

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13E-4

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

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

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

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

360768 10 5
(CUSIP Number of Class of Securities)

Michael S. Paquette
Vice President and Controller
Fund American Enterprises Holdings, Inc.
The 1820 House
Main Street
Norwich, Vermont 05055-0850
(802) 649-3633

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

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

February 21, 1995

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

Transaction Value*	Amount of Filing Fee*
\$56,250,000	\$11,250

*Based on \$75.00 cash price per share for 750,000 shares.

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

Page 1 of 62 pages
Exhibit Index is on page 6

ITEM 1. Security and Issuer.

(a) The name of the issuer is Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"). The Company's principal executive offices are located at The 1820 House, Main Street, Norwich, Vermont 05055-0850.

(b) The class of securities to which this statement relates is the Company's Common Stock, par value \$1.00 per share ("Shares"). As of February 17, 1995, there were 8,409,937 Shares outstanding. The Company is inviting shareholders to tender Shares to the Company at a price of \$75.00 per Share (the "Purchase Price"), net to the seller in cash, pursuant to the Offer to Purchase dated February 21, 1995 (the "Offer to Purchase") and the related Letter of Transmittal (which together constitute the "Offer"), copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, and are herein incorporated by reference. All Shares properly tendered and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to conditions of the Offer, including the proration provisions thereof. The Company reserves the right, in its sole discretion, to purchase more than 750,000 Shares pursuant to the Offer. Reference is hereby made to the "Introduction", Section 1, "Number of Shares; Proration; Extension of Offer", and Section 12, "Transactions and Arrangements Concerning the Shares", of the Offer to Purchase, each of which is herein incorporated by reference for information regarding whether Shares are to be purchased from any officer, director or affiliate of the Company, each of which is herein incorporated by reference.

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

(d) Not applicable.

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

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

(b) Not applicable.

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

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

ITEM 4. Interest in Securities of the Issuer.

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

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

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

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

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

ITEM 7. Financial Information.

(a) Reference is hereby made to the Company's fourth quarter 1994 Earnings Release dated February 1, 1995, a copy of which is attached hereto as Exhibit (g)(1), and is herein incorporated by reference and Section 9, "Certain Information Concerning the Company", of the Offer to Purchase, which Section is herein incorporated by reference.

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

ITEM 8. Additional Information.

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

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

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

(d) None.

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

ITEM 9. Material to be Filed as Exhibits.

- (a)(1) Offer to Purchase dated February 21, 1995.
- (a)(2) Letter of Transmittal (together with Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9).
- (a)(3) Notice of Guaranteed Delivery.
- (a)(4) Letter from the Company's Chairman to shareholders dated February 21, 1995.
- (a)(5) Form of Letter from First Chicago Trust Company of New York to Brokers, Dealers, Commercial Banks, Trust Companies and Nominees.
- (a)(6) Form of Letter from Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees to their clients.
- (a)(7) Form of summary advertisement dated February 21, 1995.
- (a)(8) Text of press release dated February 16, 1995.

(a)(9) Text of press release dated February 21, 1995.

(b) Not applicable.

(c) None.

(d) None.

(e) Not applicable.

(f) None.

(g)(1) The Company's fourth quarter 1994 Earnings Release dated February 1, 1995, herein incorporated by reference.

SIGNATURE

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

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

February 21, 1995

By: /s/ Michael S. Paquette

Michael S. Paquette
Vice President and Controller

4

5

EXHIBIT INDEX

Exhibits -----	Page -----
(a)(1) Offer to Purchase dated February 21, 1995.....	7
(a)(2) Letter of Transmittal (together with Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9).....	34
(a)(3) Notice of Guaranteed Delivery.....	47
(a)(4) Letter from the Company's Chairman to Shareholders dated February 21, 1995.....	49
(a)(5) Form of Letter from First Chicago Trust Company of New York to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.....	50
(a)(6) Form of Letter from Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees to their clients.....	52
(a)(7) Form of summary advertisement dated February 21, 1995....	55
(a)(8) Text of press release dated February 16, 1995.....	56
(a)(9) Text of press release dated February 21, 1995.....	57
(g)(1) The Company's fourth quarter 1994 Earnings Release dated February 1, 1995.....	58

Offer to Purchase for Cash
by
FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Up to
750,000 Shares of Its Common Stock
At \$75.00 Net Per Share

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MARCH, 20, 1995, UNLESS THE OFFER IS EXTENDED.

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is offering to purchase up to 750,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), for \$75.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"), including the proration provisions described herein. The Company reserves the right, in its sole discretion, to purchase more than 750,000 Shares pursuant to the Offer.

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

The Shares are listed and traded on the New York Stock Exchange (the "NYSE"). On February 15, 1995, the last full trading day before the announcement of the terms of the Offer, the reported closing sales price of the Shares on the NYSE Composite Tape was \$72 3/8 per Share, and on February 17, 1995, the last full trading day before the commencement of the Offer, the reported closing sales price was \$74 1/2 per Share. Shareholders are urged to obtain a current market quotation for the Shares.

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

The Information Agent for the Offer is:
First Chicago Trust Company of New York

February 21, 1995

IMPORTANT

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

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

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

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

TABLE OF CONTENTS

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

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

INTRODUCTION

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is offering to purchase up to 750,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$75.00 per Share (the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer").

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

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

As of February 17, 1995, there were 8,409,937 Shares outstanding. Pursuant to the Company's 1985 Long-Term Incentive Plan (the "Incentive Plan"), as of February 17, 1995, an additional 7,125 Shares were issuable upon the exercise of outstanding employee stock options. In addition to the Shares potentially issuable pursuant to the Incentive Plan, another 1,150,000 Shares were issuable as of February 17, 1995, upon the exercise of warrants held by John J. Byrne, Chairman, President and Chief Executive Officer of the Company.

Accordingly, the 750,000 Shares which the Company is offering to purchase in the Offer represent approximately 8.9% of the Shares outstanding as of February 17, 1995, and approximately 7.8% of the sum of the Shares then outstanding and all Shares which may be issued upon exercise of outstanding options and warrants as of such date. Holders of options and warrants would have to exercise such options or warrants and convert them irrevocably into Shares in order to tender such Shares pursuant to the Offer.

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

The Company has been informed by its directors and officers that they do not intend to tender Shares owned by them pursuant to the Offer, except that Allan L. Waters, the Company's Senior Vice President and Chief Financial Officer, and Arthur Zankel, a director of the Company, have informed the Company that they currently intend to tender 4,125 and 6,000 Shares, respectively, pursuant to the Offer.

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

The Shares are listed and traded on the New York Stock Exchange (the "NYSE"). On February 15, 1995, the last full trading day before the announcement of the terms of the Offer, the reported closing sales price on the NYSE Composite Tape was \$72 3/8 per Share, and on February 17, 1995, the last full trading day before the commencement of the Offer, the reported closing sales price was \$74 1/2 per Share. See Section 7. Shareholders are urged to obtain a current market quotation for the Shares.

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

THE OFFER

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

Upon the terms and subject to the conditions of the Offer, the Company will accept for payment (and will thereby purchase) up to 750,000 Shares or such lesser number of Shares as are properly tendered (and not withdrawn in accordance with Section 4) before the Expiration Date at the Purchase Price. The term "Expiration Date" means 12:00 Midnight, New York City time, on Monday, March 20, 1995, unless and until the Company shall have extended the period of time for which the Offer is open, in which event the term "Expiration Date" shall refer to the latest time and date at which the Offer, as so extended by the Company, shall expire. For a description of the Company's rights to extend the period of time during which the Offer is open and to delay, terminate or amend the Offer, see Section 15. See also Section 6. Subject to the purchase of Shares properly tendered and not withdrawn by Odd Lot Holders as set forth in Section 2, if the Offer is oversubscribed, Shares tendered before the Expiration Date will be subject to proration. The proration period also expires on the Expiration Date.

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

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

All Shares purchased pursuant to the Offer will be purchased at the Purchase Price, net to the seller in cash. The Company reserves the right, in its sole discretion, to purchase more than 750,000 Shares pursuant to the Offer. If (a) the Company (i) increases or decreases the price to be paid for Shares, (ii) increases the number of Shares being sought and any such increase exceeds 2% of the outstanding Shares or (iii) decreases the number of Shares being sought, and (b) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given in the manner specified in Section 15, the Offer will be extended until the expiration of such ten business day period. For the purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or Federal holiday and consists of the time period from 12:01 A.M. through 12:00 Midnight, New York City time.

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

If the number of Shares properly tendered and not withdrawn before the Expiration Date is less than or equal to 750,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will purchase at the Purchase Price all Shares so tendered and not withdrawn.

If the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 750,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority:

- (a) first, all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on February 13, 1995, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares (each an "Odd Lot Holder") who:
 - (1) tenders all Shares beneficially owned by such Odd Lot Holder (partial tenders will not qualify for this preference); and
 - (2) completes the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and
- (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

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

On November 11, 1987, the Board declared a dividend distribution of one Right (each, a "Right") for each Share outstanding on November 25, 1987. In addition, each Share issued subsequent to November 25, 1987, automatically receives a Right. The Rights expire on November 25, 1997, unless redeemed earlier by the Company. Each Right entitles its registered holder to purchase from the Company 1/1000th of a share of Series A Participating Cumulative Preferred Stock, par value \$1.00 per share (the "Participating Stock"), at a price of \$105, subject to adjustment to prevent dilution. The Rights currently are not exercisable and trade together with the Shares associated therewith, and will not become exercisable or separately tradeable as a result of the Offer. Absent the occurrence of circumstances causing the Rights to become exercisable or separately tradeable before the Expiration Date, the tender of any Shares pursuant to the Offer will include the tender of the Rights associated therewith. No separate consideration will be paid for such Rights. Upon the purchase of Shares by the Company pursuant to the Offer, shareholders selling those Shares will no longer own the Rights associated with such purchased Shares. See Section 9.

2. Tenders by Holders of Fewer than 100 Shares

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

3. Procedure for Tendering Shares

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

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

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

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

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

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

Signature Guarantees and Methods of Delivery. No signature guarantee is required on the Letter of Transmittal if the Letter of Transmittal is signed by the registered owner of the Shares (which term, for purposes of this Section, includes any participant in The Depository Trust Company, the Midwest Securities Trust Company or the Philadelphia Depository Trust Company (collectively, the "Book-Entry Transfer Facilities") whose name appears on a security position listing as the owner of the Shares) tendered therewith, and payment and delivery are to be made directly to such registered owner at such owner's address shown on the records of the Company, or if Shares are tendered for the account of a financial institution (including most banks, savings and loan associations, and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program (each such entity being hereinafter referred to as an "Eligible Institution"). In all other cases, all signatures on the Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 1 of the Letter of Transmittal. If a certificate representing Shares is registered in the name of a person other than the person signing a Letter of Transmittal, or if payment is to be made, or certificates for Shares not purchased or tendered are to be issued, to a person other than the registered owner, the certificate must be endorsed or accompanied by an appropriate stock power, in either case signed exactly as the name of the registered owner appears on the certificate, with the signature on the certificate or stock power guaranteed by an Eligible Institution. In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depository of certificates for such Shares (or a timely confirmation of a book-entry transfer of such Shares into the Depository's account at one of the Book-Entry Transfer Facilities), a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal.

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

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

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

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

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

- (a) such tender is made by or through an Eligible Institution;
- (b) the Depositary receives (by hand, mail or facsimile transmission) before the Expiration Date, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form the Company has provided with this Offer to Purchase; and
- (c) the certificates for all tendered Shares in proper form for transfer (or confirmation of book-entry transfer of such Shares into the Depositary's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and any other documents required by the Letter of Transmittal, are received by the Depositary within five NYSE trading days after the date of execution of such Notice of Guaranteed Delivery.

Determination of Validity; Rejection of Shares; Waiver of Defects; No Obligation to Give Notice of Defects. All questions as to the number of Shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. The Company reserves the absolute right to reject any or all tenders

determined by it not to be in proper form or the acceptance for payment of which may, in the opinion of the Company's counsel, be unlawful. The Company also reserves the absolute right to waive any of the conditions of the Offer (except as otherwise provided in Section 6) and any defect or irregularity in the tender of any particular Shares. No tender of Shares will be deemed properly made until all defects or irregularities have been cured or waived. None of the Company, the Depositary, the Information Agent or any other person is or will be obligated to give notice of any defects or irregularities in tenders, and none of them will incur any liability for failure to give any such notice.

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

4. Withdrawal Rights

Except as otherwise provided in this Section 4, a tender of Shares pursuant to the Offer is irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date and, unless theretofore accepted for payment by the Company, after 12:00 Midnight, New York City time, on Monday, April 17, 1995.

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

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Company, in its sole discretion, which determination shall be final and binding on all parties. None of the Company, the Depositary, the Information Agent or any other person is or will be obligated to give any notice of any defects or irregularities in any notice of withdrawal, and none of them will incur any liability for failure to give any such notice. A withdrawal of a tender may not be rescinded and Shares properly withdrawn shall thereafter be deemed not to be validly tendered for purposes of the Offer. Withdrawn Shares, however, may be retendered before the Expiration Date by again following one of the procedures described in Section 3.

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

Upon the terms and subject to the conditions of the Offer, as soon as practicable after the Expiration Date, the Company will purchase and pay the Purchase Price for 750,000 Shares (subject to increase or decrease as provided in Sections 1 and 15) or such lesser number of Shares as are properly tendered and not withdrawn as permitted in Section 4. For purposes of the Offer, the Company will be deemed to have accepted for payment (and thereby purchased), subject to

proration, Shares which are tendered and not withdrawn when, as and if the Company gives oral or written notice to the Depository of the Company's acceptance of such Shares for payment pursuant to the Offer.

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

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

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

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

6. Certain Conditions of the Offer

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

(a) there shall have been threatened, instituted or pending any action or proceeding by any government or governmental, regulatory or administrative agency or authority or tribunal or any other person, domestic or foreign, before any court or governmental, regulatory or administrative authority, agency or tribunal, domestic or foreign, which (i) challenges the making of the Offer or the acquisition of Shares pursuant to the Offer, or otherwise, directly or

indirectly, relates in any manner to the Offer; or (ii) in the sole judgment of the Company, could materially affect the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of the Company or any of its subsidiaries or materially impair the Offer's contemplated benefits to the Company;

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

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any United States national securities exchange or in the over-the-counter market (excluding any coordinated trading halt triggered solely as a result of a specified decrease in a market index); (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States; (iii) the commencement of a war, armed hostilities or other international or national crisis directly or indirectly involving the United States; (iv) any limitation (whether or not mandatory) by any governmental, regulatory or administrative agency or authority on, or any event which, in the sole judgment of the Company, might affect, the extension of credit by banks or other lending institutions in the United States; (v) any significant decrease in the market price of the Shares; (vi) any change in the general political, market, economic or financial conditions in the United States or abroad that could, in the sole judgment of the Company, have a material adverse effect on the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, or the trading in the Shares; (vii) in the case of any of the foregoing existing at the time of the commencement of the Offer, in the sole judgment of the Company, a material escalation, acceleration or worsening thereof; or (viii) any decline in either the Dow Jones Industrial Average (3,953.54 at the close of business on February 17, 1995) or the Standard and Poor's Index of 500 Industrial Companies (481.97 at the close of business on February 17, 1995) by an amount in excess of 10% measured from the close of business on February 17, 1995;

(d) after February 17, 1995, any tender or exchange offer with respect to the Shares (other than the Offer), or any merger, acquisition, business combination or other similar transaction with or involving the Company or any subsidiary, shall have been proposed, announced or made by any person or entity;

(e) after February 17, 1995, any change shall occur or be threatened in the business, condition (financial or otherwise), income, operations or prospects of the Company and its subsidiaries, taken as a whole, which, in the sole judgment of the Company, is or may be material to the Company;

(f) (i) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) shall have acquired, or proposed to acquire, beneficial ownership of more than 5% of the outstanding Shares (other than a person, entity or group which had publicly disclosed such ownership in a Schedule 13D or 13G (or an amendment thereto) on file with the Securities and Exchange Commission (the "SEC") prior to February 17, 1995), (ii) any new group shall have been formed which beneficially owns more than 5% of the outstanding Shares; or (iii) any person, entity or group shall have filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or made a public announcement reflecting an intent to acquire the Company or any of its subsidiaries or any of their respective assets or securities; or

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

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

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

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

7. Price Range of Shares; Dividends

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

	High	Low
1993:		
First Quarter	\$ 80 1/2	\$ 71 5/8
Second Quarter	86 1/2	79 3/4
Third Quarter	90 1/4	82
Fourth Quarter	92 3/8	73 1/2
1994:		
First Quarter	77	64 3/4
Second Quarter	70 3/8	60 1/2
Third Quarter	78 3/8	69 3/4
Fourth Quarter	79 1/4	70 1/2
1995:		
First Quarter (through February 17)	76	71 3/4

On February 15, 1995, the last full trading day before the announcement of the Offer, the reported closing sales price of the Shares on the NYSE Composite Tape was \$72 3/8 per Share, and on February 17, 1995, the last full trading day before the commencement of the Offer, the reported closing sales price was \$74 1/2 per Share. Shareholders are urged to obtain a current market quotation for the Shares.

Since 1991 the Company has not paid regular cash dividends to holders of Shares, and the Board currently does not intend to reinstate regular periodic dividends on Shares. However, the Board currently intends to reconsider from time to time the declaration of regular periodic dividends on Shares with due consideration given to the financial characteristics of the Company's remaining invested assets and operations and the amount and regularity of its cash flows at the time. There can be no assurance, therefore, as to when or whether the Board will declare additional dividends on Shares.

On December 22, 1993, the Company distributed to its shareholders approximately 74% of the outstanding shares of Common Stock of White River Corporation (together with its subsidiaries, "White River"). White River was capitalized by the Company on September 24, 1993, with \$257.6 million in total assets and \$200.0 million of common shareholder's equity. The distribution of shares of White River Common Stock had the effect of reducing the Company's book value per common and equivalent share as of December 31, 1993, by approximately \$15.

The Company may in the future purchase additional Shares on the open market, in private transactions, through tender offers or otherwise. See Section 8.

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

The Company believes that it currently has capital in excess of its ongoing needs in an amount equal to or greater than the maximum amount contemplated by the Offer. Accordingly, the Board has determined that it is in the interest of the Company's shareholders to offer to return such excess capital to shareholders by creating a selling opportunity for shareholders through a repurchase by the Company of up to 750,000 Shares. The Offer will also afford to shareholders the opportunity to dispose of Shares without the usual transaction costs associated with any market sale. The Offer will further allow qualifying Odd Lot Holders whose Shares are purchased pursuant to the Offer to avoid the payment of brokerage commissions and any applicable odd-lot discount payable on a sale of Shares in a transaction effected on a securities exchange. Shareholders whose Shares are not purchased in the Offer will obtain an increase in their ownership interest in the Company and thus in the Company's future earnings and assets. To the extent the purchase of Shares in the Offer results in a reduction in the number of shareholders of record, the costs to the Company for services to shareholders will be reduced.

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

Aside from the Offer, the Board has not determined if or when any other distribution to common shareholders will occur. See Section 7. The Company may in the future purchase additional Shares on the open market, in private transactions, through tender offers or otherwise. Any such purchases may be on the same terms or on terms which are more or less favorable to shareholders than the terms of the Offer. The Offer, if fully subscribed, will exhaust the Company's remaining authorization to repurchase Shares.

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

Shares acquired by the Company pursuant to the Offer will be retired. Certain pro forma financial effects of the purchase of 750,000 Shares pursuant to the Offer are described in Section 9.

The purchase of 750,000 Shares pursuant to the Offer will not cause the Shares to be delisted by the NYSE or deregistered under the Exchange Act. See clause (g) of Section 6.

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

9. Certain Information Concerning the Company

The Company was organized in 1980. The Company's principal business is conducted through its wholly owned subsidiary, Source One Mortgage Services Corporation, and its subsidiaries (collectively, "Source One"). The Company's newest operating affiliate is Financial Security Assurance Holdings Ltd. ("FSA"), a leading Aaa/AA writer of financial guarantee insurance. The Company's voting control of FSA is approximately 23%. The Company also owns a portfolio of common equity securities and other investments totalling \$489.7 million as of December 31, 1994. The portfolio investments consist in great part of large blocks of securities of a small number of issuers, many of them in the energy, natural resources and related industries. This concentration may make the value of the Company's investment portfolio more volatile than the value of a more diversified portfolio.

The Company's principal office is located at The 1820 House, Main Street, Norwich, Vermont, 05055-0850, and its telephone number is (802) 649-3633.

Source One Mortgage Services Corporation. Source One is one of the largest mortgage banking companies in the United States based on the size of its mortgage loan servicing portfolio. As of December 31, 1994, Source One had a mortgage loan servicing portfolio totalling \$39.6 billion, which is serviced on behalf of approximately 350 institutional investors and numerous other security holders. See "Recent Developments" below. As of December 31, 1994, Source One had 144 retail branch offices in 28 states and originated \$4.6 billion in new mortgage loans for the year then ended.

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

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

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

Source One currently retains the rights to service the majority all of the mortgage loans it produces. In addition, Source One may acquire the rights to service or subservice a mortgage loan portfolio without originating or acquiring the underlying mortgage loans. Source One customarily makes such purchases of servicing rights from banks, thrift institutions and other mortgage lenders. The fees paid to acquire such servicing rights are negotiated on a case-by-case basis. Mortgage loan servicing consists primarily of collecting monthly loan payments, remitting amounts due to investors, collecting property tax and insurance escrow deposits, and making tax and insurance premium payments when due. Source One retains a servicing fee from each monthly loan payment equal to a fixed percentage of the outstanding principal balance of each loan, plus any late charges.

Financial Security Assurance Holdings Ltd. On May 13, 1994, the Company purchased 2,000,000 shares of FSA common stock from U S WEST Capital Corp., a wholly-owned subsidiary of U S WEST, Inc., as part of an initial public offering of 8,082,385 shares of FSA's common stock at the initial offering price of \$20.00 per share. The Company's initial stake represents a 7.6% ownership of FSA. The Company's Chairman, John J. Byrne, has also become Chairman of FSA.

FSA conducts operations principally through Financial Security Assurance, Inc., a wholly-owned monoline financial guarantee insurance subsidiary with Aa/AA claims-paying ratings. FSA is principally engaged in guaranteeing residential mortgage and other asset-backed securities and municipal bonds.

Following receipt of regulatory approvals, on September 2, 1994, the Company acquired additional rights and securities whereby it substantially increased its holdings in FSA. Such additional rights and securities included (i) various fixed price options and shares of convertible preferred stock which, in total, give the Company the right to acquire over the next five to ten years up to 4,560,607 additional shares of FSA common stock for aggregate consideration of \$125.7 million; and (ii) a "call right" which, in general, gives the Company the right through November 13, 1995, to acquire up to 9,000,000 additional shares of FSA common stock for per share consideration equal to the higher of (a) market price or (b) a fixed price ranging from \$29.00 to \$30.50. The Company also has a "right of first offer" through November 13, 1995, relating to the same 9,000,000 shares of FSA common stock. All shares of FSA common stock owned or acquired by the Company as described above will be subject to certain restrictions on transfer, voting provisions and other limitations and requirements set forth in a Shareholders' Agreement, a Registration Rights Agreement and a Voting Trust Agreement.

Recent Developments. Source One recently entered into a definitive agreement to sell \$9.8 billion of its servicing portfolio to a third party. The transaction will result in Source One recognizing a pretax gain in the first quarter of 1995 of \$28.2 million. The Company reported in its 1994 Earnings Release a \$68.1 million pretax charge, recorded as a cumulative adjustment as of January 1, 1994, relating to a change in the manner by which Source One measures "impairment" of its purchased mortgage servicing asset. Previously, Source One measured the asset's impairment on an undiscounted, disaggregated basis. The new accounting methodology measures the asset's impairment on a disaggregated basis and discounts the asset's cash flow using a current market rate.

The Company purchased an additional 460,200 shares of FSA Common Stock on the open market in the first quarter of 1995 for \$5.6 million which raised its voting control of FSA to approximately 23%.

On February 15, 1995, the Human Resources Committee of the Board (the "HRC") approved, subject to the approval of shareholders at the Company's 1995 Annual Meeting of Shareholders to be held in May, a new five-year employment contract (the "Contract"), beginning as of January 1, 1995 and ending December 31, 1999, between John J. Byrne and the Company. The Contract calls for: (i) Mr. Byrne to continue to serve as Chairman, President and Chief Executive Officer of the Company for the five-year term of the Contract at his current salary, (ii) an extension of the expiration date with respect to 1,000,000 of the 1,150,000 warrants he currently holds to purchase Shares from January 2, 1996 to January 2, 2002, and (iii) providing Mr. Byrne the right to enter into a new loan from the Company, or to receive a Company

guarantee of a loan with a third party on Mr. Byrne's behalf, in an amount up to \$15.0 million, upon the maturity of his outstanding \$30.0 million loan with the Company which becomes due on October 23, 1995. If the Company makes the new loan to Mr. Byrne, the loan would be a recourse loan having a term ending on or before December 31, 1999, a market interest rate and standard commercial terms.

On February 15, 1995, the HRC also approved, subject to the approval of the Company's shareholders in May 1995, a series of amendments to the Incentive Plan to: (i) extend the Incentive Plan's current expiration date from September 1995 to May 2005, (ii) increase to 500,000 the number of Shares which may be granted to participants pursuant to the Incentive Plan (from 353,762 available for grant as of February 17, 1995), and (iii) to change the name of the Incentive Plan to the Fund American Long-Term Incentive Plan. The Incentive Plan provides for granting to officers and key employees of the Company and its participating subsidiaries various types of stock-based incentive awards including stock options and performance shares.

Summary Historical Consolidated Financial Information. The summary financial information for the years ended December 31, 1994 and 1993, set forth below, has been derived from and should be read in conjunction with the audited consolidated financial statements (including the related notes thereto) included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (the "Form 10-K") and the Company's fourth quarter 1994 earnings release dated February 1, 1995 (the "1994 Earnings Release") filed as an exhibit to the Company's Issuer Tender Offer Statement on Schedule 13E-4 relating hereto (the "Schedule 13E-4"). Such summary financial information is qualified in its entirety by reference to such reports and all financial statements and related notes contained therein. The Form 10-K should be available for examination, and copies should be obtainable, in the manner set forth below under "Additional Information". The 1994 Earnings Release is available through the Company upon request and without charge. Written or telephone requests should be directed to the Corporate Secretary, Fund American Enterprises Holdings, Inc., The 1820 House, Main Street, Norwich, Vermont 05055-0850, telephone number (802) 649-3633.

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

	Year Ended December 31,	
	1994	1993
(Dollars in millions, except per share amounts)		
Ending Balance Sheet Data:		
Total assets	\$ 1,807.3	\$ 3,305.0
Short-term debt	224.1	1,536.8
Long-term debt	577.0	601.3
Minority interest - preferred stock of subsidiary	100.0	--
Shareholders' equity	661.1	905.0
Book value per common and equivalent share	68.95	77.27
Income Statement Data:		
Total revenues	\$ 228.5	\$ 251.0
Total expenses	(225.7)	(234.1)
Net investment gains	38.8	124.0
Income tax provision	(20.5)	(70.5)
After tax earnings	21.1	70.4
Cumulative effect of accounting change - capitalized mortgage servicing, after tax	(44.3)	--
Net income (loss)	\$ (23.2)	\$ 70.4
Earnings per share:		
After tax earnings	\$ 1.20	\$ 5.68
Net income (loss)	(3.51)	5.68
Ratio of earnings to combined fixed charges and preferred stock dividends	1.22	1.90

Notes to Summary Historical Consolidated Financial Information

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

(Dollars in millions)	Year Ended December 31,	
	1994	1993
Pretax earnings	\$ 41.6	\$140.9
Interest expense	78.8	103.1
Portion of rent representative of interest expense	2.3	1.9
Pretax earnings as adjusted	\$122.7	\$245.9
Preferred stock dividend requirements	\$ 19.4	\$ 24.4
Interest expense	78.8	103.1
Portion of rent representative of interest expense	2.3	1.9
Total fixed charges and preferred stock dividends	\$100.5	\$129.4

(B) Earnings per share amounts are based on the weighted average number of common and dilutive common equivalent shares outstanding of 9,408,785 and 10,247,746 for the years ended December 31, 1994 and 1993, respectively.

Pro Forma Financial Information (Unaudited). The following unaudited pro forma financial information sets forth the pro forma effects on the historical financial results of the Company of the Offer assuming 750,000 Shares are purchased in the Offer for \$75.00 per Share, net to the seller in cash, or an aggregate cost to the Company of approximately \$56.4 million including estimated related fees and expenses of \$150,000.

The condensed consolidated pro forma balance sheet as of December 31, 1994, assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of December 31, 1994. The condensed consolidated pro forma income statement for the year ended December 31, 1994, assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of January 1, 1994. See "Notes to Pro Forma Financial Information" in this Section 9 below.

The estimated financial effects of the repurchase of Shares by the Company pursuant to the Offer presented in the pro forma financial information are not necessarily indicative of either the Company's financial position or the results of its operations which would have been obtained had the transactions described above actually occurred on the dates described above, nor are they necessarily indicative of the results of future operations. The pro forma financial information should be read in conjunction with the Company's 1994 Earnings Release.

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

	December 31, 1994		
	Actual	Adjust- ments	Pro Forma
	-----	-----	-----
Assets			
Common equity securities, at market value	\$ 332.4		\$ 332.4
Other investments	157.3		157.3
Short-term investments	119.2	\$(56.4)	62.8
	-----	-----	-----
Total Investments	608.9	(56.4)	552.5
Cash	1.5		1.5
Capitalized mortgage servicing, net	530.5		530.5
Mortgage loans held for sale	210.5		210.5
Other mortgage origination and servicing assets	213.7		
Investment in unconsolidated affiliates	69.7		69.7
Other assets	172.5		172.5
	-----	-----	-----
Total assets	\$1,807.3	\$(56.4)	\$1,750.9
	=====	=====	=====
Liabilities			
Short-term debt	\$ 224.1		\$ 224.1
Long-term debt	577.0		577.0
Accounts payable and other liabilities	245.1		245.1
	-----	-----	-----
Total liabilities	1,046.2		1,046.2
	-----	-----	-----
Minority Interest - preferred stock of subsidiary	100.0		100.0
	-----	-----	-----
Shareholders' Equity			
Preferred stock	75.0		75.0
Common stock and paid-in surplus	371.7	\$ (8.3)	363.4
Retained earnings	1,098.2	(48.1)	1,050.1
Common stock in treasury	(878.5)		(878.5)
Net unrealized gains on investment securities	19.7		
Loan for common stock issued	(25.0)		(25.0)
	-----	-----	-----
Total shareholders' equity	661.1	(56.4)	604.7
	-----	-----	-----
Total liabilities, minority interest and shareholders' equity	\$1,807.3	\$(56.4)	\$1,750.9
	=====	=====	=====
Book value per common and equivalent share	\$ 68.95	\$ (.53)	\$ 66.42

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

	Year Ended December 31, 1994		
	Actual	Adjust- ments	Pro Forma
Revenues:			
Mortgage servicing revenue	\$ 169.3	\$	\$ 169.3
Amortization of capitalized servicing	86.9		86.9
Net servicing revenue	82.4		82.4
Net gain on sales of mortgages	29.5		29.5
Other mortgage operations revenue	23.9		23.9
Equity in earnings of unconsolidated affiliate	2.5		2.5
Net investment income and other revenue	90.2	(2.0)	88.2
Total Revenues	228.5	(2.0)	226.5
Expenses:			
Interest expense	78.8		78.8
Compensation and benefits	69.2		69.2
General expenses	77.7		77.7
Total expenses	225.7		225.7
Pretax operating earnings	2.8	(2.0)	.8
Net realized investment gains	38.8		38.8
Pretax earnings	41.6	(2.0)	39.6
Income tax provision	20.5	(.7)	19.8
After tax earnings	\$ 21.1	\$ (1.3)	\$ 19.8
Earnings per share:			
After tax earnings	\$ 1.20	\$ (.05)	\$ 1.15
Net loss	(3.51)	(.46)	(3.97)
Earnings per share denominator (in thousands)	9,409	(750)	8,659
Ratio of earnings to combined fixed charges and preferred stock dividends	1.22	(.02)	1.20

Notes to Pro Forma Financial Information (Unaudited)

The condensed consolidated pro forma balance sheet as of December 31, 1994, assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of December 31, 1994. The condensed consolidated pro forma income statement for the year ended December 31, 1994, assumes that the repurchase of Shares by the Company pursuant to the Offer had occurred as of January 1, 1994, and includes only those adjustments that are expected to have a continuing impact on the Company. The "adjustments" presented in the pro forma financial information reflect the following assumptions:

- a) The condensed consolidated pro forma balance sheet assumes that (i) the \$56.4 million of funds used by the Company to repurchase 750,000 Shares pursuant to the Offer and pay related fees and expenses are derived from sales and maturities of short-term investments and (ii) the Shares repurchased by the Company pursuant to the Offer are retired.
- b) The condensed consolidated pro forma income statement assumes that the annualized yield on short-term investments used to fund the repurchase of Shares by the Company pursuant to the Offer and pay related fees and expenses was 3.57% for the year ended December 31, 1994. This assumed yield is equal to the average yield actually experienced with respect to the Company's short-term investments during the period indicated.

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

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

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

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

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

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

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

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

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

Additional Information. The Company is subject to the informational reporting requirements of the Exchange Act and in accordance therewith the Company files reports, proxy statements and other information with the SEC. Additional information concerning the Company is set forth in such proxy statements, the Company's Annual Report on Form 10-K for the year ended December 31, 1993, and the 1994 Earnings Release. The Company has filed the Schedule 13E-4 with the SEC which includes certain additional information relating to the Offer. The reports, proxy statements and other information filed by the Company with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC at Seven World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 West Madison Street (Suite 1400), Chicago, Illinois 60661. Copies of such material also can be obtained at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, material filed by the Company can also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005. The Company's Schedule 13E-4 will not be available at the SEC's regional offices.

10. Source and Amount of Funds

If 750,000 Shares are purchased by the Company pursuant to the Offer at \$75.00 per Share, net to the seller in cash, the aggregate cost to the Company, including all related fees and expenses of the Offer, will be approximately \$56.4 million. The Company anticipates that it will fund the purchase of Shares pursuant to the Offer and the payment of related fees and expenses through sales and maturities of short-term investments.

11. Certain Federal Income Tax Considerations

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

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

Notwithstanding the foregoing, the amount received by a tendering shareholder will be treated as a dividend taxable as ordinary income if the Offer does not result in (i) a complete termination of such shareholder's stock interest in the Company, (ii) a more than 20% decrease in such shareholder's ownership of Shares and other voting stock of the Company or (iii) a "meaningful reduction" in such shareholder's proportionate interest in the Company. There are no

precise rules on what constitutes a "meaningful reduction" in a shareholder's proportionate interest, but the Internal Revenue Service has ruled that even a small reduction is meaningful where the stock owned by the shareholder prior to reduction represents a "minimal" interest in the corporation (only .0001118% in the ruling) and the shareholder does not otherwise exercise any control over the affairs of the corporation. The extent to which a shareholder's proportionate interest is reduced will depend upon the extent to which other shareholders tender Shares in the Offer. In determining the extent to which a shareholder's proportionate interest is reduced, the shareholder must take into account any Shares owned by related persons that such shareholder is deemed to own under the constructive ownership rules of Sections 302(c) and 318 of the Code.

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

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

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

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

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

12. Transactions and Arrangements Concerning the Shares

Based upon the Company's records and upon information provided to the Company by its directors and executive officers, neither the Company nor any of its subsidiaries nor, to the best of the Company's knowledge, any of the directors or officers of the Company, nor any associates of any of the foregoing, has effected any transactions in the Shares during the 40 business days prior to the date hereof. For a discussion of certain modifications to warrants in respect of the Shares held by John J. Byrne, Chairman, President and Chief Executive Officer of the Company, see Section 9 "Recent Developments".

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

The Company has been informed by its directors and officers that they currently do not intend to tender Shares owned by them pursuant to the Offer, except that Allan L. Waters, the Company's Senior Vice President and Chief Financial Officer, and Arthur Zankel, a director of the Company, have informed the Company that they currently intend to tender 4,125 and 6,000 Shares, respectively, pursuant to the Offer.

13. Certain Legal Matters; Regulatory and Foreign Approvals

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

14. Allianz Asset Accumulation Plan

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

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

15. Extension of Tender Period; Termination; Amendments

The Company expressly reserves the right, in its sole discretion, at any time or from time to time and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by the Company to have occurred, to extend the period of time during which the Offer is open and thereby delay acceptance for payment of any Shares by giving oral or written notice of such extension to the Depository and making a public announcement thereof. During any such extension, all Shares previously tendered and not purchased or withdrawn will remain subject to the Offer, except to the extent that such Shares may be withdrawn as set forth in Section 4. The Company also expressly reserves the right, in its sole discretion, to terminate the Offer and not accept for payment or pay for any Shares not theretofore accepted for payment or paid for or, subject to applicable law, to postpone payment for Shares upon the occurrence of any of the conditions specified in Section 6 or otherwise by giving oral or written notice of such termination or postponement to the Depository and making a public announcement thereof. The Company's reservation of the right to delay payment for Shares which it has accepted for payment is limited by Rule 13e-4(f)(5) promulgated under the Exchange Act, which

requires that the Company must pay the consideration offered or return the Shares tendered promptly after termination or withdrawal of a tender offer. Subject to compliance with applicable law, the Company further reserves the right, in its sole discretion, and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by the Company to have occurred, to amend the Offer in any respect (including, without limitation, by decreasing or increasing the consideration offered in the Offer to owners of Shares or by decreasing the number of Shares being sought in the Offer) or to waive the limitation on the maximum number of shares to be purchased pursuant to the Offer. Amendments to the Offer may be made at any time or from time to time effected by public announcement thereof, such announcement, in the case of an extension, to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Any disclosure of a material change in the information published, sent or given to shareholders will be disseminated promptly to shareholders in a manner reasonably designed to inform shareholders of such change. Without limiting the manner in which the Company may choose to make a public announcement pursuant to or concerning the Offer, except as required by applicable law, the Company shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones News Service.

If the Company makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, the Company will disseminate additional tender offer materials and extend the Offer to the extent required by Rules 13e-4(d)(2) and 13e-4(e)(2) promulgated under the Exchange Act. The minimum period during which an offer must remain open following material changes in the terms of the offer or information concerning the offer (other than a change in price or a change in percentage of securities sought) will depend on the facts and circumstances then existing, including the relative materiality of the changed terms or information. If (a) the Company (i) increases or decreases the price at which Shares may be properly tendered, (ii) increases the number of Shares being sought and such increase exceeds 2% of the outstanding Shares or (iii) decreases the number of Shares being sought, and (b) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from and including the date that notice of such increase or decrease is first published, sent or given, the Offer will be extended until the expiration of such ten business day period.

16. Fees and Expenses

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

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

17. Miscellaneous

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

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

February 21, 1995

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

The Depository and the Information Agent for the Offer is:

First Chicago Trust Company of New York

Facsimile Transmission:
(For Eligible Institutions Only)

201-222-4720
201-222-4721

By Mail:
Tenders & Exchanges
Suite 4660 - FA
P.O. Box 2562
Jersey City, NJ 07303-2562

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

For Information:
1-800-438-0057

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

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

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

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

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

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

Ladies and Gentlemen:

The undersigned hereby tenders to Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), the above-described shares of Common Stock, par value \$1.00 per share, of the Company ("Shares"), at a price of \$75.00 per Share (the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated February 21, 1995 (the "Offer to Purchase"), receipt of which is hereby acknowledged, and in this Letter of Transmittal (which together constitute the "Offer").

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

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

The undersigned hereby represents and warrants that:

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

The undersigned understands that all Shares properly tendered and not withdrawn will be purchased at \$75.00 per Share (or such other price that may be set forth in an amendment to the Offer), net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions thereof and that the Company will return all other Shares, including Shares not purchased because of proration.

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

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

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

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

ODD LOTS

(See Instruction 7)

To be completed ONLY if Shares are being tendered by or on behalf of a person who beneficially owned as of the close of business on February 13, 1995, and who will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares.

The undersigned either (check one box):

was the beneficial owner as of the close of business on February 13, 1995, and will continue to be the beneficial owner until the Expiration Date of an aggregate of fewer than 100 Shares, and is tendering all such Shares, or

is an "Eligible Institution" (as defined in Instruction 1) that (i) is tendering, for the beneficial owners thereof, Shares with respect to which it is the record owner and (ii) believes, based upon representations made to it by each such beneficial owner, that each such beneficial owner beneficially owned as of the close of business on February 13, 1995, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

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

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

Mail check and/or certificates to:

Name _____
(Please Print)
Address _____

(Zip Code)

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

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

Issue any check and/or certificates to:

Name _____
(Please Print)
Address _____

(Zip Code)
(Taxpayer Identification Number)

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

Signature(s) of Owner(s)
Name(s) _____
(Please Print)

Capacity (full title) _____
Address _____

(Include Zip Code)
Area Code and Telephone Number _____
Taxpayer Identification Number _____
(See Instruction 11)

Dated: _____, 1995

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

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

Authorized Signature _____

Name -----
(Please Print)

Title -----

Name of Firm -----

Address -----
(Include Zip Code)

Area Code and Telephone Number -----

Dated: -----, 1995

IMPORTANT TAX INFORMATION

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

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

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

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

What Number to Give the Depository

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

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

SUBSTITUTE
FORM W-9

Part 1 - PLEASE
PROVIDE YOUR TIN IN
THE BOX AT RIGHT AND
CERTIFY BY
SIGNING AND DATING
BELOW

Social security number(s)
/ /

OR
Employer identification
number(s)
/

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

Part 2 -
Awaiting TIN []

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

Name

(Please print)

Address

(Including zip code)

SIGNATURE DATE

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

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

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

Signature Date

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

INSTRUCTIONS

Forming Part of the Terms and Conditions of the Offer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. Odd Lots. As described in Sections 1 and 2 of the Offer to Purchase, if the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 750,000 (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase first from all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on February 13, 1995, and who continued to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, who tendered all Shares beneficially owned by such person (partial tenders of Shares will not qualify for this preference) and who completes the box captioned "Odd Lots" in this Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery. This preference will not be available unless the box above entitled "Odd Lots" is completed.

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

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

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

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

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

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

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

The Depository and the Information Agent for the Offer is:

First Chicago Trust Company of New York

By Mail:

Tenders & Exchanges

Suite 4660 - FA

P.O. Box 2562

Jersey City, NJ 07303-2562

By Hand:

Tenders & Exchanges

Suite 4680 - FA

14 Wall Street - 8th Floor

New York, NY 10005

For Information:

1-800-438-0057

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

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9

Guidelines for Determining the Proper Identification Number to Give the Payer.--
Social Security numbers have nine digits separated by two hyphens: i.e.
000-00-0000. Employer identification numbers have nine digits separated by only
one hyphen; i.e. 00-0000000. The table below will help determine the number to
give the payer.

For this type of account:	Give the SOCIAL SECURITY number of --	For this type of account:	Give the EMPLOYER IDENTIFICATION number of --
1. An individual's account	The individual	9. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(5)
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)	10. Corporate account	The corporation
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)	11. Religious, charitable, or educational organization account	The organization
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)	12. Partnership account held in the name of the business	The partnership
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)	13. Association, club, or other tax-exempt organization	The organization
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)	14. A broker or registered nominee	The broker or nominee
7. a The usual revocable savings trust account (grantor is also trustee) b So-called trust account that is not a legal or valid trust under State law	The grantor-trustee(1) The actual owner(1)	15. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity
8. Sole proprietorship account	The owner(4)		

- (1) List first and circle the name of the person whose number you furnish.
- (2) Circle the minor's name and furnish the minor's social security number.
- (3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.
- (4) Show the name of the owner.
- (5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

GUIDELINES FOR CERTIFICATE OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9

Page 2

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- . A corporation.
- . A financial institution.
- . An organization exempt from tax under section 501(a), or an individual retirement plan.
- . The United States or any agency or instrumentality thereof.
- . A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- . A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- . An international organization or any agency, or instrumentality thereof.
- . A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- . A real estate investment trust.
- . A common trust fund operated by a bank under section 584(a).
- . An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- . An entity registered at all times under the Investment Company Act of 1940.
- . A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- . Payments to nonresident aliens subject to withholding under section 1441.
- . Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- . Payments of patronage dividends where the amount received is not paid in money.
- . Payments made by certain foreign organizations.
- . Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

- . Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- . Payments of tax-exempt interest (including exempt-interest dividends under section 652).
- . Payments described in section 6049(b)(5) to non-resident aliens.
- . Payments on tax-free covenant bonds under section 1451.
- . Payments made by certain foreign organizations.
- . Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045, and 6050A.

PRIVACY ACT NOTICE.--Section 6019 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Beginning January 1, 1993, payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) FAILURE TO REPORT CERTAIN DIVIDEND AND INTEREST PAYMENTS.--If you fail to include any portion of an includible payment for interest, dividends, or patronage dividends in gross income, such failure will be treated as being due to negligence and will be subject to a penalty of 5% on any portion of an under-payment attributable to that failure unless there is clear and convincing evidence to the contrary.

(3) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(4) CRIMINAL PENALTY FOR FALSIFYING INFORMATION.--Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE

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

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

- (a) certificates for shares of Common Stock, par value \$1.00 per share ("Shares"), of Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), are not immediately available; or
- (b) the procedure for book-entry transfer (set forth in Section 3 of the Company's Offer to Purchase dated February 21, 1995 (the "Offer to Purchase")) cannot be followed on a timely basis; or
- (c) time will not permit the Letter of Transmittal and all other required documents to be delivered to the depository for the Offer (the "Depository") before the Expiration Date (as defined in Section 1 of the Offer to Purchase).

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

To: FIRST CHICAGO TRUST COMPANY OF NEW YORK, Depository

By Mail:	Facsimile Transmission: (For Eligible Institutions only)	By Hand:
Tenders & Exchanges Suite 4660 - FA P.O. Box 2562 Jersey City, NJ 07303-2562	(201) 222-4720 (201) 222-4721	Tenders & Exchanges Suite 4680 - FA 14 Wall Street - 8th Floor New York, NY 10005

To Confirm Receipt of
 Notice of Guaranteed Delivery:

(201) 222-4707

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

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

Ladies and Gentlemen:

The undersigned hereby tenders to the Company, at a price of \$75.00 per Share (or such other price set forth in an amendment to the Offer referred to below), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase and the related Letter of Transmittal (which together constitute the "Offer"), receipt of which is hereby acknowledged, _____ Shares pursuant to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase.

ODD LOTS

(See Instruction 7 of the Letter of Transmittal)

To be completed ONLY if Shares are being tendered by or on behalf of a person who beneficially owned as of the close of business on February 13, 1995, and who will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares.

The undersigned either (check one box):

was the beneficial owner as of the close of business on February 13, 1995, and will continue to be the beneficial owner until the Expiration Date of an aggregate of fewer than 100 Shares, and is tendering all such Shares, or

is an "Eligible Institution" that (i) is tendering, for the beneficial owners thereof, Shares with respect to which it is the record owner, and (ii) believes, based upon representations made to it by each such beneficial owner, that each such beneficial owner beneficially owned as of the close of business on February 13, 1995, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

No. of Shares tendered

Certificate Nos. (if available):

If Shares will be delivered by book-entry transfer:

Name of Tendering Institution: _____

Account No.

at:

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

SIGN HERE

(Signature(s))

(Signature(s))

(Name(s)) (Please Print)

(Address)

(Zip Code)

(Area Code and Telephone No.)

GUARANTEE

(Not to be used for signature guarantee)

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

Name of Firm: _____ Address: _____

Authorized Signature

Zip Code

Name: _____
Please Print

Area Code and
Telephone No: _____

Title: _____

Dated: _____, 1995

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

- - - - -
Fund
American
- - - - -

John J. Byrne
Chairman

February 21, 1995

Dear Fellow Shareholder:

Fund American is offering to purchase up to 750,000 shares of its Common Stock from shareholders at a cash price of \$75.00 per share. This tender is being offered to provide shareholders with added liquidity. We recognize that our Common Stock is not widely held, not regularly followed by analysts and is thinly traded. Throughout 1994 and to-date 1995, the Company has sold a substantial portion of its passive investment portfolio and has amassed a sizable cash balance. This tender is a means by which to return this underdeployed capital to shareholders. This tender, if fully subscribed, will exhaust the Company's remaining authorization to repurchase its Common Stock.

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

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

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

Respectfully submitted,

John J. Byrne
Chairman

Fund American Enterprises Holdings, Inc.
The 1820 House / Main Street
Norwich VT 05055
(802)649-3633
(802)649-2240(FAX)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Offer to Purchase for Cash
Up to 750,000 Shares of its Common Stock
At \$75.00 Net Per Share

February 21, 1995

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

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), has appointed us to act as Information Agent in connection with its offer pursuant to which the Company is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$75.00 per Share (such price, or any other price set forth in an amendment to the Offer to Purchase referred to below, being the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated February 21, 1995 (the "Offer to Purchase"), and in the related Letter of Transmittal (which together constitute the "Offer"). We enclose herewith the materials listed below relating to the Offer.

All Shares properly tendered and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions described therein. The Company reserves the right, in its sole discretion, to purchase more than 750,000 Shares pursuant to the Offer. The Offer is not conditioned upon any minimum number of Shares being validly tendered. The Offer is, however, subject to certain other conditions. See Section 6 of the Offer to Purchase.

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

- (1) Offer to Purchase dated February 21, 1995;
- (2) Letter of Transmittal for your use and for the information of your clients (together with "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9");
- (3) Notice of Guaranteed Delivery to be used to accept the Offer if certificates for Shares are not immediately available (or the procedure for book-entry transfer cannot be followed on a timely basis) or time will not permit the Letter of Transmittal and all other required documents to reach the depository for the Offer (the "Depository") before the Expiration Date (as defined in the Offer to Purchase);
- (4) Letter to Clients which may be sent to your clients for whose accounts you hold Shares registered in your name (or in the name of your nominee), with space provided for obtaining such clients' instructions with regard to the Offer;
- (5) Letter from John J. Byrne, Chairman, President and Chief Executive Officer of the Company, dated February 21, 1995, to shareholders of the Company; and
- (6) Return envelope addressed to First Chicago Trust Company of New York, as Depository.

PLEASE BRING THE OFFER TO THE ATTENTION OF YOUR CLIENTS AS PROMPTLY AS POSSIBLE. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, MARCH 20, 1995, UNLESS THE OFFER IS EXTENDED.

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

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

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

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

Very truly yours,

First Chicago Trust Company of New York

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

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Offer to Purchase for Cash
Up to 750,000 Shares of its Common Stock
At \$75.00 Net Per Share

To Our Clients:

February 21, 1995

Enclosed for your consideration are the Offer to Purchase dated February 21, 1995, and the related Letter of Transmittal (which together constitute the "Offer") in connection with the Offer by Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), pursuant to which the Company is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$75.00 per Share (such price, or any other price set forth in an amendment to the Offer to Purchase referred to below being the "Purchase Price"), net to the seller in cash, upon the terms and subject to the conditions of the Offer.

All Shares properly tendered and not withdrawn will be purchased at the Purchase Price, net to the seller in cash, upon the terms and subject to the conditions of the Offer, including the proration provisions thereof. All Shares not purchased pursuant to the Offer, including Shares not purchased because of proration, will be returned to the tendering shareholders at the Company's expense as promptly as practicable following the Expiration Date (as defined in Section 1 of the Offer to Purchase). The Company reserves the right, in its sole discretion, to purchase more than 750,000 Shares pursuant to the Offer. See Section 1 of the Offer to Purchase.

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

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

We call your attention to the following:

1. You may tender any portion of or all your Shares as indicated in the attached instruction form.
2. The Offer is not conditioned upon any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 6 of the Offer to Purchase.
3. The Offer, proration period and withdrawal rights will expire at 12:00 Midnight, New York City time, on Monday, March 20, 1995, unless the Offer is extended.
4. The Offer is for 750,000 Shares, representing approximately 8.9% of the Shares outstanding as of February 17, 1995, and approximately 7.8% of the sum of the Shares then outstanding and all Shares which may be issued upon the exercise of outstanding employee stock options and warrants as of such date.
5. Tendering shareholders will not be obligated to pay any brokerage commissions, solicitation fees, or, subject to Instruction 6 of the Letter of Transmittal, any stock transfer taxes with respect to the transfer and sale of Shares to the Company pursuant to the Offer.
6. If you owned beneficially as of the close of business on February 13, 1995, and will continue to own beneficially until the Expiration Date (as defined in the Offer to Purchase), an aggregate of fewer than 100 Shares and you are tendering all such Shares and do not withdraw such Shares before the Expiration Date and complete the box captioned "Odd Lots" in the attached instruction form, the Company, upon the terms and subject to the conditions of the Offer, will accept all such Shares for purchase before proration, if any, of the purchase of other Shares tendered.

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

YOUR INSTRUCTIONS SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF BEFORE THE EXPIRATION DATE. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, MARCH 20, 1995, UNLESS THE OFFER IS EXTENDED.

As described in Section 1 of the Offer to Purchase and subject to matters described therein, if the number of Shares properly tendered and not withdrawn before the Expiration Date is greater than 750,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority:

- (a) first, all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who owned beneficially as of the close of business on February 13, 1995, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares and who tenders all Shares beneficially owned by such shareholder (partial tenders will not qualify for this preference); and
- (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

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

Instructions
With Respect to the
Offer to Purchase for Cash
Up to 750,000 Shares of Common Stock
of

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase dated February 21, 1995, and the related Letter of Transmittal (which together constitute the "Offer"), in connection with the Offer by Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), to purchase for cash up to 750,000 shares of its Common Stock, par value \$1.00 per share ("Shares"), at a price of \$75.00 per Share (or such other price that may be set forth in an amendment to the Offer), net to the seller in cash, upon the terms and subject to the conditions of the Offer.

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

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

_____ Shares

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

ODD LOTS

By checking this box, the undersigned represents that the undersigned beneficially owned as of the close of business on February 13, 1995, and will continue to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares, and is tendering all such Shares.

SIGNATURE BOX

Signature(s) _____

Dated _____, 1995

Name(s) and Address(es) _____
(Please Print)

Taxpayer Identification or
Social Security Number _____

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase dated February 21, 1995, and the related Letter of Transmittal, and is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares residing in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction.

Notice of Offer to Purchase for Cash
by
FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Up to 750,000 Shares of Its Common Stock At
\$75.00 Net Per Share

Fund American Enterprises Holdings, Inc., a Delaware corporation (the "Company"), is inviting its shareholders to tender shares of its Common Stock, par value \$1.00 per share ("Shares"), to the Company, at \$75.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated February 21, 1995 (the "Offer to Purchase"), and in the related Letter of Transmittal (which together constitute the "Offer"). For purposes of the Offer, the Company shall be deemed to have accepted for payment (and thereby purchased), subject to proration, Shares which are tendered and not withdrawn when, as and if the Company gives oral or written notice to the Depositary of the Company's acceptance of such Shares for payment pursuant to the Offer. The Company reserves the right, in its sole discretion, to purchase more than 750,000 Shares pursuant to the Offer.

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

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL
EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY,
MARCH 20, 1995, UNLESS THE OFFER IS EXTENDED.

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

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

If the number of Shares properly tendered and not withdrawn before 12:00 Midnight, New York City time, on Monday, March 20, 1995, or the latest time and date at which the Offer, if extended by the Company, shall expire (the "Expiration Date"), is greater than 750,000 Shares (or such greater number of Shares as the Company may elect to purchase pursuant to the Offer), the Company, upon the terms and subject to the conditions of the Offer, will accept Shares for purchase in the following order of priority: (a) first, all Shares properly tendered and not withdrawn before the Expiration Date by any shareholder who beneficially owned as of the close of business on February 13, 1995, and who continues to own beneficially until the Expiration Date an aggregate of fewer than 100 Shares and who: (1) tenders all Shares beneficially owned by such shareholder (partial tenders will not qualify for this preference), and (2) completes the box captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and (b) then, after purchase of all the foregoing Shares, all other Shares properly tendered and not withdrawn before the Expiration Date on a pro rata basis, if necessary (with adjustments to avoid purchases of fractional Shares).

Except as otherwise provided in Section 4 of the Offer to Purchase, a tender of Shares pursuant to the Offer is irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date and, unless theretofore accepted for payment by the Company, after 12:00 Midnight, New York City time, on Monday, April 17, 1995. See Section 4 of the Offer to Purchase.

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

The Offer to Purchase and the Letter of Transmittal contain important

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

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

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

The Depositary and the Information Agent for the Offer is:

First Chicago Trust Company of New York
P.O. Box 2562, STE 4660 - FA
Jersey City, New Jersey 07303-2562
1-800-438-0057

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

February 21, 1995

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Fund
American
- - - - -

PRESS
RELEASE

CONTACT: Terry Baxter
802-649-2640

FUND AMERICAN ANNOUNCES CASH TENDER OFFER
FOR UP TO 750,000 SHARES AT \$75.00 NET

NORWICH, Vermont, February 16, 1995 - The Board of Directors of Fund American Enterprises Holdings, Inc. has approved a cash tender offer to purchase up to 750,000 shares of its common stock at a price of \$75.00 net per share. The tender offer is expected to commence on Tuesday, February 21, 1995.

The tender offer, if fully subscribed, will exhaust the Company's remaining Board authorization to repurchase its common shares. The Company's common stock closed yesterday on the New York Stock Exchange at \$72.375 per share.

The Offer will not be conditioned upon any minimum number of shares being tendered. The Offer will be, however, subject to certain customary conditions. The Offer, proration period and withdrawal rights are expected to expire at 12:00 midnight, New York City time, on Monday, March 20, 1995 unless the Offer is extended.

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

Fund American Enterprises Holdings, Inc.
The 1820 House / Main Street
Norwich VT 05055
(802)649-3633
(802)649-2240(FAX)

- - - - -
Fund
American
- - - - -

PRESS
RELEASE

CONTACT: Terry Baxter
802-649-2640

FUND AMERICAN COMMENCES CASH TENDER OFFER
FOR UP TO 750,000 SHARES AT \$75.00 NET

NORWICH, Vermont, February 21, 1995 - Fund American Enterprises Holdings, Inc. today commenced its previously announced cash tender offer to purchase up to 750,000 shares of its common stock at a price of \$75.00 per share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated February 21, 1995, and the related Letter of Transmittal (which together constitute the "Offer").

The Offer is not conditioned upon any minimum number of shares being tendered. The Offer is, however, subject to certain customary conditions. The Offer, proration period and withdrawal rights are scheduled to expire at 12:00 midnight, New York City time, on Monday, March 20, 1995 unless the Offer is extended. The Company has reserved the right to purchase more than 750,000 shares in the Offer.

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

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

Fund American Enterprises Holdings, Inc.
The 1820 House / Main Street
Norwich, VT 05055
(802)649-3633
(802)649-2240(FAX)

CONTACT: Terry Baxter
(802) 649-2640

FUND AMERICAN REPORTS FOURTH QUARTER RESULTS

NORWICH, Vermont, February 1, 1995 -- Fund American Enterprises Holdings, Inc. ended 1994 with a book value per share of \$68.95, down \$8.32 from \$77.27 at year-end 1993. The decline in book value is principally due to a \$44.3 million after tax charge related to a change in accounting methodology adopted by Source One Mortgage Services Corporation, the Company's largest subsidiary, and \$29.6 million of after tax net investment losses. "The 1994 financial results were terrible," said Chairman Jack Byrne. "Book value per share dropped 11%. Real economics were better, but not much. On to 1995."

The Company reported a net loss of \$23.2 million, or \$3.51 per share, for the year ended December 31, 1994. The 1994 reported loss includes the effects of a \$68.1 million pretax charge, recorded as a cumulative adjustment as of January 1, 1994, relating to a change in the manner by which Source One measures "impairment" of its purchased mortgage servicing asset. Previously Source One measured the asset's impairment on an undiscounted, disaggregated basis. The new accounting methodology measures the asset's impairment on a disaggregated basis and discounts the asset's cash flow using a current market rate. Before the effect of the accounting change, net income for 1994 was \$21.1 million, or \$1.20 per share, compared to \$70.4 million, or \$5.68 per share, for 1993.

For the 1994 fourth quarter the Company reported a net loss of \$12.1 million, or \$1.64 per share, versus a loss of \$70.9 million, or \$7.78 per share, in 1993. The current quarter loss was primarily due to unfavorable operating results at Source One and pretax net realized investment losses of \$4.2 million. The 1993 fourth quarter net loss was primarily the result of \$67.9 million of pretax net investment losses.

Net income for the 1993 full year and fourth quarter includes \$73.4 million of pretax net unrealized investment gains and \$81.0 million of pretax unrealized losses, respectively. Under a new accounting rule adopted in December 1993, Fund American now records such changes in unrealized investment gains and losses as a direct adjustment to shareholders' equity with no corresponding credit or charge to net income.

Net mortgage servicing revenue increased \$28.8 million or 53.8% for the year and \$25.7 million for the fourth quarter versus comparable prior year amounts. The improvements are primarily due to slower amortization of the capitalized mortgage servicing asset, reflecting the reduced pace of mortgage loan payoffs from the servicing portfolio during 1994. However, the falloff in Source One's loan production resulted in a substantial decline for the year and fourth quarter 1994 revenues related to the loan origination process (net interest revenue, net gain on sales of mortgages and other revenues).

(more)

Pretax operating income (before net investment gains and losses) declined to \$2.8 million in 1994 from \$16.9 million in 1993. The Company reported a pretax operating loss of \$10.6 million for the 1994 fourth quarter versus a pretax operating loss of \$10.7 million in the prior year quarter. The deterioration in operating income is attributed to worsening net operating results at Source One. Source One's reported results reflect the contraction during 1994 of the mortgage origination market due to higher market interest rates for mortgage loans.

Fund American's general expenses in 1994 increased \$15.9 million or 12.1% for the year and decreased \$5.2 million or 12.1% for the fourth quarter versus comparable 1993 amounts. The increases in expenses for the year are due to the expansion of Source One's mortgage loan production network throughout 1993 and the 1994 first quarter. The reduction in expenses for the fourth quarter of 1994 reflects Source One's downsizing efforts in response to the contraction in mortgage originations which began in the second quarter of 1994.

Source One recently entered into an agreement in principle to sell approximately \$10 billion of its servicing portfolio to a third party. The agreement is expected to close in the first quarter of 1995 and is subject to due diligence and completion of definitive documentation. Source One expects that if the sale of servicing is consummated, the transaction will result in a pretax gain in excess of \$30 million.

Fund American's newest operating affiliate is Financial Security Assurance Holdings Ltd. (FSA). The Company's voting control of FSA is approximately 23%. With regard to FSA's 1994 operating results, Robert P. Cochran, president and chief executive officer of FSA, said: "Although operating income for 1994 is right in line with our expectations, growth in adjusted book value (a good proxy for the intrinsic value of the business) is disappointing due to the dramatic decline in new issuance in the municipal bond market and loss of market value (mostly unrealized) in the investment portfolio. Nonetheless, we feel that our efforts and accomplishments in 1994 have positioned FSA well for solid long-term growth in intrinsic value."

Fund American shares of common stock are traded on the New York Stock Exchange under the symbol FFC.

(more)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Consolidated Financial Summary
For the years ended December 31, 1994 and 1993
(in thousands, except per share amounts)

	Year ended December 31,	
	1994	1993
Revenues:		
Mortgage servicing revenue	\$ 169,293	\$ 187,113
Amortization of capitalized servicing	86,943	133,573
Net servicing revenue	82,350	53,540
Net gain on sales of mortgages	29,471	34,839
Other mortgage operations revenue	23,858	29,161
Equity in earnings of unconsolidated affiliate	2,549	--
Net investment income and other revenue	90,249	133,505
Total revenues	228,477	251,045
Interest expense	78,785	103,156
General expenses	146,856	130,986
Pretax operating income	2,836	16,903
Net realized investment gains	38,831	50,606
Change in net unrealized investment gains and losses (a)	--	73,442
Net investment gains	38,831	124,048
Pretax income	41,667	140,951
Income tax provision	20,538	70,584
Income before cumulative effect of accounting change	21,129	70,367
Cumulative effect of accounting change - capitalized mortgage servicing, after tax	(44,296)	--
Net income (loss)	(23,167)	70,367
Less dividends on preferred stock	9,854	12,167
Net income (loss) applicable to common stock	\$ (33,021)	\$ 58,200
Primary earnings per share:		
Income before cumulative effect of accounting change	\$ 1.20	\$ 5.68
Net income (loss)	\$ (3.51)	\$ 5.68
Fully diluted earnings per share:		
Income before cumulative effect of accounting change	\$ 1.20	\$ 5.68
Net income (loss)	\$ (3.51)	\$ 5.68
Average common shares outstanding	8,874	9,593

(a) In accordance with the December 31, 1993, adoption of a new accounting standard, all unrealized investment gains and losses are now excluded from earnings and are instead recorded directly to shareholders' equity.

(more)

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
Consolidated Financial Summary
For the three month periods ended December 31, 1994 and 1993
(in thousands, except per share amounts)

	Three months ended December 31,	
	1994	1993
Revenues:		
Mortgage servicing revenue	\$ 43,303	\$ 43,125
Amortization of capitalized servicing	18,422	43,894
Net servicing revenue	24,881	(769)
Net gain (loss) on sales of mortgages	(1,142)	11,435
Other mortgage operations revenue	4,003	9,900
Equity in earnings of unconsolidated affiliate	448	--
Net investment income and other revenue	13,170	43,720
Total revenues	41,360	64,286
Interest expense	14,460	32,278
General expenses	37,548	42,727
Pretax operating loss	(10,648)	(10,719)
Net realized investment gains (losses)	(4,183)	13,099
Change in net unrealized investment gains and losses (a)	-	(80,982)
Net investment losses	(4,183)	(67,883)
Pretax loss	(14,831)	(78,602)
Income tax benefit	(2,750)	(7,715)
Net loss	(12,081)	(70,887)
Less dividends on preferred stock	1,640	3,042
Net loss applicable to common stock	\$ (13,721)	\$ (73,929)
Net loss per common share	\$ (1.64)	\$ (7.78)
Average common shares outstanding	8,368	9,499
	December 31, 1994	December 31, 1993
Total investments	\$ 608,894	\$ 951,412
Total shareholders' equity	\$ 661,090	\$ 905,047
Common shareholders' equity	\$ 586,091	\$ 748,047
Common shares outstanding	8,410	9,408
Common and common equivalent shares outstanding	9,567	10,695
Book value per common and equivalent share	\$ 68.95	\$ 77.27

(a) In accordance with the December 31, 1993, adoption of a new accounting standard, all unrealized investment gains and losses are now excluded from earnings and are instead recorded directly to shareholders' equity.

(more)

SOURCE ONE MORTGAGE SERVICES CORPORATION
Financial Highlights
(dollars in millions)

quarter ended December 31,			year ended December 31,	
1994	1993		1994	1993
Loan Production				

Originations by loan type:				
\$ 274	\$ 1,401	FHA/VA Insured	\$ 2,065	\$ 3,453
\$ 222	\$ 2,824	Conventional	2,521	7,999

\$ 496	\$ 4,225	Total	\$ 4,586	\$ 11,452
=====				
Originations by source:				
\$ 316	\$ 2,530	Retail	\$ 2,809	\$ 7,101
180	1,695	Wholesale	1,777	4,351

\$ 496	\$ 4,225	Total	\$ 4,586	\$ 11,452
=====				
Servicing Portfolio				

40,039	36,198	Beginning Balance	38,403	37,312
496	4,225	Mortgage Loan Production	4,586	11,452
0	3,130	Servicing Acquisitions	3,707	6,368
(549)	(4,151)	Regular Payoffs	(4,728)	(13,563)

(418)	(999)	Servicing Released, Principal Amortization, Foreclosures & Other	(2,400)	(3,166)

39,568	38,403	Ending Balance	39,568	38,403
=====				

Dec. 31, 1994	Sept. 30, 1994	Dec. 31, 1993
-----	-----	-----

Servicing Portfolio (a)

Principal Balance	39,568	40,039	38,403
Capitalized Servicing Asset	530	544	667
Number of Loans (b)	543,428	549,484	518,972
Weighted Average Interest Rate (b)	8.14%	8.14%	8.53%
Percent Delinquent (b)(c)	4.84%	4.68%	5.36%

(a) Includes loans subserviced for others having a principal balance of \$4,294 million, \$4,351 million and \$0 million as of December 31, 1994, September 30, 1994, December 31, 1993, respectively. The majority of the subserviced loans arose from the second quarter 1994 sale of rights to service \$3,868 million of mortgage loans. Since Source One continues to subservice these loans, the \$20 million pretax gain from the sale was deferred and is being recognized over the five-year life of the subservicing agreement.

(b) Excludes \$1,651 million, \$1,651 million and \$4,190 million outstanding principal balance of interim servicing as of December 31, 1994, September 30, 1994, and December 31, 1993, respectively.

(c) Includes loans in process of foreclosure.

(end)