree with paragraph two of Item 9 of the Form 10-K.

Very truly yours,

KPMG LLP

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 1998

FULL NAME OF SUBSIDIARY	PLACE OF INCORPORATION
CHARTER INDEMNITY COMPANY	TEXAS, USA
FOLKSAMERICA HOLDING COMPANY, INC.	NEW YORK, USA
FOLKSAMERICA REINSURANCE COMPANY	NEW YORK, USA
FUND AMERICAN CASUALTY REINSURANCE, LTD.	ISLANDS OF BERMUDA
FUND AMERICAN ENTERPRISES, INC.	DELAWARE, USA
SOURCE ONE MORTGAGE SERVICES CORPORATION and subsidiaries	DELAWARE, USA
VALLEY INSURANCE COMPANY	CALIFORNIA, USA
VALLEY NATIONAL INSURANCE COMPANY	KANSAS, USA
VALLEY PROPERTY & CASUALTY INSURANCE COMPANY	OREGON, USA
WHITE MOUNTAINS HOLDINGS, INC.	DELAWARE, USA
WHITE MOUNTAINS INSURANCE COMPANY	NEW HAMPSHIRE, USA

Exhibit 23(a)

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Fund American Enterprises Holdings, Inc.:

We consent to the incorporation by reference in the registration statements, as amended, No. 33-5287 on Form S-8 pertaining to the Long-Term Incentive Plan, No. 33-54006 on Form S-3 pertaining to the Medium-Term Notes Series A, No. 33-54749 on Form S-3 pertaining to Common Stock Warrants, No. 333-30233 on Form S-8 pertaining to Valley Group Employees' 401(k) Savings Plan, No. 333-13027 on Form S-8 pertaining to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(k) Plan of our report dated February 12, 1999, except for note 20, which is as of March 25, 1999, with respect to the consolidated balance sheets of Fund American Enterprises Holdings, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated income statements and consolidated statements of shareholders' equity and cash flows and the related schedules for the years ended December 31, 1998 and 1997, which report appears in the December 31, 1998 annual report on form 10-K of Fund American Enterprises Holdings, Inc.

/s/ KPMG LLP

Providence, Rhode Island
March 26, 1999

EXHIBIT 23(b)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements, as amended, pertaining to the Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006) and Common Stock Warrants (Form S-3, No. 33-54749) of Fund American Enterprises Holdings, Inc. and to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(K) Plan (Form S-8, No. 333-13027) of our report dated March 21, 1997, with respect to the consolidated financial statements and schedules of Fund American Enterprises Holdings, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1996.

/s/ Ernst & Young LLP

New York, New York
March 25, 1999

EXHIBIT 23(c)

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements, as amended, pertaining to Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006), Common Stock Warrants (Form S-3, No. 33-54749) and the Valley Group Employees' 401(K) Savings Plan (Form S-8, No. 333- 30233) of Fund American Enterprises Holdings, Inc. and to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(K) Plan (Form S-8, No. 333-13027) of our report dated January 26, 1999 with respect to the consolidated financial statements of Financial Security Assurance Holdings, Ltd. and Subsidiaries as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, our report dated February 2, 1999, except for Note 17 as to which the date is February 24, 1999, with respect to the consolidated financial statements of Folksamerica Holding Company, Inc. and its subsidiaries as of and for the year ended December 31, 1998 and our report dated February 14, 1997 with respect to the consolidated statements of operations, changes in stockholder's equity and cash flows of Valley Group Inc. and Subsidiaries for the year ended December 31, 1996.

PricewaterhouseCoopers LLP

New York, New York
March 25, 1999

Exhibit 24

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 23rd day February 1999.

/s/ Raymond Barrette

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 23rd day February 1999.

/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 23rd day February 1999.

/s/ Patrick M. Byrne

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 23rd day February 1999.

/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 23rd day February 1999.

/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 23rd day February 1999.

/s/ George J. Gillespie III

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 23rd day February 1999.

/s/ Gordon S. Macklin

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Frank A. Olson 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 23rd day February 1999.

/s/ Frank A. Olson

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 23rd day February 1999.

/s/ Michael S. Paquette

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EXHIBIT 99(a)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Folksamerica Holding Company, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Folksamerica Holding Company, Inc. and its subsidiaries at December 31, 1998, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles. 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 audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

New York, New York
February 2, 1999
except for Note 17 as to which
the date is February 24, 1999

FINANCIAL SECURITY ASSURANCE INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

The New York State Insurance Department recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the New York State Insurance Department to financial statements prepared in accordance with generally accepted accounting principles in making such determinations.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholder and Board of Directors
of Financial Security Assurance Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholder's equity, and cash flows present fairly, in all material respects, the financial position of Financial Security Assurance Inc. and Subsidiaries (the Company) at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

New York, New York
January 26, 1999

FINANCIAL SECURITY ASSURANCE INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS		
Bonds at market value (amortized cost of $1,631,094 and $1,192,771)	$1,683,928	$1,235,441
Equity investments at market value (cost of $34,250 and $20,405)	37,268	20,762
Short-term investments	92,241	103,926
Total investments	1,813,437	1,360,129
Cash	2,729	11,235
Deferred acquisition costs	199,559	171,098
Prepaid reinsurance premiums	217,096	173,123
Reinsurance recoverable on unpaid losses	3,907	30,618
Receivable for securities sold	1,656	20,535
Other assets	105,379	72,901
TOTAL ASSETS	$2,343,763	$1,839,639
LIABILITIES AND MINORITY INTEREST AND SHAREHOLDER'S EQUITY		
Deferred premium revenue	$ 721,699	$ 595,196
Losses and loss adjustment expenses	63,947	75,417
Deferred federal income taxes	56,672	59,867
Ceded reinsurance balances payable	31,502	11,199
Payable for securities purchased	105,749	72,979
Long-term debt	120,000	50,000
Minority interest	20,388	
Accrued expenses and other liabilities	119,215	77,121
TOTAL LIABILITIES AND MINORITY INTEREST	1,239,172	941,779
COMMITMENTS AND CONTINGENCIES		
Common stock (500 and 528 shares authorized, issued and outstanding; par value of $30,000 and $28,391 per share)	15,000	15,000
Additional paid-in capital	694,788	617,870
Accumulated other comprehensive income (net of deferred income tax provision of $19,904 and $15,059)	36,964	27,968
Accumulated earnings	357,839	237,022
TOTAL SHAREHOLDER'S EQUITY	1,104,591	897,860
TOTAL LIABILITIES AND MINORITY INTEREST AND SHAREHOLDER'S EQUITY	$2,343,763	$1,839,639

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

FINANCIAL SECURITY ASSURANCE INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
REVENUES:			
Net premiums written	$ 219,853	$ 172,878	$ 121,000
Increase in deferred premium revenue	(81,926)	(63,367)	(30,552)
Premiums earned	137,927	109,511	90,448
Net investment income	76,023	69,643	62,728
Net realized gains	21,667	6,023	1,851
Other income	381	10,774	502
TOTAL REVENUES	235,998	195,951	155,529
EXPENSES:			
Losses and loss adjustment expenses	3,949	9,156	6,874
Policy acquisition costs	35,439	27,962	23,829
Other operating expenses	28,502	20,717	14,852
TOTAL EXPENSES	67,890	57,835	45,555
Minority interest	(388)		
INCOME BEFORE INCOME TAXES	167,720	138,116	109,974
Provision (benefit) for income taxes:			
Current	54,942	29,832	28,208
Deferred	(8,039)	8,025	911
Total provision	46,903	37,857	29,119
NET INCOME	120,817	100,259	80,855
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period (net of deferred income tax provision (benefit) of $12,428, $12,268 and $(5,057))	23,080	22,784	(9,392)
Less: reclassification adjustment for gains included in net income (net of deferred income tax provision of $7,583, $2,108 and $648)	(14,084)	(3,915)	(1,203)
Other comprehensive income (loss)	8,996	18,869	(10,595)
COMPREHENSIVE INCOME	$ 129,813	$ 119,128	$ 70,260

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

FINANCIAL SECURITY ASSURANCE INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(DOLLARS IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	UNREALIZED GAIN (LOSS) ON INVESTMENTS	RETAINED EARNINGS	TOTAL
BALANCE, December 31, 1995	$ 15,000	$ 681,470	$ 19,694	$ 73,822	$ 789,986
Net income				80,855	80,855
Dividends paid on common stock				(18,000)	(18,000)
Net change in accumulated comprehensive income (net of deferred income tax benefit of $5,705)			(10,595)		(10,595)
Stock repurchase		(27,000)			(27,000)
Adjustment to prior-year disposal of subsidiary				86	86
BALANCE, December 31, 1996	15,000	654,470	9,099	136,763	815,332
Net income				100,259	100,259
Net change in accumulated comprehensive income (net of deferred income taxes of $10,160)			18,869		18,869
Stock repurchase		(39,500)			(39,500)
Deferred equity payout by Parent		2,900			2,900
BALANCE, December 31, 1997	15,000	617,870	27,968	237,022	897,860
Net income				120,817	120,817
Net change in accumulated comprehensive income (net of deferred income taxes of $4,844)			8,996		8,996
Stock repurchase		(8,500)			(8,500)
Capital contribution from Parent		80,000			80,000
Deferred equity payout by Parent		5,418			5,418
BALANCE, December 31, 1998	$ 15,000	$ 694,788	$ 36,964	$ 357,839	$ 1,104,591

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

FINANCIAL SECURITY ASSURANCE INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Cash flows from operating activities:			
Premiums received, net	$ 247,229	$ 171,145	$ 124,540
Policy acquisition and other operating expenses paid, net	(81,559)	(50,046)	(49,261)
Recoverable advances received (paid)	1,473	(7,629)	10,213
Losses and loss adjustment expenses recovered (paid)	10,989	(6,463)	(15,473)
Net investment income received	67,268	63,207	59,923
Federal income taxes paid	(52,210)	(27,080)	(33,297)
Interest paid			(22)
Other	(877)	2,142	1,330
Net cash provided by operating activities	192,313	145,276	97,953
Cash flows from investing activities:			
Proceeds from sales of bonds	1,735,585	1,071,845	1,095,929
Proceeds from sales of equity investments	22,571	3,568	
Proceeds from maturities of bonds		32,468	2,965
Purchases of bonds	(2,098,264)	(1,196,117)	(1,139,129)
Purchases of equity investments	(37,034)	(24,662)	
Gain on sale of subidiaries		9,486	
Purchases of property and equipment	(1,071)	(2,985)	(2,081)
Net decrease (increase) in short-term investments	15,857	(45,661)	(3,675)
Other investments	20,037		
Net cash provided by (used for) investing activities	(342,319)	(152,058)	(45,991)
Cash flows from financing activities:			
Stock repurchase	(8,500)	(39,500)	(27,000)
Surplus notes issued	70,000	50,000	
Capital contribution	80,000		
Dividends paid			(18,000)
Net cash provided by (used for) financing activities	141,500	10,500	(45,000)
Net increase (decrease) in cash	(8,506)	3,718	6,962
Cash at beginning of year	11,235	7,517	555
Cash at end of year	$ 2,729	$ 11,235	$ 7,517

FINANCIAL SECURITY ASSURANCE INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Reconciliation of net income to net cash flows from operating activities:			
Net income	$ 120,817	$ 100,259	$ 80,855
Increase in accrued investment income	(3,939)	(1,811)	(842)
Increase in deferred premium revenue and related foreign exchange adjustment	82,530	62,101	29,622
Increase in deferred acquisition costs	(28,461)	(24,865)	(13,282)
Increase (decrease) in current federal income taxes payable	2,732	(519)	(5,090)
Increase (decrease) in unpaid losses and loss adjustment expenses	15,240	2,596	(8,023)
Increase in amounts withheld for others	81	133	52
Provision (benefit) for deferred income taxes	(8,039)	11,296	911
Net realized gains on investments	(21,667)	(6,023)	(1,851)
Depreciation and accretion of bond discount	(3,540)	(1,736)	(1,616)
Gain on sale of subsidiaries		(9,486)	
Minority interest	388		
Change in other assets and liabilities	36,171	13,331	17,217
Cash provided by operating activities	$ 192,313	$ 145,276	$ 97,953

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

1. ORGANIZATION AND OWNERSHIP

Financial Security Assurance Inc. (the Company), an indirect wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (the Parent), is an insurance company domiciled in the State of New York. The Company is engaged in providing financial guaranty insurance on asset-backed and municipal obligations. The Company's underwriting policy is to insure asset-backed and municipal obligations that it determines would be of investment-grade quality without the benefit of the Company's insurance. The asset-backed obligations insured by the Company are generally issued in structured transactions and are backed by pools of assets such as residential mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value. The municipal obligations insured by the Company consist primarily of general obligation bonds that are supported by the issuers' taxing power and special revenue bonds and other special obligations of states and local governments that are supported by the issuers' ability to impose and collect fees and charges for public services or specific projects. Financial guaranty insurance written by the Company guarantees scheduled payments on an issuer's obligation. In the case of a payment default on an insured obligation, the Company is generally required to pay the principal, interest or other amounts due in accordance with the obligation's original payment schedule or, at its option, to pay such amounts on an accelerated basis.

The Company expects to continue to emphasize a diversified insured portfolio characterized by insurance of both asset-backed and municipal obligations, with a broad geographic distribution and a variety of revenue sources and transaction structures. The Company's insured portfolio consists primarily of asset-backed and municipal obligations originated in the United States, but the Company has also written and continues to pursue business in Europe and the Asia Pacific region.

At December 31, 1996, the Parent was owned 40.4% by U S WEST Capital Corporation (U S WEST), 11.5% by Fund American Enterprises Holdings, Inc. (Fund American), 6.4% by The Tokio Marine and Fire Insurance Co., Ltd. (Tokio Marine) and 41.7% by the public and employees. At December 31, 1997, the Parent was owned 42.1% by U S WEST, 12.0% by Fund American, 6.7% by Tokio Marine and 39.2% by the public and employees. At December 31, 1998, the Parent was owned 40.5% by MediaOne Capital Corporation (MediaOne), formerly U S WEST, 11.6% by Fund American, 6.4% by Tokio Marine, 5.5% by XL Capital Ltd (XL) and 36.0% by the public and employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP), which differ in certain material respects from the accounting practices prescribed or permitted by insurance regulatory authorities (see Note 5). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the Company's consolidated balance sheets at December 31, 1998 and 1997 and the reported amounts of revenues and expenses in the consolidated statements of income during the years ended December 31, 1998, 1997 and 1996. Such estimates and assumptions include, but are not limited to, losses and loss

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
adjustment expenses and the deferral and amortization of deferred policy acquisition costs. Actual results may differ from those estimates. Significant accounting policies under GAAP are as follows:

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries, FSA Insurance Company, Financial Security Assurance International Ltd., Financial Security Assurance of Oklahoma, Inc. and Financial Security Assurance (U.K.) Limited (collectively, the Subsidiaries). All intercompany accounts and transactions have been eliminated. Certain prior-year balances have been reclassified to conform to the 1998 presentation.

INVESTMENTS

Investments in debt securities designated as available for sale are carried at market value. Equity investments are carried at market value. Any resulting unrealized gain or loss is reflected as a separate component of shareholders' equity, net of applicable deferred income taxes. All of the Company's long-term investments are classified as available for sale.

Bond discounts and premiums are amortized on the effective yield method over the remaining terms of the securities acquired. For mortgage-backed securities, and any other holdings for which prepayment risk may be significant, assumptions regarding prepayments are evaluated periodically and revised as necessary. Any adjustments required due to the resulting change in effective yields are recognized in current income. Short-term investments, which are those investments with a maturity of less than one year at time of purchase, are carried at market value, which approximates cost. Realized gains or losses on sale of investments are determined on the basis of specific identification. Investment income is recorded as earned.

The Company holds derivative securities, including U.S. Treasury bond futures contracts and call option contracts, that are not accounted for as hedges and are marked-to-market on a daily basis. Any gains or losses are included in capital gains or losses.

PREMIUM REVENUE RECOGNITION

Gross and ceded premiums are earned in proportion to the amount of risk outstanding over the expected period of coverage. Deferred premium revenue and prepaid reinsurance premiums represent the portion of premium that is applicable to coverage of risk to be provided in the future on policies in force. When an insured issue is retired or defeased prior to the end of the expected period of coverage, the remaining deferred premium revenue and prepaid reinsurance premium, less any amount credited to a refunding issue insured by the Company, are recognized.

LOSSES AND LOSS ADJUSTMENT EXPENSES

A case basis reserve for unpaid losses and loss adjustment expenses is recorded at the present value of the estimated loss when, in management's opinion, the likelihood of a future loss is probable and determinable at the balance sheet date. The estimated loss on a transaction is discounted using current risk-free rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The general reserve is calculated by applying a loss factor to the total net par amount outstanding of the Company's insured obligations over the term of such insured obligations and discounting the result at risk-free rates. The loss factor used for this purpose has been determined based upon an independent rating agency study of bond defaults and the Company's portfolio characteristics and history. The general reserve is available to be applied against future additions or accretions to existing case basis reserves or to new case basis reserves to be established in the future.

Management of the Company periodically evaluates its estimates for losses and loss adjustment expenses and establishes reserves that management believes are adequate to cover the present value of the ultimate net cost of claims. The reserves are necessarily based on estimates, and there can be no assurance that the ultimate liability will not differ from such estimates. The Company will, on an ongoing basis, monitor these reserves and may periodically adjust such reserves based on the Company's actual loss experience, its future mix of business, and future economic conditions.

DEFERRED ACQUISITION COSTS

Deferred acquisition costs comprise those expenses that vary with and are primarily related to the production of business, including commissions paid on reinsurance assumed, compensation and related costs of underwriting and marketing personnel, certain rating agency fees, premium taxes and certain other underwriting expenses, reduced by ceding commission income on premiums ceded to reinsurers. Deferred acquisition costs and the cost of acquired business are amortized over the period in which the related premiums are earned. Recoverability of deferred acquisition costs is determined by considering anticipated losses and loss adjustment expenses.

FEDERAL INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods reflected at current income tax rates.

SEGMENT REPORTING

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 131, Disclosure about Segments of an Enterprise and Related Information, establishing standards for the way that public business enterprises report information about operating segments in annual and interim financial statements and requiring presentation of a measure of profit or loss, certain specific revenue and expense items and segment assets. The Company has no reportable operating segments as a monoline financial guaranty insurer.

3. INVESTMENTS

Bonds at amortized cost of $11,481,000 and $11,025,000 at December 31, 1998 and 1997, respectively, were on deposit with state regulatory authorities as required by insurance regulations.

3. INVESTMENTS (CONTINUED)

Consolidated net investment income consisted of the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Bonds	$ 69,216	$ 65,149	$ 61,130
Equity investments	830	376	14
Short-term investments	7,376	5,452	3,525
Investment expenses	(1,399)	(1,334)	(1,941)
Net investment income	$ 76,023	$ 69,643	$ 62,728

The credit quality of the fixed-income investment portfolio at December 31, 1998 was as follows:

RATING	PERCENT OF FIXED-INCOME INVESTMENT PORTFOLIO
AAA	68.7%
AA	21.3
A	9.3
BBB	0.4
Other	0.3

The amortized cost and estimated market value of bonds were as follows (in thousands):

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
DECEMBER 31, 1998				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 134,910	$ 2,297	$ (337)	$ 136,870
Obligations of states and political subdivisions	1,041,718	42,265	(637)	1,083,346
Mortgage-backed securities	261,322	3,911	(180)	265,053
Corporate securities	162,663	5,510	(463)	167,710
Asset-backed securities	30,481	493	(25)	30,949
Total	$ 1,631,094	$ 54,476	$ (1,642)	$ 1,683,928

3. INVESTMENTS (CONTINUED)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
DECEMBER 31, 1997				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 120,314	$ 800	$ (436)	$ 120,678
Obligations of states and political subdivisions	777,042	40,187	(135)	817,094
Foreign securities	8,252		(562)	7,690
Mortgage-backed securities	195,567	2,213	(28)	197,752
Corporate securities	72,388	1,375	(1,093)	72,670
Asset-backed securities	19,208	349		19,557
Total	$ 1,192,771	$ 44,924	$ (2,254)	$ 1,235,441

The change in net unrealized gains (losses) consisted of (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Bonds	$ 10,164	$ 28,671	$ (16,299)
Equity investments	2,661	357	
Other	1,017		
Change in net unrealized gains (losses)	$ 13,842	$ 29,028	$ (16,299)

The amortized cost and estimated market value of bonds at December 31, 1998, by contractual maturity, are shown below (in thousands). Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	AMORTIZED COST	ESTIMATED MARKET VALUE
Due in one year or less	$ 1,002	$ 1,006
Due after one year through five years	135,398	137,917
Due after five years through ten years	211,500	219,185
Due after ten years	991,391	1,029,818
Mortgage-backed securities (stated maturities of 1 to 30 years)	261,322	265,053
Asset-backed securities (stated maturities of 3 to 30 years)	30,481	30,949
Total	$ 1,631,094	$ 1,683,928

3. INVESTMENTS (CONTINUED)

Proceeds from sales of bonds during 1998, 1997 and 1996 were $2,132,146,000, $1,124,848,000 and $1,096,568,000, respectively. Gross gains of $26,373,000, $11,702,000 and $13,420,000 and gross losses of $4,156,000, $6,007,000 and $11,569,000 were realized on sales in 1998, 1997 and 1996, respectively.

Proceeds from sales of equity investments during 1998 and 1997 were $22,571,000 and $3,568,000, respectively. Gross gains of $973,000 and $33,000 and gross losses of $1,323,000 and $7,000 were realized on sales in 1998 and 1997, respectively.

4. DEFERRED ACQUISITION COSTS

Acquisition costs deferred for amortization against future income and the related amortization charged to expenses are as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Balance, beginning of period	$ 171,098	$ 146,233	$ 132,951
Costs deferred during the period:			
Ceding commission income	(27,693)	(18,956)	(15,956)
Assumed commission expense	22	31	38
Premium taxes	8,081	5,554	3,718
Compensation and other acquisition costs	83,490	66,198	49,311
Total	63,900	52,827	37,111
Costs amortized during the period	(35,439)	(27,962)	(23,829)
Balance, end of period	$ 199,559	$ 171,098	$ 146,233

5. STATUTORY ACCOUNTING PRACTICES

GAAP for the Company differs in certain significant respects from accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the following statutory accounting practices:

- Upfront premiums on municipal business are recognized as earned when related principal and interest have expired rather than over the expected coverage period;

- Acquisition costs are charged to operations as incurred rather than as related premiums are earned;

- A contingency reserve (rather than a general reserve) is computed based on the following statutory requirements:

(i) For all policies written prior to July 1, 1989, an amount equal to 50% of cumulative earned premiums less permitted reductions, plus;

(ii) For all policies written on or after July 1, 1989, an amount equal to the greater of 50% of premiums written for each category of insured obligation or a designated percentage of principal

5. STATUTORY ACCOUNTING PRACTICES (CONTINUED)
guaranteed for that category. These amounts are provided each quarter as either 1/60th or 1/80th of the total required for each category, less permitted reductions;

- Certain assets designated as "non-admitted assets" are charged directly to statutory surplus but are reflected as assets under GAAP;

- Federal income taxes are provided only on taxable income for which income taxes are currently payable;

- Accruals for deferred compensation are not recognized;

- Purchase accounting adjustments are not recognized;

- Bonds are carried at amortized cost;

- Surplus notes are recognized as surplus rather than a liability.

A reconciliation of net income for the calendar years 1998, 1997 and 1996 and shareholder's equity at December 31, 1998 and 1997, reported by the Company on a GAAP basis, to the amounts reported by the Subsidiaries on a statutory basis, is as follows (in thousands):

	1998	1997	1996
Net Income:			
GAAP BASIS	$ 120,817	$ 100,259	$ 80,855
Premium revenue recognition	(16,411)	(23,130)	(5,518)
Losses and loss adjustment expenses incurred	12,938	4,653	(2,138)
Deferred acquisition costs	(28,461)	(24,865)	(12,482)
Deferred income tax provision (benefit)	(8,039)	8,025	911
Amortization of bonds		56	566
Accrual of deferred compensation, net	33,268	26,681	12,737
Other	100	(61)	1,404
STATUTORY BASIS	$ 114,212	$ 91,618	$ 76,335

	DECEMBER 31,	
	1998	1997
Shareholder's Equity:		
GAAP BASIS	$ 1,104,591	$ 897,860
Premium revenue recognition	(91,297)	(74,863)
Loss and loss adjustment expense reserves	47,250	34,313
Deferred acquisition costs	(199,559)	(171,098)
Contingency reserve	(367,454)	(287,694)
Unrealized gain on investments, net of tax	(55,851)	(43,027)
Deferred income taxes	56,672	59,867
Accrual of deferred compensation	70,022	41,451
Surplus notes	120,000	50,000
Other	(14,118)	(12,841)
STATUTORY BASIS SURPLUS	$ 670,256	$ 493,968
SURPLUS PLUS CONTINGENCY RESERVE	$ 1,037,710	$ 781,661

6. FEDERAL INCOME TAXES

The Parent, the Company and its Subsidiaries (except Financial Security Assurance International Ltd.) file a consolidated federal income tax return. The calculation of each member's tax benefit or liability is controlled by a tax sharing agreement that bases the allocation of such benefit or liability upon a separate return calculation.

The cumulative balance sheet effects of deferred tax consequences are (in thousands):

	DECEMBER 31,	
	1998	1997
Deferred acquisition costs	$ 69,079	$ 59,884
Deferred premium revenue adjustments	10,354	8,424
Unrealized capital gains	20,749	16,998
Contingency reserves	46,260	38,037
Total deferred tax liabilities	146,442	123,343
Loss and loss adjustment expense reserves	(16,613)	(12,009)
Deferred compensation	(34,020)	(20,328)
Tax and loss bonds	(38,726)	(30,520)
Other, net	(411)	(619)
Total deferred tax assets	(89,770)	(63,476)
Total deferred income taxes	$ 56,672	$ 59,867

No valuation allowance was necessary at December 31, 1998 or 1997.

A reconciliation of the effective tax rate with the federal statutory rate follows:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Tax at statutory rate	35.0%	35.0%	35.0%
Tax-exempt interest	(8.1)	(7.9)	(8.9)
Other	1.1	0.3	0.4
Provision for income taxes	28.0%	27.4%	26.5%

7. DIVIDENDS AND CAPITAL REQUIREMENTS

Under New York Insurance Law, The Company may pay a dividend without the prior approval of the Superintendent of the New York State Insurance Department only from earned surplus subject to the maintenance of a minimum capital requirement. In addition, the dividend, together with all dividends declared or distributed by it during the preceding twelve months, may not exceed the lesser of 10% of its policyholders' surplus shown on its last filed statement, or adjusted net investment income, as defined, for such twelve-month period. As of December 31, 1998, the Company had $65,726,000 available for the payment of dividends over the next twelve months.

7. DIVIDENDS AND CAPITAL REQUIREMENTS (CONTINUED)

In 1998, the Company repurchased $8,500,000 of its shares from the Parent, representing the balance remaining of $75,000,000 that had been approved for repurchase by the New York Insurance Department.

8. CREDIT ARRANGEMENTS AND ADDITIONAL CLAIMS-PAYING RESOURCES

The Company has a credit arrangement aggregating $150,000,000 at December 31, 1998, which is provided by commercial banks and intended for general application to transactions insured by the Company and the Subsidiaries. At December 31, 1998, there were no borrowings under this arrangement, which expires on November 23, 1999. In addition, there are credit arrangements assigned to specific insured transactions. In August 1994, the Company entered into a facility agreement with Canadian Global Funding Corporation and Hambros Bank Limited. Under the agreement, which expires in August 2004, the Company can arrange financing for transactions subject to certain conditions. The amount of this facility was $186,911,000, of which $44,974,000 was unutilized at December 31, 1998.

The Company has a standby line of credit commitment in the amount of $240,000,000 with a group of international Aaa/AAA-rated banks to provide loans to the Company after it has incurred, during the term of the facility, cumulative municipal losses (net of any recoveries) in excess of the greater of $230,000,000 or 5.75% of average annual debt service of the covered portfolio. The obligation to repay loans made under this agreement is a limited recourse obligation payable solely from, and collateralized by, a pledge of recoveries realized on defaulted insured obligations in the covered portfolio, including certain installment premiums and other collateral. This commitment has a term beginning on April 30, 1997 and expiring on April 30, 2004 and contains an annual renewal provision subject to approval by the banks. No amounts have been utilized under this commitment as of December 31, 1998.

At December 31, 1998, the Company has borrowed $120,000,000 from its Parent in the form of Surplus Notes. These notes carried a simple interest rate of 5.0% per annum. Principal of and interest on the Surplus Notes may be paid at any time at the option of the Company, subject to prior approval of the New York Insurance Department and compliance with the conditions to such payments as contained in the New York Insurance Laws. These notes have no stated maturity. The Company did not pay interest in 1998 or 1997.

9. EMPLOYEE BENEFIT PLANS

The Company maintains both a qualified and a non-qualified non-contributory defined contribution pension plan for the benefit of all eligible employees. The Company's contributions are based upon a fixed percentage of employee compensation. Pension expense, which is funded as accrued, amounted to $2,380,000, $2,312,000 and $1,977,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The Company has an employee retirement savings plan for the benefit of all eligible employees. The plan permits employees to contribute a percentage of their salaries up to limits prescribed by the Internal Revenue Service (IRS Code, Section 401(k)). The Company's contributions are discretionary, and none have been made.

Pursuant to the 1993 Equity Participation Plan, 1,810,780 shares of the Parent's common stock, subject to anti-dilutive adjustment, were reserved for awards of options, restricted shares of common stock, and performance shares to employees for the purpose of providing, through the grant of long-term incentives, a

9. EMPLOYEE BENEFIT PLANS (CONTINUED)

means to attract and retain key personnel and to provide to participating officers and other key employees long-term incentives for sustained high levels of performance. Shares available under the 1993 Equity Participation Plan were increased from 1,810,780 to 2,110,780 in December 1995. The 1993 Equity Participation Plan also contains provisions that permit the Human Resources Committee to pay all or a portion of employees' bonuses in the form of shares of the Parent's common stock credited to the employees at a 15% discount from current market value and paid to employees five years from the date of award. Up to an aggregate of 10,000,000 shares may be allocated to such equity bonuses. Common stock to pay performance shares, stock options and equity bonus awards is acquired by the Parent through open-market purchases by a trust established for such purpose.

Performance shares are awarded under the Parent's 1993 Equity Participation Plan. The Plan authorizes the discretionary grant of performance shares by the Human Resources Committee to key employees of the Company. The number of shares of the Parent's common stock earned for each performance share depends upon the attainment by the Parent of certain growth rates of adjusted book value per outstanding share over a three-year period. At each payout date, each performance share is adjusted to pay out from zero up to two common shares. No common shares are paid out if the compound annual growth rate of the Parent's adjusted book value per outstanding share was less than 7%. Two common shares per performance share are paid out if the compound annual growth rate was 19% or greater. Payout percentages are interpolated for compound annual growth rates between 7% and 19%.

Performance shares granted under the 1993 Equity Participation Plan were as follows:

	OUTSTANDING AT BEGINNING OF YEAR	GRANTED DURING THE YEAR	EARNED DURING THE YEAR	FORFEITED DURING THE YEAR	OUTSTANDING AT END OF YEAR	MARKET PRICE AT GRANT DATE
1996.....	1,109,150	282,490		17,300	1,374,340	$ 25.2500
1997.....	1,374,340	253,057	201,769	59,253	1,366,375	35.5000
1998.....	1,366,375	273,656	229,378	26,145	1,384,508	46.0625

The Company applies APB Opinion 25 and related Interpretations in accounting for the Parent's performance shares. The Company estimates the final cost of these performance shares and accrues for this expense over the performance period. The accrued expense for the performance shares was $39,480,000, $28,439,000 and $12,737,000 for the years ended December 31, 1998, 1997 and 1996, respectively. In tandem with this accrued expense, the Parent estimates those performance shares that it expects to settle in stock and records this amount in shareholders' equity as deferred compensation. The remainder of the accrual, which represents the amount of performance shares that the Parent estimates it will settle in cash, is recorded in accrued expenses and other liabilities. The Company recognized a benefit for the difference between the market value of the Parent's common stock and the cost of the stock when it was purchased by the independent trustee (which amount was reimbursed by the Company to its Parent) for shares distributed under the performance share plan. This benefit was recorded by the Company as a capital contribution which totaled $5,418,000 and $2,900,000 in 1998 and 1997, respectively. In 1996, the Parent adopted disclosure provisions of SFAS No. 123. Had the compensation cost for the Parent's performance shares been determined based upon the provisions of SFAS No. 123, there would have been no effect on the Company's reported net income.

9. EMPLOYEE BENEFIT PLANS (CONTINUED)

In November 1994, the Parent appointed an independent trustee authorized to purchase shares of the Parent's common stock in open market transactions, at times and prices determined by the trustee. These purchases are intended to fund future obligations relating to equity bonuses, performance shares and stock options under the 1993 Equity Participation Plan and other employee benefit plans and are presented as treasury stock in these financial statements. During 1998, 1997 and 1996, the total number of shares purchased by the trust was 496,940, 162,573 and 529,131, respectively, at a cost of $23,907,000, $5,434,000 and $14,111,000, respectively. In 1996, the Parent also repurchased stock from its employees in satisfaction of withholding taxes on shares distributed under its restricted stock plan.

The Company does not currently provide post-retirement benefits, other than under its defined contribution plans, to its employees, nor does it provide post-employment benefits to former employees other than under its severance plans.

10. COMMITMENTS AND CONTINGENCIES

The Company leases office space and equipment under non-cancelable operating leases, which expire at various dates through 2005.

Future minimum rental payments are as follows (in thousands):

YEAR ENDED DECEMBER 31,	
1999	$ 2,489
2000	2,327
2001	2,014
2002	1,739
2003	1,739
Thereafter	3,333
Total	$ 13,641

Rent expense for the years ended December 31, 1998, 1997 and 1996 was $4,025,000, $3,708,000 and $3,383,000, respectively.

During the ordinary course of business, the Company and its Subsidiaries have become parties to certain litigation. Management believes that these matters will be resolved with no material financial impact on the Company.

11. REINSURANCE

The Company reinsures portions of its risks with affiliated (see Note 13) and unaffiliated reinsurers under quota share and first-loss treaties and on a facultative basis. The Company's principal ceded reinsurance program consisted in 1998 of two quota share treaties, one first-loss treaty and four automatic facultative facilities. One treaty covered all of the Company's approved regular lines of business, except U.S. municipal obligation insurance. Under this treaty in 1998, the Company ceded 6.75% of each covered policy, up to a maximum of $13,500,000 insured principal per policy. At its sole option, the Company could have increased, and in certain instances did increase, the ceding percentage to 13.5% up to $27,000,000 of each covered policy. A second treaty covered the Company's U.S. municipal obligation insurance business. Under this treaty in 1998, the Company ceded 6% of each covered policy that is classified by the Company as providing U.S. municipal bond insurance as defined by Article 69 of the New York Insurance Law up to a limit of $16,000,000 per single risk, which is defined by revenue source. At its sole option, the Company could have increased, and in certain instances did increase, the ceding percentage to 30% up to $80,000,000 per single risk. These cession percentages under both treaties were reduced on smaller-sized transactions. The first-loss treaty applied to qualifying U.S. mortgage-backed transactions. Under the four automatic facultative facilities in 1998, the Company at its option could allocate up to a specified amount for each reinsurer (ranging from $4,000,000 to $40,000,000 depending on the reinsurer) for each transaction, subject to limits and exclusions, in exchange for which the Company agreed to cede in the aggregate a specified percentage of gross par insured by the Company. Each of the quota share treaties and automatic facultative facilities allowed the Company to withhold a ceding commission to defray its expenses. The Company also employed non-treaty quota share and first-loss facultative reinsurance on various transactions in 1998.

In the event (which management considers to be highly unlikely) that any or all of the reinsuring companies were unable to meet their obligations to the Company, the Company would be liable for such defaulted amounts. The Company has also assumed reinsurance of municipal obligations from unaffiliated insurers.

11. REINSURANCE (CONTINUED)

Amounts reinsured were as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Written premiums ceded	$ 99,413	$ 63,513	$ 55,965
Written premiums assumed	935	1,352	1,873
Earned premiums ceded	55,939	41,713	38,723
Earned premiums assumed	4,271	5,121	6,020
Loss and loss adjustment expense payments ceded	22,619	2,862	29,408
Loss and loss adjustment expense payments assumed	3	2	3
Incurred (recovered) losses and loss adjustment expenses ceded	(4,673)	3,605	(2,249)
Incurred (recovered) losses and loss adjustment expenses assumed	(139)	161	38

	DECEMBER 31,	
	1998	1997
Principal outstanding ceded	$ 32,914,844	$ 24,547,361
Principal outstanding assumed	1,360,916	1,670,468
Deferred premium revenue ceded	217,096	173,123
Deferred premium revenue assumed	10,799	14,128
Loss and loss adjustment expense reserves ceded	3,907	30,618
Loss and loss adjustment expense reserves assumed	723	865

12. OUTSTANDING EXPOSURE AND COLLATERAL

The Company's policies insure the scheduled payments of principal and interest on asset-backed and municipal obligations. The principal amount insured (in millions) as of December 31, 1998 and 1997 (net of amounts ceded to other insurers) and the terms to maturity are as follows:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
TERMS TO MATURITY	ASSET-BACKED	MUNICIPAL	ASSET-BACKED	MUNICIPAL
0 to 5 Years	$ 8,468	$ 2,756	$ 7,553	$ 2,230
5 to 10 Years	7,516	7,495	5,637	5,683
10 to 15 Years	5,661	12,427	2,858	8,257
15 to 20 Years	670	20,265	524	14,340
20 Years and Above	15,308	24,107	11,917	16,479
Total	$ 37,623	$ 67,050	$ 28,489	$ 46,989

12. OUTSTANDING EXPOSURE AND COLLATERAL (CONTINUED)

The principal amount ceded as of December 31, 1998 and 1997 and the terms to maturity are as follows (in millions):

	DECEMBER 31, 1998		DECEMBER 31, 1997	
TERMS TO MATURITY	ASSET-BACKED	MUNICIPAL	ASSET-BACKED	MUNICIPAL
0 to 5 Years	$ 2,727	$ 1,157	$ 3,828	$ 965
5 to 10 Years	1,859	2,143	2,118	1,693
10 to 15 Years	1,116	3,022	553	2,078
15 to 20 Years	591	4,852	257	3,005
20 Years and Above	3,230	12,218	3,373	6,677
Total	$ 9,523	$ 23,392	$ 10,129	$ 14,418

The Company limits its exposure to losses from writing financial guarantees by underwriting investment-grade obligations, diversifying its portfolio and maintaining rigorous collateral requirements on asset-backed obligations, as well as through reinsurance. The gross principal amounts of insured obligations in the asset-backed insured portfolio are backed by the following types of collateral (in millions):

	NET OF AMOUNTS CEDED DECEMBER 31,		CEDED DECEMBER 31,	
TYPES OF COLLATERAL	1998	1997	1998	1997
Residential mortgages	$ 15,647	$ 12,928	$ 3,324	$ 3,665
Consumer receivables	12,539	10,659	3,663	4,601
Government securities	821	787	267	120
Pooled corporate obligations	6,776	3,004	1,388	540
Commercial mortgage portfolio:				
Commercial real estate	15	98	49	418
Corporate secured	42	55	314	481
Investor-owned utility obligations	757	643	464	229
Other asset-backed obligations	1,026	315	54	75
Total asset-backed obligations	$ 37,623	$ 28,489	$ 9,523	$ 10,129

The asset-backed insured portfolio, which aggregated $47,146,604,000 principal before reinsurance at December 31, 1998, was collateralized by assets with an estimated fair value of $53,754,485,000. At December 31, 1997, it aggregated $38,618,244,000 principal before reinsurance and was collateralized by assets with an estimated fair value of $44,382,716,000. Such estimates of fair value are calculated at the inception of each insurance policy and are changed only in proportion to changes in exposure. At December 31, 1998, the estimated fair value of collateral and reserves over the principal insured averaged from 110% for commercial real estate to 181% for corporate secured obligations. At December 31, 1997, the estimated fair value of collateral and reserves over the principal insured averaged from 100% for commercial real estate to 172% for corporate secured obligations. Collateral for specific transactions is generally not available to pay claims related to other transactions. The amounts of losses ceded to reinsurers are determined net of collateral.

12. OUTSTANDING EXPOSURE AND COLLATERAL (CONTINUED)

The gross principal amount of insured obligations in the municipal insured portfolio includes the following types of issues (in millions):

	NET OF AMOUNTS CEDED		CEDED	
	DECEMBER 31,		DECEMBER 31,	
TYPES OF ISSUES	1998	1997	1998	1997
General obligation bonds	$ 25,337	$ 17,101	$ 4,517	$ 3,182
Housing revenue bonds	2,509	1,770	1,108	955
Municipal utility revenue bonds	9,218	5,892	5,489	2,294
Health care revenue bonds	5,812	3,924	3,348	2,175
Tax-supported bonds (non-general obligation)	14,731	11,210	5,238	3,526
Transportation revenue bonds	2,937	1,972	2,154	1,041
Other municipal bonds	6,506	5,120	1,538	1,245
Total municipal obligations	$ 67,050	$ 46,989	$ 23,392	$ 14,418

In its asset-backed business, the Company considers geographic concentration as a factor in underwriting insurance covering securitizations of pools of such assets as residential mortgages or consumer receivables. However, after the initial issuance of an insurance policy relating to such securitization, the geographic concentration of the underlying assets may not remain fixed over the life of the policy. In addition, in writing insurance for other types of asset-backed obligations, such as securities primarily backed by government or corporate debt, geographic concentration is not deemed by the Company to be significant given other more relevant measures of diversification such as issuer or industry.

The Company seeks to maintain a diversified portfolio of insured municipal obligations designed to spread its risk across a number of geographic areas. The following table sets forth, by state, those states in

12. OUTSTANDING EXPOSURE AND COLLATERAL (CONTINUED)
which municipalities located therein issued an aggregate of 2% or more of the Company's net par amount outstanding of insured municipal securities as of December 31, 1998:

STATE	NUMBER OF ISSUES	NET PAR AMOUNT OUTSTANDING	PERCENT OF TOTAL MUNICIPAL NET PAR AMOUNT OUTSTANDING	CEDED PAR AMOUNT OUTSTANDING
		(IN MILLIONS)		(IN MILLIONS)
California	517	$ 10,233	15.3%	$ 3,103
New York	388	5,836	8.7	4,137
Pennsylvania	356	4,821	7.2	834
Texas	414	4,128	6.1	1,441
Florida	130	4,091	6.1	1,616
New Jersey	275	3,475	5.2	1,486
Illinois	359	3,125	4.7	628
Massachusetts	126	2,259	3.4	976
Michigan	217	2,161	3.2	511
Wisconsin	252	1,685	2.5	228
Indiana	103	1,461	2.2	162
Minnesota	146	1,340	2.0	191
All Other States	1,453	20,993	31.3	6,812
Non-U.S.	32	1,442	2.1	1,267
Total	4,768	$ 67,050	100.0%	$ 23,392

13. RELATED PARTY TRANSACTIONS

Allocable expenses are shared by the Company and its Parent on a basis determined principally by estimates of respective usage as stated in an expense sharing agreement. The agreement is subject to the provisions of the New York Insurance Law. Amounts included in other assets at December 31, 1998 and 1997 are $1,625,000 and $4,702,000, respectively, for unsettled expense allocations due from the Parent.

The Company ceded premiums of $23,838,000, $21,216,000 and $19,890,000 to Tokio Marine for the years ended December 31, 1998, 1997 and 1996, respectively. The amounts included in prepaid reinsurance premiums at December 31, 1998 and 1997 for reinsurance ceded to Tokio Marine were $62,422,000 and $53,603,000, respectively. Reinsurance recoverable on unpaid losses ceded to Tokio Marine was $612,000 and $613,000 at December 31, 1998 and 1997, respectively. The Company ceded losses and loss adjustment expenses of $603,000, $1,095,000 and $232,000 to Tokio Marine for the years ended December 31, 1998, 1997 and 1996, respectively. The Company ceded premiums of $7,297,000 and $15,000 to X.L. Insurance Company, Ltd., a subsidiary of XL, for the years ended December 31, 1998 and 1997, respectively. The amounts included in prepaid reinsurance premiums at December 31, 1998 and 1997 for reinsurance ceded to X.L. Insurance Company, Ltd. were $5,306,000 and $6,000, respectively.

The Company ceded premiums of $25,862,000, $16,890,000 and $15,409,000 on a quota share basis to affiliates of MediaOne (Enhance Reinsurance Company, Asset Guaranty Insurance Company and Commercial Reinsurance Company) for the years ended December 31, 1998, 1997 and 1996, respectively. The

13. RELATED PARTY TRANSACTIONS (CONTINUED)
amounts included in prepaid reinsurance premiums for reinsurance ceded to these affiliates were $61,088,000 and $51,980,000 at December 31, 1998 and 1997, respectively. The amounts of reinsurance recoverable on unpaid losses ceded to these affiliates at December 31, 1998 and 1997 were $1,755,000 and $24,195,000, respectively. The Company ceded losses and loss adjustment expenses (recoveries) of $(11,956,000), $2,105,000 and $(3,316,000) to these affiliates for the years ended December 31, 1998, 1997 and 1996, respectively.

14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret the data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Bonds--The carrying amount of bonds represents fair value. The fair value of bonds is based upon quoted market price.

Short-term investments--The carrying amount is fair value, which approximates cost due to the short maturity of these instruments.

Cash, receivable for investments sold and payable for investments purchased--The carrying amount approximates fair value because of the short maturity of these instruments.

Deferred premium revenue, net of prepaid reinsurance premiums--The carrying amount of deferred premium revenue, net of prepaid reinsurance premiums, represents the Company's future premium revenue, net of reinsurance, on policies where the premium was received at the inception of the insurance contract. The fair value of deferred premium revenue, net of prepaid reinsurance premiums, is an estimate of the premiums that would be paid under a reinsurance agreement with a third party to transfer the Company's financial guaranty risk, net of that portion of the premiums retained by the Company to compensate it for originating and servicing the insurance contracts.

Installment premiums--Consistent with industry practice, there is no carrying amount for installment premiums since the Company will receive premiums on an installment basis over the term of the insurance contract. Similar to deferred premium revenue, the fair value of installment premiums is the estimated present value of the future contractual premium revenues that would be paid under a reinsurance agreement with a third party to transfer the Company's financial guaranty risk, net of that portion of the premium retained by the Company to compensate it for originating and servicing the insurance contract.

14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Losses and loss adjustment expenses, net of reinsurance recoverable on unpaid losses--The carrying amount is fair value, which is the present value of the expected cash flows for specifically identified claims and potential losses in the Company's insured portfolio.

	DECEMBER 31, 1998		DECEMBER 31, 1997	
(IN THOUSANDS)	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Assets:				
Bonds	$ 1,683,928	$ 1,683,928	$ 1,235,441	$ 1,235,441
Short-term investments	92,241	92,241	103,926	103,926
Cash	2,729	2,729	11,235	11,235
Receivable for securities sold	1,656	1,656	20,535	20,535
Liabilities:				
Deferred premium revenue, net of prepaid reinsurance premiums	504,603	417,130	422,073	347,855
Losses and loss adjustment expenses, net of reinsurance recoverable on unpaid losses	60,040	60,040	44,799	44,799
Notes payable	120,000	120,000	50,000	50,000
Payable for investments purchased	105,749	105,749	72,979	72,979
Off-balance-sheet instruments:				
Installment premiums		163,239		116,888

15. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's liability for losses and loss adjustment expenses consists of the case basis and general reserves. Activity in the liability for losses and loss adjustment expenses is summarized as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Balance at January 1	$ 75,417	$ 72,079	$ 111,759
Less reinsurance recoverable	30,618	29,875	61,532
Net balance at January 1	44,799	42,204	50,227
Incurred losses and loss adjustment expenses:			
Current year	8,049	5,400	5,300
Prior years	(4,100)	3,756	1,574
Recovered (paid) losses and loss adjustment expenses:			
Current year	(192)	(2,850)	--
Prior years	11,484	(3,711)	(14,897)
Net balance December 31	60,040	44,799	42,204
Plus reinsurance recoverable	3,907	30,618	29,875
Balance at December 31	$ 63,947	$ 75,417	$ 72,079

During 1996, the Company increased its general reserve by $6,874,000, of which $5,300,000 was for originations of new business and $1,574,000 was to reestablish a portion of the general reserve that had previously been transferred to case basis reserves. During 1996, the Company transferred $9,012,000 from its general reserve to case basis reserves associated predominantly with certain residential mortgage and timeshare receivables transactions. Giving effect to these transfers, the general reserve totaled $29,660,000 at December 31, 1996.

During 1997, the Company increased its general reserve by $9,156,000, of which $5,400,000 was for originations of new business and $3,756,000 was to reestablish a portion of the general reserve that had previously been transferred to case basis reserves. During 1997, the Company transferred $4,503,000 from its general reserve to case basis reserves associated predominantly with certain residential mortgage transactions. Giving effect to these transfers, the general reserve totaled $34,313,000 at December 31, 1997.

During 1998, the Company increased its general reserve by $3,949,000, of which $8,049,000 was for originations of new business offset by a $4,100,000 decrease in the amount needed to fund the general loss reserve because of recoveries on certain commercial mortgage transactions. During 1998, the Company transferred $18,403,000 to its general reserve from case basis reserves due to those recoveries on commercial mortgage transactions. Also during 1998, the Company transferred $9,414,000 from its general reserve to case basis reserves associated predominantly with certain consumer receivable transactions. Giving effect to these transfers, the general reserve totaled $47,251,000 at December 31, 1998.

15. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES (CONTINUED)

Reserves for losses and loss adjustment expenses are discounted at risk-free rates. The amount of discount taken was approximately $16,029,000, $19,779,000 and $17,944,000 at December 31, 1998, 1997 and 1996, respectively.

16. RECENTLY ISSUED ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 is effective January 1, 2000.

The Company is in the process of determining the effect of these standards on its financial statements, but management does not believe that it will have a material effect on the Company's financial condition.

17. FINANCIAL SECURITY ASSURANCE INTERNATIONAL LTD. AND MINORITY INTEREST

On November 3, 1998, the Parent funded the Company's $80,000,000 investment in Financial Security Assurance International Ltd. (International), a new Bermuda-based financial guaranty insurer.

In November 1998, XL made a minority investment in International for $20,000,000. This interest is in the form of Cumulative Participating Voting Preferred Shares, which in total have a minimum fixed dividend of $1,000,000 per annum. For the period ended December 31, 1998, the Company recognized minority interest of $388,000.

EXHIBIT 99(C)

Board of Directors and Shareholder
Valley Group, Inc.

We have audited the consolidated statements of operations, changes in stockholder's equity and cash flows of Valley Group, Inc. and Subsidiaries (a wholly owned subsidiary of Fund American Enterprises Holdings, Inc.) for the year ended December 31, 1996, (not presented separately herein). 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (not presented separately herein) present fairly, in all material respects, the consolidated results of operations and cash flows of Valley Group, Inc. and Subsidiaries for the year ended December 31, 1996, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Portland, Oregon
February 14, 1997