FORM 10-K

WHITE MOUNTAINS INSURANCE GROUP LTD - WTM

Filed: March 28, 1997 (period: December 31, 1996)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1996
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-8993

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	94-2708455
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
80 SOUTH MAIN STREET, HANOVER, NEW HAMPSHIRE (Address of principal executive offices)	03755-2053 (Zip Code)

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

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

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

Securities registered pursuant to section 12(g) of the Act:

None

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

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

The aggregate market value of voting shares (based on the closing price of those shares listed on the New York Stock Exchange and the consideration received for those shares not listed on a national or regional exchange) held by non-affiliates of the registrant as of March 21, 1997, was $723,992,745.

As of March 21, 1997, 6,895,169 shares of Common Stock, par value of $1.00 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Notice of 1997 Annual Meeting of Shareholders and

Proxy Statement

dated March 31, 1997 (Part III)

FUND AMERICAN

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FUND AMERICAN

PART I

ITEM 1. BUSINESS

GENERAL

Fund American Enterprises Holdings, Inc., (the "Company"), is a Delaware corporation which was organized in 1980. Within this report, the consolidated organization is referred to as "Fund American." Fund American's principal businesses are conducted through White Mountains Holdings, Inc. and its operating subsidiaries ("White Mountains") and Source One Mortgage Services Corporation and its subsidiaries ("Source One"). White Mountains is an insurance holding company principally engaged through its subsidiaries and affiliates in the businesses of property and casualty insurance, financial guaranty insurance and reinsurance. Source One is one of the largest mortgage banking companies in the United States. Fund American also owns a passive investment portfolio. The Company's principal office is located at 80 South Main Street, Hanover, New Hampshire, 03755-2053, and its telephone number is (603) 643-1567.

INSURANCE OPERATIONS

In 1995 the Company capitalized White Mountains with $200.0 million of equity capital and in 1996 further capitalized White Mountains with an additional $95.0 million of equity capital. White Mountains was formed to be the holding company for all of Fund American's consolidated and unconsolidated insurance operating interests. As of December 31, 1996, White Mountains' principal holdings included investments in: Financial Security Assurance Holdings Ltd. ("FSA"), a leading Aaa/AAA writer of financial guaranty insurance; Folksamerica Holding Company, Inc. ("Folksamerica"), a leading multi-line broker-market reinsurer, Main Street America Holdings, Inc. ("MSA"), an affiliate of National Grange

Mutual Insurance Company ("NGM") which is a New Hampshire-based property and casualty insurer; and the consolidated wholly-owned subsidiaries described below.

CONSOLIDATED INSURANCE OPERATIONS

On December 1, 1995, White Mountains acquired Valley Group, Inc. of Albany, Oregon, and its subsidiaries (collectively, "Valley") and Charter Group, Inc. of Dallas, Texas, and its subsidiaries (collectively, "Charter") for $41.7 million in cash less $3.0 million of purchase price adjustments. The purchase price for Valley and Charter was paid with proceeds from sales and maturities of short-term investments.

Valley: Valley's wholly-owned subsidiary, Valley Insurance Company, is an "A" rated, Northwest-based property and casualty company which writes personal and commercial lines. Valley Insurance Company focuses on establishing strong long-term relationships with its agents and insured customers by focusing on providing quality insurance products to the family unit and the independently owned business. This approach has resulted in an established track record of growth:

Statutory Basis, in Millions	Year Ended December 31, 1996	1995	1994	1993	1992
Direct written premiums	$ 81.9	$ 73.1	$64.8	$52.5	$41.8
Total assets at year-end	138.2	126.8	80.4	65.8	50.4
Policyholders' surplus at year-end	54.3	58.5	23.5	22.9	15.0

FUND AMERICAN

In 1996 Valley Insurance Company wrote $81.9 million of direct premiums primarily in three Northwest states, through approximately 245 independent agents:

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

* At December 31, 1996.

Valley Insurance Company began to write business in the states of Arizona, Idaho and Utah during the last quarter of 1996. Valley Insurance Company intends to increase its premium writings in those states during 1997.

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

Millions	Year Ended December 31, 1996	1995	1994	1993	1992
Personal lines:					
Automobile	$25.9	$23.9	$22.5	$20.5	$18.1
Homeowners	12.0	10.4	8.3	6.3	4.6
Other	1.3	1.1	.8	.8	.5

Total personal lines	39.2	35.4	31.6	27.6	23.2
Commercial lines:					
Multiple peril	39.1	34.3	30.2	21.3	15.6
Other	3.6	3.4	3.0	3.6	3.0
Total commercial lines	42.7	37.7	33.2	24.9	18.6
Total direct written premiums	$81.9	$73.1	$64.8	$52.5	$41.8

The long-term relationships cultivated by Valley Insurance Company with its agents and insured customers, along with superior customer service and convenient premium billing and payment systems, have produced a relatively high level of persistency in Valley Insurance Company's "package" book of business. In 1996, package business represented over 80% of Valley's premium writings for both personal and commercial lines:

	Year Ended December 31,				
Renewal Retention Ratios	1996	1995	1994	1993	1992
Personal automobile/homeowners packages	89.4%	88.2%	87.8%	89.0%	88.7%
Commercial multiple peril packages	75.5%	76.5%	84.5%	86.0%	91.0%

Renewal persistency can be a significant indicator of an insurance company's long-term prospects for successful underwriting. An insurance company typically incurs more marketing and underwriting costs to write new business (i.e., policies and premiums written for new customers) than it does to write "seasoned" business (i.e., business that has renewed with the company over the years). Additionally, losses and loss adjustment expenses are typically higher and less predictable for new business than for seasoned business.

Charter: Charter, through its wholly-owned subsidiary Charter Indemnity Company and its controlled affiliate, Northern County Mutual Insurance Company, markets and underwrites nonstandard automobile insurance to individuals in the State of Texas. For the year ended December 31, 1996, Charter's gross written premiums totalled $70.0 million. Written premiums (and related expenses and losses) for Charter's policies written prior to January 1, 1996, were entirely ceded to Charter's former parent. Therefore, Charter's financial results for years prior to 1996 are not meaningful for comparison purposes.

Charter writes all its business through independent agents located in Texas. At December 31, 1996, Charter had approximately 750 agents located throughout the State.

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

Charter offers both liability and physical damage coverage in the Texas nonstandard automobile insurance market, generally with policies having terms of 12 months. Most of Charter's policyholders choose basic limits of liability coverage which in Texas are $20,000 per person and $40,000 per accident for bodily injury, and $15,000 for property damage. For the year ended December 31, 1996, Charter's direct written premiums totalled $47.9 million for liability coverages and $22.1 million for property damage coverages.

Management pursues a strategy of establishing Charter as a low-cost provider of nonstandard automobile insurance while maintaining a commitment to provide "service beyond expectation" to both agents and insureds. Management believes that Charter has become a low cost provider of nonstandard automobile insurance, as evidenced by its underwriting expense ratio which was 19.0% for the year ended December 31, 1996. Increased automation of certain marketing, underwriting, claims and administrative functions has provided Charter with the ability to process more business without a corresponding increase in costs, while maintaining a high level of service to its agents and insured customers.

Management believes that most classes of nonstandard automobile insurance can be underwritten profitably if they are priced adequately. Charter seeks to

classify risks into narrowly defined segments through the utilization of available underwriting criteria and internal performance statistical data. Charter maintains a proprietary database which contains statistical records with respect to its agents and insureds. Management believes this database enhances Charter's flexibility to analyze loss experience, and underwrite and price its products based on a number of variables. Charter utilizes many factors and analysis to determine its rates including: type, age and location of the vehicle; number of vehicles per policyholder; number and type of traffic violations or accidents; limits of liability; deductibles; and age, sex and marital status of the insured. Charter's loss and loss adjustment expense ratio for the year ended December 31, 1996, was 80.4% and its combined underwriting ratio was 99.4%.

White Mountains Insurance Company ("WMIC"): WMIC is a New Hampshire licensed commercial property and casualty company which commenced its operations in September 1995 and wrote $2.4 million in direct premiums during 1996. WMIC is currently licensed to write insurance in Maine, New Hampshire, Vermont and Massachusetts and is expected to expand its operations to other states as additional regulatory approvals are obtained. WMIC is a wholly-owned subsidiary of Valley Insurance Company. At December 31, 1996, WMIC had $28.5 million of total admitted assets and $26.8 million of policyholders' surplus.

Valley National Insurance Company ("Valley National"): On January 19, 1996, Valley purchased an inactive insurance company for $13.2 million, net of cash balances acquired. The newly acquired insurance company, which was renamed Valley National, is licensed to write property and casualty insurance in 48 states. Assets acquired pursuant to the Valley National acquisition included an investment portfolio, consisting principally of fixed maturity investments, totalling $6.7 million. Valley National wrote its first policies in December 1996 and is expected to expand its operations in 1997.

All of White Mountains' consolidated insurance subsidiaries (the "Insurance Companies") market their products principally through independent agents.

INVESTMENTS IN UNCONSOLIDATED INSURANCE AFFILIATES

FSA: In May 1994 the Company purchased 2,000,000 shares of the common stock of FSA ("FSA Common Stock") from U S WEST Capital Corp., a wholly-owned subsidiary of U S WEST, Inc. The purchase was part of an initial public offering of 8,082,385 shares of FSA Common Stock at the initial offering price of $20.00 per share. In 1995 and 1996, respectively, the Company purchased an additional 460,200 shares of FSA Common Stock on the open market for $8.8 million and an additional 1,000,000 shares of FSA Common Stock in a private transaction for $26.5 million.

FSA conducts operations principally through Financial Security Assurance Inc., a wholly-owned monoline financial guarantee insurance subsidiary with Aaa/AAA claims-paying ratings. FSA is principally engaged in guaranteeing municipal bonds, and residential mortgage and other asset-backed securities. For 1996 the present value of FSA's gross written premiums totalled $226.3 million, its net income was $80.8 million, and its year-end total assets and shareholders' equity were $1.5 billion and $801.3 million, respectively.

In September 1994 the Company acquired various fixed price options and shares of convertible preferred stock ("FSA Options and Preferred Stock") which, in total, give Fund American the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of $125.7 million. All shares of and rights to FSA Common Stock owned or acquired by the Company as described above are subject to certain restrictions on transfer, voting provisions and other limitations and requirements set forth in a Shareholders' Agreement, a Registration Rights Agreement and a Voting Trust Agreement. As of December 31, 1996 and 1995, Fund American's economic interest in FSA was approximately 25.1% and 21.0%, respectively, and Fund American's voting interest in FSA was approximately 23.0% and 19.0%, respectively. In December 1995 and January 1996 the Company transferred all of its interests in FSA existing at the time to White Mountains.

John J. Byrne (Chairman of the Company) is Chairman of FSA and K. Thomas Kemp (Executive Vice President of the Company and Chairman and Chief Executive Officer of White Mountains), James H. Ozanne, (President of Fund American Enterprises, Inc. ("FAE"), a wholly-owned subsidiary of the Company), and Allan L. Waters (Senior Vice President and Chief Financial Officer of the Company) are also directors of FSA. In addition to being FSA directors, Mr. Kemp is Chairman of FSA's Human Resources Committee, Mr. Ozanne is Chairman of FSA's Underwriting Committee, and Mr. Waters is Chief of Staff to FSA's Audit Committee.

Fund American's investment in FSA Common Stock is accounted for using the equity method. FSA Common Stock is publicly traded on the New York Stock Exchange ("NYSE"). The market value of the FSA Common Stock as of December 31, 1996, as quoted on the NYSE, exceeded Fund American's carrying value of the FSA Common Stock on the equity method. Fund American's investment in FSA Options and Preferred Stock is accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115 whereby the investments are

reported at fair value as of the balance sheet date, with related unrealized investment gains and losses excluded from earnings and reported as a net amount in a separate component of shareholders' equity.

MSA: In December 1994 the Company acquired 90,606 shares of the common stock of MSA ("MSA Common Stock") for $25.0 million in cash. In 1995 the Company paid NGM an additional $1.2 million in purchase price adjustments for the MSA Common Stock. In December 1995 the Company transferred all of its interest in MSA to White Mountains. White Mountains' investment in MSA represented approximately 33.2% and 33.1%, respectively, of the outstanding common stock of MSA as of December 31, 1996 and 1995. White Mountains' President, Terry L. Baxter, and K. Thomas Kemp are directors of MSA. Fund American's investment in MSA Common Stock is accounted for using the equity method.

MSA participates in 40% of NGM's business through a reinsurance pooling agreement. NGM writes personal and commercial property and casualty insurance in the Eastern United States. MSA's net written premiums totalled $147.2 million in 1996, its net income was $9.9 million, and its year-end total assets and shareholders' equity were $313.9 million and $101.7 million, respectively.

Folksamerica: On June 19, 1996, White Mountains completed its purchase, for $79.9 million including related expenses, of a 50.0% interest in Folksamerica. The purchase price for Folksamerica was paid with proceeds from sales and maturities of short-term investments. Also on June 19, 1996, Folksamerica completed its previously announced acquisition of Christiania General Insurance Corporation of New York for $88.0 million.

Folksamerica owns a multi-line broker-market reinsurance company which in 1996 had net written premiums of $171.9 million. At December 31, 1996, Folksamerica had total assets $1.0 billion, shareholders' equity of $167.6 million and total capitalization of $241.6 million. Messrs. Kemp and Waters are directors of Folksamerica.

White Mountains' investment in Folksamerica includes (i) 6,920,000 shares of ten-year 6.5% voting preferred stock having a liquidation preference of $79.4 million ("Folksamerica Preferred Stock") and (ii) ten-year warrants ("Folksamerica Warrants") to purchase up to 6,920,000 shares of the Common Stock of Folksamerica ("Folksamerica Common Stock") for $11.47 per share, subject to certain adjustments. Folksamerica reported a book value per share at December 31, 1996, of $12.11.

Fund American's investments in Folksamerica are accounted for under the provisions of SFAS No. 115 whereby the investments are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses excluded from earnings and reported as a net amount in a separate component of shareholders' equity. Dividends earned on the Folksamerica Preferred Stock are recorded as earnings from unconsolidated insurance affiliates on the income statement.

MORTGAGE ORIGINATION AND SERVICING OPERATIONS

GENERAL

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

Source One was incorporated in 1972 and is the successor to Citizens Mortgage Corporation which was organized in 1946. Source One is a wholly-owned subsidiary of FAE and its principal office is located in Farmington Hills, Michigan.

As of December 31, 1996, Source One had a mortgage loan servicing portfolio totaling $29.2 billion, including $2.8 billion of loans subserviced for others, which is serviced on behalf of approximately 320 institutional investors and numerous other security holders. As of December 31, 1996, Source One had 131 retail branch offices in 26 states and originated $3.8 billion in mortgage loans for the year then ended.

INDUSTRY OVERVIEW

Mortgage banking is the business of serving as a financial intermediary in the: (i) origination and purchase of mortgage loans; (ii) holding of such loans

while aggregating sufficient loans to form appropriate mortgage-backed security pools; (iii) subsequent sale of such loans through pools or directly to investors; and (iv) ongoing management or servicing of such loans during the repayment period. Mortgage bankers generate revenue in each of the four stages of the mortgage banking process.

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

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

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

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

MORTGAGE LOAN PRODUCTION

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

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

It is a policy of Source One to primarily produce fixed rate mortgage loans. As of December 31, 1996, approximately 5.5% of Source One's total mortgage loan servicing portfolio consisted of adjustable rate mortgage loans. The following table sets forth selected information regarding Source One's mortgage loan production:

Millions	Year Ended December 31, 1996	1995	1994	1993	1992
Loan production by type of loan:					
FHA insured and VA guaranteed	$ 2,035	$ 1,565	$ 2,065	$ 3,453	$ 1,927
Conventional	1,796	1,287	2,521	7,999	5,664
Total	$ 3,831	$ 2,852	$ 4,586	$ 11,452	$ 7,591
Loan production by origination source:					
Correspondent network acquisitions	$ 1,640	$ 1,157	$ 1,081	$ 2,643	$ 2,578
Retail branch office originations	1,590	1,347	2,005	4,922	3,326
Mortgage broker originations	369	196	696	1,708	1,026
Specialized marketing program originations	232	152	804	2,179	661
Total	$ 3,831	$ 2,852	$ 4,586	$ 11,452	$ 7,591

RETAIL BRANCH OFFICES. As of December 31, 1996, Source One had 131 retail branch offices in 26 states. Each office has sales representatives who originate mortgage loans through contacts with real estate brokers, builders, developers and others, as well as through direct contact with homebuyers.

As of December 31, 1996, Source One's retail branch offices were located in the following states:

State	Number of offices	State	Number of offices	State	Number of offices
California	31	Missouri	5	Kansas	1
Washington	22	Colorado	4	Maryland	1
Texas	11	Ohio	4	Oregon	1
Illinois	7	Alaska	2	Rhode Island	1
Arizona	6	Kentucky	2	Tennessee	1
Nevada	6	Massachusetts	2	Utah	1
New York	6	New Jersey	2	Vermont	1
Florida	5	Pennsylvania	2	Virginia	1
Michigan	5	Arkansas	1		

Mortgage loans originated by Source One are subject to a defined underwriting process in order to assess each prospective borrower's ability to repay the loan requested and the adequacy of each property as collateral. In addition, Source One is subject to the underwriting guidelines of FHA, VA, FHLMC and FNMA, as well as specific contractual requirements of institutional investors who have agreed to acquire mortgage loans originated by Source One. Most branch office originations are referred to regional operating centers for preparation of loan documentation, evaluation of compliance with Source One's underwriting conditions and closing of the loans.

CORRESPONDENT NETWORK. Source One conducts a program through which it agrees to purchase mortgage loans from a network of banks, thrift institutions and other mortgage lenders. The funding price for such loans is set by Source One on a daily basis. In addition, Source One pays a premium for the release of servicing rights which is negotiated on a case-by-case basis. As of December 31, 1996, there were approximately 209 participants in Source One's correspondent network, with no single participant or group of affiliated participants accounting for more than 10% of Source One's total mortgage loan originations.

MORTGAGE BROKERS. Source One conducts a program through which it closes loans originated by a network of mortgage brokers. The funding price for such loans is set by Source One on a daily basis. The originating mortgage broker receives compensation equivalent to the difference between Source One's pricing schedule and the closing price. As of December 31, 1996, there were approximately 366 active participants in Source One's mortgage broker network, with no single broker or group of affiliated brokers accounting for more than 10% of Source One's total mortgage loan originations.

SPECIALIZED MARKETING PROGRAM. Source One also generates mortgage loan originations through affinity programs and by responding to refinancing requests from the population of loans currently serviced by Source One.

SALES OF LOANS

Source One sells loans either through mortgage-backed securities issued pursuant to programs of GNMA, FNMA and FHLMC, or to institutional investors.

Most loans are aggregated in pools of $1.0 million or more, which are purchased by institutional investors after having been guaranteed by GNMA, FNMA or FHLMC. During 1996 approximately 42.8%, 35.3% and 11.6% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. During 1995 approximately 46.3%, 34.3% and 9.3% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. During 1994 approximately 40.9%, 40.6% and 16.5% of the principal amount of Source One's loans were sold in pools through GNMA, FNMA and FHLMC, respectively. Substantially all GNMA securities are sold without recourse to Source One for loss of principal in the event of a subsequent default by the mortgage borrower due to the underlying FHA and VA insurance.

Servicing agreements relating to mortgage-backed securities issued pursuant to the programs of GNMA, FNMA or FHLMC require Source One to advance funds to make the required payments to investors in the event of a delinquency by the borrower. Source One expects that it would recover most funds advanced upon cure of default by the borrower or at foreclosure. However, in connection with VA partially guaranteed loans and certain conventional loans (which may be partially insured by private mortgage insurers), funds advanced may not cover losses due to potential declines in collateral value. In addition, most of Source One's servicing agreements for mortgage-backed securities typically require the payment to investors of a full month's interest on each loan although the loan may be paid off (by optional prepayment or foreclosure) other than on a month-end basis. In this instance, Source One is obligated to pay the investor interest at the note rate from the date of the loan payoff through the end of that calendar month without reimbursement.

Source One, through private placements and public offerings, has also sold mortgage loans through the issuance of mortgage pass-through certificates. Source One issued $521.7 million of REMIC certificates through December 31, 1990. Source One is the primary servicer for these REMIC certificates, which were sold pursuant to five separate trusts that have no recourse provisions. Source One has not issued any mortgage-backed securities since 1990; however, Source One may offer additional mortgage-backed securities in the future if economic and market conditions warrant.

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

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

LOAN SERVICING

Source One currently retains the rights to service the majority of the mortgage loans it produces. In addition, Source One may acquire the rights to service or subservice a mortgage loan portfolio without originating or acquiring the underlying mortgage loans. Source One customarily makes such purchases of servicing rights from banks, thrift institutions and other mortgage lenders. The fees paid to acquire such servicing rights are negotiated on a case-by-case basis. During 1996 and 1995, Source One purchased the rights to service $2.8 billion and $4.7 billion of mortgage loans from third parties, respectively.

Source One also sells servicing rights when management deems it economically advantageous. During 1996 and 1995 Source One sold the rights to service $3.3 billion and $11.0 billion of mortgage loans, respectively. During 1994 Source One sold the rights to service $3.9 billion of mortgage loans and continues to subservice a portion of these loans pursuant to a five-year subservicing agreement.

The following table summarizes the changes in Source One's mortgage loan servicing portfolio including loans subserviced, interim servicing contracts and those under contract to acquire, and excluding loans sold but not transferred:

	Year Ended December 31,				
Billions	1996	1995	1994	1993	1992

Balance at beginning of year	$31.8	$39.6	$38.4	$37.3	$41.0
Mortgage loan production	3.8	2.9	4.6	11.5	7.6
Servicing acquisitions	2.8	4.7	3.7	6.4	2.3
Total servicing in	6.6	7.6	8.3	17.9	9.9
Regular payoffs	3.0	2.3	4.7	13.6	11.5
Sales of servicing	3.3	11.0	-	-	-
Principal amortization, servicing released and foreclosures	2.0	2.1	2.4	3.2	2.1
Subservicing transfers	.9	-	-	-	-
Total servicing out	9.2	15.4	7.1	16.8	13.6
Balance at end of year	$29.2	$31.8	$39.6	$38.4	$37.3

RELATED ACTIVITIES

In conjunction with its mortgage origination and servicing activities, Source One markets certain credit-related insurance products (such as life, disability, health, accidental death, and property and casualty insurance). Source One acts as an agent and receives fees based on premium value but does not assume any insurance risk. Insurance products are sold through (i) solicitation at the time of mortgage application, (ii) direct mail solicitation by Source One shortly after mortgage loan closing, (iii) solicitation by direct solicitors and (iv) resolicitation of Source One's mortgage loan servicing portfolio on an annual basis. At certain locations, personal solicitation by Source One staff is permitted by state regulations which determine allowable insurance sales practices. Total fees recognized under these programs for 1996 and 1995 were $4.6 and $4.8 million, respectively.

PASSIVE INVESTMENT PORTFOLIO MANAGEMENT

The Company's passive investment portfolio is primarily managed by a small group of employees located in Hanover, New Hampshire. FAE's passive investment portfolio is primarily managed by a small group of its employees located in Norwich, Vermont.

FUND AMERICAN

During 1996 and 1995 Fund American engaged First Manhattan Co. to provide discretionary investment management services with respect to a portfolio of investment securities totalling approximately $31.0 million and $21.0 at December 31, 1996 and 1995, respectively. The invested assets managed by First Manhattan Co. include certain equity securities held by the Company, FAE, White Mountains and the Insurance Companies. First Manhattan Co. is a registered investment advisor.

During 1996 and 1995 Fund American also engaged affiliates of FSA and MSA to provide discretionary investment management services with respect to the fixed income investment portfolios of the Insurance Companies.

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

CERTAIN BUSINESS CONDITIONS

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

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

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

COMPETITION

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

Perception of financial strength, as reflected in the ratings assigned to an insurance company, especially by A.M. Best, is also a factor in White Mountains' insurance subsidiaries' competitive position. Each of White Mountains' insurance operating affiliates has consistently maintained adequate capitalization and claims payment ratings to effectively conduct its business and management believes that such strength will continue to be maintained in the future.

In the United States, property and casualty insurance can be obtained through national and regional companies that use an agency distribution system, direct writers (who may have an employed agency force) or brokers, or through self-insurance including the use by corporations of subsidiary captive insurers. All of the Insurance Companies market their products principally through independent agents.

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

REGULATION

The Insurance Companies are subject to regulation and supervision of their operations in each of the jurisdictions where they conduct business. Regulations vary between jurisdictions but, generally, they provide regulatory authorities with broad supervisory, regulatory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid losses and loss adjustment expenses, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. Over the last several years most states have, and continue to implement, laws which establish standards for current, as well as continued, state accreditation. In addition, the National Association of Insurance Commissioners ("NAIC") has adopted risk-based capital rules for property and casualty companies. The Insurance Companies were adequately capitalized under the NAIC's rules as of December 31, 1996.

Source One is subject to the rules and regulations of, and examinations by, FNMA, FHLMC, GNMA, FHA and VA with respect to the origination, processing, selling and servicing of mortgage loans. These rules and regulations, among

other things, prohibit discrimination, provide for inspections and appraisals of properties, require credit reports on prospective borrowers and, in some cases, establish maximum interest rates, fees and loan amounts. Lenders are required to submit audited financial statements annually. FNMA and GNMA require the maintenance of specified net worth levels which vary depending on the amount of FNMA loans serviced and GNMA mortgage-backed securities issued by Source One. Mortgage loan origination activities are also subject to fair housing laws, the Equal Credit Opportunity Act, the Federal Truth-in-Lending Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, the Home Mortgage Disclosure Act, and regulations promulgated thereunder which, among other things, prohibit discrimination in residential lending and require disclosure of certain information to borrowers. Certain conventional mortgage loans are also subject to state usury statutes; FHA and VA loans are exempt from the effects of such statutes. There are various other state laws and regulations affecting Source One's mortgage banking and insurance operations. Source One's internal audit and quality control departments monitor compliance with all these laws and regulations.

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

EMPLOYEES

As of December 31, 1996, the Company employed 12 persons, FAE employed 1,683 persons (including 1,682 persons at Source One) and White Mountains employed 446 persons (including 268 persons at Valley and 162 persons at Charter). None of Fund American's employees are covered by a collective bargaining agreement. Management believes that Fund American's employee relations are good.

FORWARD-LOOKING STATEMENTS

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

ITEM 2. PROPERTIES

Fund American leases 8,600 square feet of space at 80 South Main Street, Hanover, New Hampshire, under a lease expiring in 2006. This space is used as the principal office for the Company, White Mountains and WMIC. Valley owns a 40,000 square foot office building in Albany, Oregon and leases 6,200 square feet in Sacramento, California. The lease on Valley's California property expires in 1998. Charter leases 48,400 square feet in Dallas, Texas, which lease expires in 1997. Source One owns its principal office in Farmington Hills, Michigan, which houses the majority of its employees. Source One also owns an office building in West Bloomfield, Michigan which is currently subleased to a third party. Fund American leases several other office facilities and operating equipment under cancelable and noncancelable agreements. Most of such leases contain renewal clauses.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of Fund American's shareholders during the fourth quarter of 1996.

PART II

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

As of March 21, 1997, there were 559 registered holders of shares of the Company's Common Stock, par value $1.00 per share ("Shares").

From 1992 to 1994 the Company did not pay regular cash dividends to holders of Shares. In the fourth quarter of 1995 the Board of Directors reinstated a $.20 regular quarterly dividend on Shares. During 1995 and 1996, the Company declared and paid cash dividends totalling $.20 and $.80 per Share, respectively. The Company's Board of Directors (the "Board") currently intends to reconsider from time to time the declaration of regular periodic dividends on Shares with due consideration given to the financial characteristics of Fund American's remaining invested assets and operations and the amount and regularity of its cash flows at the time. The Company's Common Stock (symbol FFC) is listed on the NYSE. The quarterly trading range for Shares during 1996 and 1995 is presented below:

	1996		1995	
	High	Low	High	Low
Quarter ended:				
December 31	$ 95 3/4	$86 3/4	$ 75	$66 1/4
September 30	93 1/2	80 1/4	76	68 1/4
June 30	82 1/4	76	72 5/8	68 3/8
March 31	79 7/8	72 1/8	76	71 3/4

ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated income statement data and ending balance sheet data for each of the five fiscal years ended December 31, 1996, follows:

	Year Ended December 31,				
Millions, except per share amounts	1996	1995	1994	1993	1992
INCOME STATEMENT DATA:					
Revenues	$ 332	$ 222	$ 229	$ 251	$ 214
Expenses	347	226	226	234	191
Pretax operating earnings (loss)	(15)	(4)	3	17	23
Net investment gains	39	39	39	124	65
Pretax earnings	24	35	42	141	88
Income tax provision	19	17	21	71	34
After tax earnings	5	18	21	70	54
Gain from sale of discontinued operations, after tax	-	66(a)	-	-	1
Cumulative effect of accounting changes:	-	-	(44)(b)	-	-
Purchased mortgage servicing, after tax					
Postretirement benefits, after tax	-	-	-	-	(2)(c)
Income taxes	-	-	-	-	(24)(d)
Net income (loss)	$ 5	$ 84	$ (23)	$ 70	$ 29
Primary earnings per share:					
After tax earnings	$ .60	$ 1.71	$ 1.20	$ 5.68	$ 2.71
Net income (loss)	.60	9.36	(3.51)	5.68	.74
Fully diluted earnings per share:					
After tax earnings	.60	2.02	1.20	5.68	2.70
Net income (loss)	.60	9.16	(3.51)	5.68	.73
Cash dividends paid per share of common stock	.80	.20	-	-	-
ENDING BALANCE SHEET DATA:					
Total assets	$ 1,981	$ 1,872	$ 1,807	$ 3,305	$ 3,129
Short-term debt	408	445	254	1,537	1,513
Long-term debt	424	407	547	601	423
Minority interest - preferred stock of	44	44	100	-	-

subsidiary					
Shareholders' equity	687(e)	700(e)	661(e)	905(e)(f)	988(e)
Book value per common and equivalent share	90.81	83.28	68.95	77.27(f)	80.65

(a) Reflects the settlement of certain tax liabilities relating to the sale of Fireman's Fund Insurance Company ("Fireman's Fund") for less than the previously accrued amount. See Note 3 of the Notes to Consolidated Financial Statements.

(b) Reflects the prior years' cumulative effect of a change in Source One's methodology used to measure impairment of its purchased mortgage servicing rights asset. See Note 6 of the Notes to Consolidated Financial Statements.

(c) Reflects the prior years' cumulative effect of the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

(d) Reflects the prior years' cumulative effect of the adoption of SFAS No. 109, "Accounting for Income Taxes."

(e) Reflects redemptions of the Company's Voting Preferred Stock Series D, par value $1.00 per share (the "Series D Preferred Stock") and/or repurchases of Shares. See Note 13 of the Notes to Consolidated Financial Statements.

(f) Reflects the distribution of approximately 74% of the outstanding shares of Common Stock of White River Corporation ("White River") to shareholders on December 22, 1993.

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

RESULTS OF OPERATIONS: YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

CONSOLIDATED RESULTS

Fund American reported net income of $4.9 million for the year ended December 31, 1996, which compares to net income of $84.1 million for 1995 and a net loss of $23.2 million for 1994. The 1996 income statement includes a $33.6 million pretax write-off of all Source One's existing goodwill and certain other intangible assets and $28.4 million of pretax impairment of Source One's capitalized mortgage servicing asset. These two 1996 items served to decrease 1996 net income by a total of $48.5 million. The 1995 income statement includes four non-recurring items: (i) the adoption of SFAS No. 122 as of January 1, 1995, by Source One; (ii) a $46.2 million pretax charge to compensation expense related to outstanding employee stock warrants; (iii) a $66.0 million favorable tax development relating to the sale of Fireman's Fund; and (iv) the receipt of a $9.7 million pretax breakup fee, plus related expenses, from Home Holdings, Inc. These four 1995 items served to increase 1995 net income by a total of $41.8 million. The 1994 net loss includes a $68.1 million pretax charge related to a change in accounting methodology adopted by Source One which served to decrease 1994 net income by $44.3 million.

Book value per common and common equivalent share was $90.81 at December 31, 1996, which compares to $83.28 at December 31, 1995. Strong investment portfolio results, offset by the 1996 write-offs at Source One, produced most of the increase in book value per share from 1995 to 1996.

After tax earnings for 1996 were $4.9 million versus $18.5 million and $21.1 million for 1995 and 1994, respectively.

INSURANCE OPERATIONS

As further described under "Liquidity and Capital Resources," White Mountains is acquiring and developing various insurance operating interests. Fund American assigned its investment in MSA and the majority of its investments in FSA to White Mountains in 1995, WMIC began operations in September 1995, White Mountains acquired Valley and Charter in December 1995, and White Mountains acquired its investment in Folksamerica in June 1996.

Valley (which includes the operations of WMIC) and Charter represent Fund American's consolidated insurance subsidiaries. Valley and Charter's results for the twelve month period ended December 31, 1996, included $109.7 million of property and casualty insurance premiums earned and $85.9 million of losses and loss adjustment expenses.

A summary of 1996 underwriting results for Valley and Charter follows:

Dollars in Millions	Year Ended December 31, 1996 Valley*	Charter
Net written premiums	$ 77.2	$ 70.0
Earned premiums	72.0	37.7
Losses and loss adjustment expenses	55.6	30.3
Underwriting expenses	25.8	8.0
Underwriting loss	$ (9.4)	$ (.6)
Statutory ratios:		
Loss and loss adjustment expense	77.2%	80.4%
Underwriting expense	35.3	19.0
Combined	112.5%	99.4%

* Includes the operating results of WMIC.

Valley's 1996 underwriting results were adversely impacted by an unusual amount of fourth quarter storm-related losses and by reserve strengthening for losses and loss adjustment expenses incurred in prior years. Charter's earned premiums trailed net written premiums because Charter began for the first time in 1996 to retain virtually all its written premiums. Management expects Charter's earned premiums to increase substantially in 1997 from the 1996 amount.

Valley and Charter's results for the one month period ended December 31, 1995, included $5.8 million of property and casualty insurance premiums earned and $8.2 million of losses and loss adjustment expenses.

Losses and loss adjustment expenses are charged against income as incurred. Unpaid losses and loss adjustment expenses are based on estimates by claims adjusters, legal counsel and actuarial staff of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid loss and loss adjustment expense reserves represent management's best estimate of ultimate losses and loss adjustment expenses net of estimated salvage and subrogation recoveries. Such estimates are regularly reviewed and updated and any adjustments resulting therefrom are reflected in current operations. The process of estimating loss and loss adjustment expenses involves a considerable degree of judgement by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements. Valley and Charter's combined losses and loss adjustment expenses reported for the years ended December 31, 1996 and 1995, included $3.8 million and $3.0 million of reserve strengthening for losses and loss adjustment expenses incurred in prior periods, respectively.

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

While there may be greater individual risks of loss associated with nonstandard automobile insurance than with standard automobile insurance (i.e., higher loss frequency), the insurance premiums charged in consideration of these additional risk characteristics are generally higher than those of standard automobile coverage and in many cases, if the coverage is properly underwritten, the risk to rate characteristics of writing nonstandard automobile insurance are at least equal to or more favorable than that of standard automobile coverage. Additionally, nonstandard automobile individual liability limits are generally lower than those of standard automobile coverages which results in the amount of individual losses being less volatile (i.e., lower loss severity). In general, loss costs for nonstandard automobile insurance are, in fact, more predictable than those for several other lines of property and casualty insurance (i.e., catastrophe insurance or umbrella liability coverages).

FSA, Folksamerica and MSA represent Fund American's investments in unconsolidated insurance affiliates. Fund American's investment in FSA increased $23.1 million during 1996 (excluding Fund American's purchase of 1,000,000 additional shares of FSA Common Stock for $26.5 million during 1996) which consisted of $7.8 million of net earnings from FSA Common Stock, $17.3 million of pretax unrealized investment gains from FSA Options and Preferred Stock, less $1.0 million of pretax unrealized investment losses from FSA's investment portfolio, and $1.0 million of dividends received from FSA Common Stock. Fund American's investment in FSA increased $9.3 million during 1995 (excluding Fund American's purchase of 460,200 additional shares of FSA Common Stock for $8.8 million during 1995) which consisted of $5.4 million of net earnings from FSA

Common Stock, $4.5 million of pretax unrealized investment gains from FSA's investment portfolio, $.3 million of pretax unrealized investment gains from FSA Options and Preferred Stock, less $.9 million of dividends received from FSA Common Stock.

White Mountains' investment in Folksamerica increased $.2 million from June 1996 to December 31, 1996, as a result of pretax unrealized investment gains from Folksamerica Warrants and Folksamerica Preferred Stock.

White Mountains' investment in MSA increased $1.0 million during 1996 which consisted of $1.5 million of net earnings from MSA Common Stock offset by $.5 million of pretax unrealized investment losses from MSA's investment portfolio. White Mountains' investment in MSA increased $7.2 million during 1995 (excluding the payment by White Mountains of $1.2 million in purchase price adjustments during 1995) which consisted of $4.0 million of net earnings from MSA Common Stock and $3.2 million of pretax unrealized investment gains from MSA's investment portfolio.

Management expects that White Mountains' insurance operations will have a significantly larger impact on Fund American's reported financial results in 1997 and future years. See "Liquidity and Capital Resources."

MORTGAGE ORIGINATION AND SERVICING OPERATIONS

Net mortgage servicing revenue was $77.6 million for the year ended December 31, 1996 which compares to $61.3 million in 1995 and $82.4 million in 1994. The increase in net servicing revenue for 1996 compared to 1995 is primarily the result of $9.9 million in pretax net realized and unrealized gains on financial instruments and a $9.4 million reduction in amortization and impairment of the capitalized mortgage servicing asset from 1995 to 1996. The decrease in 1996 amortization and impairment is due primarily to market interest rates being higher for most of 1996, as compared to 1995, which resulted in an increase in the estimated fair value of the servicing rights from 1995 levels. The decrease in net mortgage servicing revenue from 1994 to 1995 reflects the sale of $11.0 billion of servicing rights to third parties during 1995, partially offset by slower amortization of the capitalized mortgage servicing asset due to lower actual and anticipated mortgage loan prepayments in 1995 compared to 1994.

Source One utilizes interest rate floor contracts and principal-only swaps to mitigate the effect on earnings of higher amortization and impairment of the capitalized servicing asset caused by changes in market interest rates. The interest rate contracts, which were entered into in the 1995 fourth quarter and the 1996 first half, are not subject to total losses in excess of their original cost of $5.5 million. The interest rate floors are derivative contracts that derive their value from differences between the floor rate specified in the contract and prevailing market interest rates. As of December 31, 1996 and 1995, the interest rate contracts had a fair value of $4.8 million and $3.5 million, respectively. As of December 31, 1996, the open interest rate contracts had a total notional principal amount of $1.0 billion. In the 1996 third quarter, Source One entered into two principal-only swaps with an original notional value of $150.0 million to further mitigate its sensitivity to movements in market interest rates. The principal-only swap transactions are derivative contracts that derive their value from changes in the value of referenced principal-only strips. In the fourth quarter of 1996, in response to its contracted sale of approximately $17.0 billion of mortgage servicing rights, Source One closed its position in $100.0 million of original notional value of its principal-only swaps at a pretax gain of $9.7 million. The carrying value of Source One's remaining principal-only swaps as of December 31, 1996, was $3.2 million.

Source One adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights," an amendment to SFAS No. 65, as of January 1, 1995. SFAS No. 122 requires the total cost of acquiring mortgage loans, either through loan origination activities or purchase transactions, to be allocated to the mortgage servicing rights and the loans based on their relative fair values. The statement requires entities to measure impairment on a disaggregated basis by stratifying the capitalized servicing asset based on one or more predominant risk characteristics of the underlying loans. Impairment is recognized through a valuation allowance for each individual stratum. The adoption of SFAS No. 122 as it relates to the capitalization of originated mortgage servicing rights resulted in the recognition of an additional pretax gain on sales of mortgages of $27.2 million for the year ended December 31, 1995. The impairment provisions of SFAS No. 122 resulted in a pretax charge of $28.0 million in that year.

In 1994 Source One changed the methodology used to measure impairment of its purchased mortgage servicing rights asset. The new accounting methodology measured the asset's impairment on a disaggregated basis and discounted the asset's estimated future cash flows using a current market rate. Prior to 1994 Source One measured the asset's impairment on a disaggregated basis including a cost of capital charge for estimating the asset's future cash flows. The adoption of the new accounting methodology, recorded as a cumulative adjustment as of January 1, 1994, resulted in a $68.1 million pretax, $44.3 million after tax, charge to income for 1994.

To measure impairment of the mortgage servicing rights, Source One stratifies its mortgage loan servicing portfolio based on the portfolio's predominant risk characteristics which have been determined to be prepayment, default and operational risks. In estimating fair value, Source One used market consensus prepayment rates and discounted the future cash flows using discount rates that approximate current market rates. The prepayment assumptions used in the estimation of fair values are based on market prepayment expectations. The fair value of each stratum is computed and compared to its recorded book value to determine if a valuation allowance, or recovery of a previously established valuation allowance, is required.

As of December 31, 1996, Source One's $17.0 billion mortgage servicing portfolio to be sold in 1997 was valued as one stratum using the market price as indicated by the purchase and sale agreement with the third party purchaser. Accordingly, Source One evaluated the predominant risk characteristics on the remaining owned servicing portfolio which was stratified by interest rate, loan type (investor), original term to maturity and principal recourse. The discount rates used to estimate fair value were 10.5% for conventional loans, 12.0% for insured loans and, for 1996, 21.0% for recourse loans. As a result of refining the calculation during 1996 on its remaining owned servicing portfolio, Source One recognized $13.4 million of additional pretax impairment during the fourth quarter of 1996. As of December 31, 1995, the entire servicing portfolio was stratified by interest rate, loan type (investor) and original term to maturity.

The discount rate and prepayment assumptions are significant factors used in estimating the fair value of Source One's mortgage servicing rights and could be significantly impacted by changes in interest rates and other factors. Accordingly, it is likely that management's estimate of the fair value of the capitalized servicing asset will change from time to time due to changes in interest rates and other factors.

Net gains on sales of mortgages increased to $38.3 million for the year ended December 31, 1996, from $24.0 million in 1995 and $29.5 million in 1994. The increased gains from 1995 to 1996 reflect increased production and related mortgage sales volumes during the period. The 1995 net gain amount includes $27.2 million of gains related to the adoption of SFAS No. 122. Intensive price competition during 1995 led to increased pricing subsidies on originated loans which suppressed gains on sales of mortgages into the secondary market.

During 1996 Source One sold the rights to service $3.3 billion of mortgage loans for net proceeds of $55.9 million, resulting in a pretax gain of $10.1 million. During 1995 Source One sold the rights to service $11.0 billion of mortgage loans for net proceeds of $199.1 million, resulting in a pretax gain of $40.0 million. During 1994 Source One sold the rights to service $3.9 billion of mortgage loans for net proceeds of $70.2 million and continues to service the majority of these loans pursuant to a subservicing agreement. A gain of $19.9 million was deferred in 1994 and is being recognized in income over the five-year life of the subservicing agreement. The mortgage servicing portfolio as of December 31, 1996 and 1995, includes loans subserviced for others having a principal balance totalling $2.8 billion and $4.0 billion, respectively.

Management's intent regarding the servicing sales was to opportunistically take advantage of increases in the value of servicing rights that are created by rises in interest rates and to bring servicing and origination activities into better balance. Additional sales transactions may occur in the future when management deems it to be economically advantageous. Source One desires to continue to maintain or increase the size of its servicing portfolio in order to take advantage of its low cost servicing operation. Consistent with that strategy, Source One purchased the rights to service $2.8 billion, $4.7 billion and $3.7 billion of mortgage loans in 1996, 1995 and 1994, respectively.

Source One has recently developed a new strategy with respect to its servicing operations. Source One's current objective is to reduce its exposure to changes in market interest rates while preserving its reputation as a low cost and high quality servicer. Source One has found that an effective way to accomplish these goals is by actively pursuing and securing subservicing arrangements. Source One currently believes that it can become a leading subservicer of mortgages for third parties.

Consistent with Source One's subservicing strategy, on February 28, 1997, Source One sold the rights to service approximately $17.0 billion of non-recourse mortgage loans for gross proceeds of approximately $271.5 million. Source One expects to record a $2.1 million after tax loss on this servicing sale in the first quarter of 1997. The portion of Source One's mortgage servicing portfolio sold in 1997 consisted of approximately 284,000 loans with

a weighted average interest rate of 8.39%. Source One will continue to subservice these loans pursuant to a subservicing agreement for a period of no less than 12 months. Source One is currently evaluating its options as to how it

will utilize the proceeds from the sale. These options include: (i) purchasing additional mortgage servicing rights from third parties; (ii) reducing its outstanding indebtedness; (iii) reducing its outstanding preferred or common shareholders' equity; or (iv) any combination of the foregoing.

As a result of the 1997 servicing sale, Source One expects that its gross mortgage servicing revenue and its related amortization for 1997 and thereafter will be significantly less than its gross mortgage servicing revenue and its related amortization for 1996. Source One is currently analyzing its cost structure to identify expenses that may be reduced as a result of the sale.

Total mortgage loan production for the years ended December 31, 1996, 1995 and 1994, was $3.8 billion, $2.9 billion and $4.6 billion, respectively. The increase in production from 1995 to 1996 is reflective of overall lower market interest rates and a corresponding increase in refinancing activity experienced during 1996. The decrease in production from 1994 to 1995 is reflective of overall higher market interest rates and a corresponding decrease in refinancing activity experienced during 1995. Production related to refinancing activity represented 33% of total mortgage production in 1996 as compared to 23% in 1995 and 50% in 1994. Mortgage loan payoffs for the years ended December 31, 1996, 1995 and 1994, were $3.0 billion, $2.3 billion and $4.7 billion, respectively.

INVESTMENT OPERATIONS

The total return from Fund American's investment activities is shown below:

Millions	Year Ended December 31, 1996	1995	1994
Net investment income:			
Source One	$ 40.8	$ 37.7	$ 71.5
Insurance operations and other	16.5	17.7	18.7
Total net investment income	57.3	55.4	90.2
Net realized investment gains	38.5	38.8	38.8
Change in net unrealized investment gains and losses recorded directly to Shareholders' equity (a)	68.0	20.0	(82.4)
Total net investment return, before tax	$ 163.8	$ 114.2	$ 46.6

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

Fund American's net investment income is comprised primarily of interest income earned on mortgage loans originated by Source One and, in 1996, on fixed maturity investments of its consolidated insurance operations. The increase in Source One's net investment income from 1995 to 1996 is mainly attributable to increased interest income from mortgage loans held for sale related to higher mortgage loan production experienced during 1996. The decrease in Source One's net investment income from 1994 to 1995 is due primarily to decreased interest income from mortgage loans held for sale related to lower mortgage production experienced during 1995. Decreases in investment income from insurance and other operations during 1996 resulted from net sales of investment securities offset by increases in investment income from White Mountains' portfolio of fixed maturity investments. The decrease in other net investment income from 1994 to 1995 resulted from net sales of investment securities during 1995. Cash basis sales and maturities of investments, net of purchases and excluding short-term investments, totalled $95.7 million, $154.1 million and $151.9 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Net realized investment gains during 1996, before tax, included $27.2 million of gains from the sale of The Louisiana Land & Exploration Company common stock. Net realized investment gains during 1995, before tax, included $23.9 million of gains from the sale of American Express Company common stock. Net realized investment

gains during 1994, before tax, included $22.6 million of gains from the sale of The Louisiana Land and Exploration Company common stock and $21.7 million of gains from the sale of American Express Company common stock.

Total investment gains and losses during the three years ended December 31, 1996, have been substantially affected by changes in market prices for crude oil and natural gas. At December 31, 1996, 56% of Fund American's portfolio of common equity securities was invested in the San Juan Basin Royalty Trust which is further described below. Fund American believes that its investment in the San Juan Basin Royalty Trust is highly cyclical and, therefore, anticipates

continued volatility in the value of this investment in the future.

A review of certain significant holdings in Fund American's portfolio of common equity securities and other investments at December 31, 1996 follows. Share or unit and dollar amounts refer to the aggregate number of common shares or units of beneficial interest owned and the aggregate fair value at December 31, 1996, of Fund American's holdings of each security discussed.

San Juan Basin Royalty Trust ("San Juan"; 10,994,876 units; $90.7 million). San Juan units receive a 75% net overriding royalty interest from certain of Southland Royalty Company's leasehold and royalty interests in the San Juan Basin of Northwestern New Mexico. Fund American believes that changes in crude oil and natural gas prices and in the level of development and production expenditures by the operator of San Juan may affect the distributions to unitholders of San Juan and, therefore, the market prices of the units of San Juan. In addition, Fund American believes that the tax and accounting issues involved in owning units in San Juan may make such units unappealing to many investors. Fund American's investment in San Juan as of December 31, 1996 and 1995, represented greater than 20% of the total San Juan units outstanding at those times. San Juan units are nonvoting. Fund American does not account for it investment in San Juan units on the equity method as it does not have the ability to exercise significant influence over the Trustee of San Juan.

Travelers Property Casualty Corp. ("Travelers"; 3,142,906 shares; $90.3 million). On March 11, 1996 Fund American purchased its investment in Travelers for $50.0 million plus related expenses. Travelers is one of the largest commercial lines insurers in the United States and is an independent agency writer of personal lines insurance. John J. Byrne, Fund American's Chairman, is a director of Travelers.

White River Corporation (718,818 "White River Shares"; $39.2 million). White River, through its consolidated subsidiaries, provides automated vehicle valuation and collision repair estimating services and software for use by the insurance and automobile repair industries, and services which improve the handling and settling of automobile damage claims. White River also owns a passive investment portfolio. The Company owns an additional 295,932 White River Shares, carried in other assets, which are being held for delivery upon exercise of existing employee stock options.

Mid Ocean Limited ("Mid Ocean"; 388,140 shares ("Mid Ocean Shares"); $20.4 million). Mid Ocean provides property catastrophe, marine, energy, aviation, satellite and other reinsurance to insurers and reinsurers on a worldwide basis.

EXPENSES

Compensation expense as reported totalled $91.3 million, $111.6 million and $69.2 million for each of the years ended December 31, 1996, 1995 and 1994, respectively. Compensation expense for 1995 includes a $46.2 million pretax charge related to an extension of the expiration date of outstanding employee stock warrants. Additionally, Source One nets mortgage loan origination fees, less certain direct costs, against compensation and benefits expense. Excluding the effects of the 1995 warrant extension and mortgage loan origination fees, adjusted compensation and benefits expense was $111.1 million, $82.9 million and $98.8 million for each of the years ended December 31, 1996, 1995 and 1994, respectively. The increase in adjusted compensation and benefits expense from 1995 to 1996 is primarily the result of the inclusion of a full year of Valley and Charter's personnel costs in the 1996 consolidated financial statements. The decrease in adjusted compensation and benefits expense from 1994 to 1995 is primarily the result of lower personnel and related costs at Source One due to a decrease in mortgage loan originations in 1995 versus 1994.

General expenses of $120.0 million for 1996 compare to 1994 and 1993 amounts of $60.3 million and $77.7 million, respectively. The increase in general expenses from 1995 to 1996 is primarily the result of the inclusion of Valley and Charter's operations in the 1996 consolidated financial statements, and a $33.6 million pretax write-off of goodwill and certain other intangible assets of Source One. During 1996 Fund American had been re-assessing the recoverability of goodwill and certain other intangible assets related to Source One and, in the fourth quarter of 1996, determined that it should write-off all such assets related to Source One. Factors considered in the determination to write-off all Source One's goodwill were (i) increased competition and industry consolidation during 1996 which had adversely impacted the value of both the mortgage loan production and servicing operations of Source One and (ii) the attainment of a definitive agreement in the fourth quarter of 1996 to sell the majority of Source One's mortgage servicing portfolio at essentially book value. The decrease in general expenses from 1994 to 1995 was the result of efforts to reduce Source One's operating expenses in response to the contraction in mortgage originations which began to take effect in late 1994 and continued through 1995.

Interest expense increased to $50.0 million in 1996 which compares to $45.8 million for 1995 and $78.8 million for 1994. The fluctuations in interest expense reflect primarily increases and decreases in average indebtedness outstanding during each year at Source One. Source One's inventory of mortgage

loans held for sale declined in 1995 from 1994 levels and increased in 1996 from 1995 levels due to fluctuations in mortgage production levels. Source One's mortgage loans held for sale are funded mainly with debt. Therefore, Source One's average indebtedness outstanding declined in 1995 from 1994 levels and increased in 1996 from 1995 levels.

Source One's provision for mortgage loan losses, included in general expenses, was $10.3 million in 1996 which compares to $7.0 million for 1995 and $8.2 million for 1994. The increase in the provision for loan losses from 1995 to 1996 is due primarily to (i) higher average loss volumes relating to certain California residential mortgage loans, (ii) charge-offs relating to certain commercial real estate owned properties and (iii) an increase in delinquencies as the result of servicing portfolio acquisitions made by Source One during the period. The delinquency rates of the newly acquired portfolios (which were acquired on favorable terms considered to be reflective of these higher delinquency rates) were generally higher than those of Source One's existing portfolio resulting in a higher provision for loan losses; however, it is expected that Source One's proactive management of such delinquencies will reduce delinquency rates on the acquired portfolios to a level commensurate with the balance of Source One's servicing portfolio.

The provision for loan losses decreased from $8.2 million for 1994 to $7.0 million for 1995. The 1994 amount includes charge-offs relating to certain commercial real estate owned properties.

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

	December 31,				
	1996	1995	1994	1993	1992
Percent of total residential loans serviced:					
Past due:					
31-59 days	4.74%	3.99%	3.15%	3.41%	3.26%
60-89 days	.95	.70	.54	.58	.65
90 days or more	.55	.59	.38	.45	.48
Total delinquencies	6.24%	5.28%	4.07%	4.44%	4.39%
Foreclosures	.93%	.80%	.77%	.92%	.77%

Source One has established an allowance for mortgage loan losses which totalled $15.4 million and $13.5 million as of December 31, 1996 and 1995, respectively. Source One believes that the allowance is adequate to provide for estimated uninsured losses on the mortgage servicing portfolio.

INCOME TAXES

The income tax provision related to pretax earnings for 1996, 1995 and 1994 represents an effective tax rate of 79.3%, 47.3% and 49.3%, respectively. The primary reason for the increase in Fund American's effective tax rate from 1995 to 1996 is the 1996 write-off of goodwill and certain other intangible assets related to Source One. The total pretax write-off of these assets was $33.6 million and the related tax benefit was $3.6 million, as no deferred tax liability was established related to Source One's goodwill. This had the effect of increasing Fund American's 1996 effective income tax rate from 45.4% to 79.3%.

Fund American has recorded a net deferred Federal income tax liability of $1.3 million as of December 31, 1996. The deferred tax liability includes a $49.0 million liability related to net unrealized gains on investment securities partially offset by a $47.7 million net asset related to various operating items.

On January 2, 1991, the Company sold Fireman's Fund to Allianz of America, Inc. The $1.3 billion gain from the sale as reported in 1991 included a $75.0 million tax benefit related to the Company's estimated tax loss from the sale. Since 1991 the Company has carried an estimated reserve related to tax matters affecting the amount of the deductible tax loss from the sale and other tax matters. The conclusion in 1995 of Internal Revenue Service ("IRS") audits of Fund American's Federal income tax returns for all years through December 31, 1985, resolved certain of the tax matters affecting the amount of the Company's deductible tax loss from the sale of Fireman's Fund and the Company, therefore, re-estimated its tax reserve. As a result of the reserve re-estimation, the

Company included in its 1995 income statement an additional $66.0 million income tax benefit from the sale. The amount of tax benefit from the sale of Fireman's Fund ultimately realized by the Company may be significantly more or less than the Company's current estimate due to possible changes in or new interpretations of tax rules, possible amendments to Fund American's 1990 or prior years' Federal income tax returns, the results of further IRS audits and other matters affecting the amount of the deductible tax loss from the sale.

LIQUIDITY AND CAPITAL RESOURCES

Since the sale of Fireman's Fund, Fund American has been gradually liquidating its portfolio of passive investment securities. Management's primary strategic goal is to either (i) reinvest Fund American's passive investments, together with other resources available to Fund American, into operating businesses in which management has knowledge and experience (if appropriate opportunities can be found) or (ii) return excess capital to shareholders through additional repurchases of Shares. Management believes that this strategy will, over time, further enhance shareholder value. As is further described below, the formation, capitalization and ongoing development of White Mountains embodies this strategy.

PARENT COMPANY

The primary sources of cash inflows for the Company are investment income, sales of investment securities and dividends received from its operating subsidiaries.

In June 1994 the Company entered into a revolving credit agreement with a syndicate of banks. Under the agreement, through August 9, 1996, the Company and certain of its subsidiaries could borrow up to $75.0 million at short-term market interest rates. The credit agreement contained certain customary covenants, including a $475.0 million minimum tangible net worth requirement and a minimum financial asset coverage requirement. At December 31, 1995, the Company had no borrowings outstanding under the agreement.

In November 1996 the Company entered into a new revolving credit agreement with a syndicate of banks. Under the agreement, through November 25, 1997, the Company and certain of its subsidiaries may borrow up to $35.0 million at short-term market interest rates. The credit agreement contains certain customary covenants including a minimum tangible net worth requirement, a minimum financial asset coverage requirement and a maximum leverage ratio requirement. At December 31, 1996, the Company was in compliance with all covenants under the facility and had no borrowings outstanding under the agreement.

During 1993 the Company issued $150.0 million in principal amount of medium-term notes for net cash proceeds of $148.0 million after related costs. Proceeds from the issuance of the notes were used to repay an existing revolving credit facility and for general corporate purposes. During 1995 and 1994 the Company repurchased $8.8 million and $25.0 million, respectively, in principal amount of the notes due in February 2003. At December 31, 1996, the remaining outstanding notes had an average maturity of 6.4 years and an average yield to maturity of 7.82%.

In August 1994 the Company redeemed 22,778 shares of the Series D Preferred Stock for $82.0 million. In July 1995 the Company redeemed the remaining 20,833 shares of the Series D Preferred Stock outstanding for $75.0 million. The redemption price for the shares of Series D Preferred Stock redeemed was equal to the stock's liquidation preference. The annual dividend rate on the Series D Preferred Stock was 7.75% through July 1994 and 8.75% from August 1994 through July 1995.

During 1996, 1995 and 1994 the Company repurchased 779,077 Shares, 877,868 Shares and 1,128,057 Shares, respectively, for $66.3 million, $65.5 million and $78.8 million, respectively. All such repurchased Shares have been retired. The repurchases of Shares represent a return of excess capital to the Company's shareholders.

During 1994 the Company did not pay regular cash dividends to holders of Shares. In the fourth quarter of 1995 the Board reinstated a $.20 regular quarterly dividend on Shares. During 1995 and 1996 the Company declared and paid cash dividends totalling $.20 and $.80 per Share, respectively. The Board currently intends to reconsider from time to time the declaration of regular periodic dividends on Shares with due consideration given to the financial characteristics of Fund American's remaining invested assets and operations and the amount and regularity of its cash flows at the time. There can be no assurance, therefore, as to whether or when the Board will declare additional dividends on Shares.

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

million.

On December 22, 1993, the Company distributed approximately 74% of the outstanding White River Shares to its shareholders. White River commenced operations on September 24, 1993, concurrent with the purchase and transfer of selected assets and the assumption of certain liabilities from Fund American. The assets sold or otherwise transferred by Fund American to White River included primarily $84.0 million of common equity securities, $147.1 million of securities classified as other investments and $25.8 million of short-term investments. White River's initial capitalization consisted of a $50.0 million term note payable to Fund American (the "Term Note"), $7.0 million of redeemable preferred stock and $200.0 million of common shareholder's equity. Of the 1,014,750 White River Shares retained by Fund American, 295,932 have been reserved by Fund American for delivery upon exercise of existing employee stock options and warrants.

Pursuant to the terms of a December 1993 credit agreement among the Company and White River, the Company provided White River with the Term Note and a $40.0 million revolving credit facility (the "Revolver"). The credit agreement granted White River the right to use certain of its investment securities to repay its borrowings under the Term Note and the Revolver.

On June 29, 1995, White River repaid $35.1 million in principal amount of the Revolver with (i) 930,000 Mid Ocean Shares and (ii) options to acquire an additional 388,140 Mid Ocean Shares through November 2002. On July 3, 1995, White River repaid the remaining $4.9 million principal balance of the Revolver and $5.0 million in principal amount of the Term Note in exchange for certain common equity securities. On August 31, 1995, White River repaid the remaining $45.0 million principal balance of the Term Note with 1,525,424 shares of common stock of Zurich Reinsurance Centre Holdings, Inc.

WHITE MOUNTAINS

In 1995 the Company capitalized White Mountains with $200.0 million of equity capital and in 1996 further capitalized White Mountains with an additional $95.0 million of equity capital. White Mountains was formed to be the holding company for all of Fund American's insurance operating interests including Valley, Charter and WMIC, as well as its investments in FSA, Folksamerica and MSA.

FUND AMERICAN

In November 1995 Charter issued two notes totalling $20.2 million. Certain of the notes were due in 1996 and other notes could be extended to be payable in three equal installments in 1997, 1998 and 1999. During 1996 Charter elected to extend the maturity of $3.2 million of notes payable. The notes are collateralized by certain assets of Charter.

In November 1996 White Mountains and Valley entered into a five year credit facility under which they may borrow $50.0 million and $15.0 million, respectively, at market interest rates. The $15.0 million of borrowings under the facility available to Valley are guaranteed by White Mountains. The facility contains certain customary covenants including a minimum tangible net worth requirement, a minimum financial asset coverage requirement, a maximum leverage ratio requirement, a minimum fixed charge coverage ratio requirement and a minimum policyholders' surplus requirement. The facility also limits White Mountains' ability to pay dividends to its shareholders. As of December 31, 1996, White Mountains and its subsidiaries were in compliance with all covenants under the facility. During 1996 Valley borrowed $15.0 million under the facility with a weighted average interest rate of 5.825%. White Mountains had no borrowings during 1996 under the facility.

On November 1, 1996, Fund American signed a definitive agreement (the "MSA Agreement") to increase its ownership of MSA from 33% to 50%. MSA currently shares in 40% of NGM's business through a quota share reinsurance agreement which is expected to be increased to 60% pursuant to the MSA Agreement. Also pursuant to the MSA Agreement, NGM will contribute certain of its insurance, reinsurance and information and financial services subsidiaries to MSA. The aggregate purchase price to be paid by Fund American pursuant to the MSA Agreement is approximately $60.2 million, subject to certain purchase price adjustments. Fund American expects to assign the additional investment in MSA to White Mountains. White Mountains expects that the purchase price for the additional MSA investment will be paid with proceeds from borrowings under White Mountains' $50.0 million revolving credit facility, and sales and maturities of passive investment securities. The closing is dependent upon the receipt of state regulatory approvals and is expected to occur in the second quarter of 1997.

On March 17, 1997, the Boards of Directors of the Company, White Mountains, Source One and FAE approved a plan whereby Source One will become a part of Fund American's permanent operating group. The plan also calls for approximately $139 million of capital infusions into Source One. This step is intended to improve Source One's debt ratings and reduce Source One's borrowing costs. As a result of the transaction, White Mountains' shareholder's equity is expected to increase to more than $760 million. Portions of the plan are subject to insurance regulatory approvals and will require amending various credit facilities of the Company, White Mountains, Source One, FAE, and Valley. Fund

American believes that it will receive the requisite insurance regulatory and banking approvals to proceed with the transaction in the second quarter of 1997; however, there is no assurance that such approvals will be obtained.

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

SOURCE ONE

Source One's investments, mortgage loans held for sale and mortgage loan servicing portfolio provide a liquidity reserve since they may be sold to meet liquidity needs.

On February 28, 1997, Source One sold the rights to service $17.0 billion of mortgage loans to a third party for gross proceeds of $271.5 million. Source One will continue to service these loans pursuant to a subservicing agreement for a period of no less than 12 months. Source One is currently evaluating its options as to how it will utilize the proceeds from the sale. These options include: (i) purchasing additional mortgage servicing rights from third parties; (ii) reducing its outstanding indebtedness; (iii) reducing its outstanding preferred or common shareholders' equity; or (iv) any combination of the foregoing.

In 1996 Source One sold the rights to service $3.3 billion of mortgage loans to third parties for net cash proceeds of $55.9 million. The proceeds were used by Source One for general corporate purposes.

In 1995 Source One sold the rights to service $11.0 billion of mortgage loans to third parties for net cash proceeds of $181.1 million. The proceeds were used by Source One to retire debt and to repurchase shares of its common stock from FAE.

In 1994 Source One sold the rights to service $3.9 billion of mortgage loans to third parties for net cash proceeds of $70.2 million. Source One continues to service these loans pursuant to a subservicing agreement which ends in 1999. The proceeds were used by Source One to retire debt and for general corporate purposes.

In August 1995 Source One entered into a $60.0 million unsecured revolving credit facility which was extended in 1996 and expires in July 1997. As of December 31, 1996 and 1995, there was $45.0 million and $60.0 million outstanding under this arrangement, respectively. Source One also has a revolving credit agreement under which it can borrow up to $10.0 million through June 30, 1997. As of December 31, 1996 and 1995, there was $0 and $4.5 million outstanding under this agreement, respectively.

In November 1996 Source One amended and restated its secured revolving credit agreement dated March 1995. The provisions of the amended agreement increased the size of the facility from $500 million to $750 million. The size of the facility may be further increased at Source One's option with bank concurrence up to $1.25 billion. Borrowings under the facility and commercial paper backed by the facility are secured primarily by Source One's mortgage loans receivable and mortgage servicing portfolio. The facility expires on November 12, 1999. As of December 31, 1996, Source One had no outstanding borrowings under this facility.

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

Source One has a $650.0 million domestic and Euro commercial paper program. As of December 31, 1996 and 1995, there was $362.2 million and $256.6 million of commercial paper outstanding, respectively. The weighted average number of days to maturity of commercial paper outstanding at December 31, 1996 and 1995, was 23 days and 19 days, respectively.

In 1992 Source One issued $100.0 million of 9% debentures due in 2012 pursuant to a $250.0 million shelf registration statement. The proceeds from issuance were used for general corporate purposes.

In 1991 Source One issued $160.0 million of 8.875% medium-term notes due in 2001. During 1995 Source One repurchased and retired in principal amount $21.6 million of these notes.

In 1989 Source One issued $40.0 million of medium-term notes due in 1996 and having a total weighted average interest rate of 9.65%. During 1996 and 1995 Source One repurchased and retired $29.7 million and $10.3 million in

principal amount of these notes, respectively.

In 1986 Source One issued $125.0 million of 8.25% debentures due November 1, 1996. During 1996 and 1995 Source One repurchased and retired $74.6 and $50.4 million in principal amount of these debentures, respectively.

On December 8, 1995, Source One exchanged and retired 2,239,061 shares of preferred stock (the "Source One Preferred Stock") for $56.0 million in principal amount of 9.375% subordinated debentures. The subordinated debentures are due on December 31, 2025, but are redeemable at the option of Source One, in whole or part, at any time on or after May 1, 1999. Source One pays quarterly cash dividends on the Source One Preferred Stock at an annual rate of 8.42%. Dividends on the Source One Preferred Stock totalled $3.7 million, $8.4 million and $5.2 million for the years ended December 31, 1996, 1995 and 1994, respectively.

On March 17, 1997, the Boards of Directors of the Company, White Mountains, Source One and FAE approved a plan whereby Source One will become a part of Fund American's permanent operating group. The plan also calls for approximately $139 million of capital infusions into Source One. As a result of the transaction, Source One's pro forma common shareholders' equity is expected to increase to more than $400 million. This step is intended to improve Source One's debt ratings and reduce Source One's borrowing costs. Portions of the plan are subject to insurance regulatory approvals and will require amending various credit facilities of the Company, White Mountains, Source One, FAE, and Valley. Fund American believes that it will receive the requisite insurance regulatory and banking approvals to proceed with the transaction in the second quarter of 1997; however, there is no assurance that such approvals will be obtained.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data have been filed as a part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 33 of this report.

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

On January 24, 1997, the Company's Board of Directors, upon recommendation of the Audit Committee, appointed KPMG Peat Marwick LLP as its independent auditors for the fiscal year ending December 31, 1997, to replace Ernst & Young LLP ("Ernst & Young") as independent auditors for the Company and Coopers & Lybrand L.L.P. ("Coopers & Lybrand") as independent auditors for Valley, effective upon the date of their reports on such consolidated financial statements for the year ended December 31, 1996, contained herein.

In connection with the audits of the two years ended December 31, 1996, there were no disagreements with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

The Company acquired Valley on December 1, 1995. Coopers & Lybrand has served as the independent auditors of Valley. The report of Coopers & Lybrand on the consolidated financial statements of Valley for the year ended December 31, 1996, has been relied upon in the Ernst & Young report contained herein. There have been no disagreements with Coopers & Lybrand on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures with respect to Valley.

The Company has requested Ernst & Young and Coopers & Lybrand to furnish a letter addressed to the Commission stating whether it agrees with the above statements. Copies of those letters, dated March 27, 1997, are filed herein as Exhibits 16(a) and 16(b).

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

A. DIRECTORS (AS OF MARCH 21, 1997)

Reported under the caption "Election of Directors" on pages 3 through 5 of the Company's 1997 Proxy Statement, herein incorporated by reference.

B. EXECUTIVE OFFICERS (AS OF MARCH 21, 1997)

Name	Position	Age	Executive officer since
Terry L. Baxter	President of White Mountains	51	1994
Dennis P. Beaulieu	Vice President and Secretary	49	1995
John J. Byrne	Chairman, President and CEO	64	1985
Reid T. Campbell	Assistant Controller	29	1996
James A. Conrad	President and CEO of Source One	55	1986
K. Thomas Kemp	Executive Vice President of the Company, Chairman and CEO of White Mountains	56	1991
James H. Ozanne	President of FAE	53	1997
Michael S. Paquette	Vice President and Controller	33	1993
David G. Staples	Vice President and Director of Taxation	36	1997
Allan L. Waters	Senior Vice President and Chief Financial Officer	39	1990

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

MR. BAXTER was elected President of White Mountains in February 1997 and has served as Chairman of Source One since May 1996. Mr. Baxter previously served as President and Secretary of FAE which positions he held since 1994. Prior to joining Fund American in 1994, Mr. Baxter was Managing Director of the National Transportation Safety Board from 1990. Prior to that, he was the Assistant Director of OMB in the Reagan Administration. Mr. Baxter is a director of FAE, MSA, Source One, White Mountains and WMIC.

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

MR. BYRNE has served as Chairman, President and Chief Executive Officer since 1990, as Chairman and Chief Executive Officer from 1985 to 1990 and was Chairman and Chief Executive Officer of Fireman's Fund from 1989 through January 2, 1991. Mr. Byrne is also Chairman of FSA and FAE.

MR. CAMPBELL was elected Assistant Controller in February 1996 and has been with Fund American since 1994. Mr. Campbell is also Assistant Controller of White Mountains and is a director of WMIC. Prior to joining Fund American, Mr. Campbell was with KPMG Peat Marwick from 1990 to 1994.

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

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

MR. OZANNE was elected President of FAE in February of 1997 and is currently Vice Chairman of Source One. Mr. Ozanne has previously served in various capacities at Nations Financial Holdings Corporation including Chairman and Director from 1993 to 1996 and was President and CEO of U S WEST Capital Corporation from 1989 to 1993. Prior to 1989, Mr. Ozanne was Executive Vice President at General Electric Capital Corporation. Mr. Ozanne is a director of FSA, Source One and FAE.

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

Reported under the captions "Compensation of Executive Officers" on pages 8 through 10, "Reports of the Compensation Committees on Executive Compensation" on pages 11 though 14, "Shareholder Return Graph" on page 15, and "Compensation Plans" on pages 16 through 17 of the Company's 1997 Proxy Statement, herein incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reported under the caption "Voting Securities and Principal Holders Thereof" on pages 6 through 7 of the Company's 1997 Proxy Statement, herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reported under the captions "Certain Transactions" on page 10 and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions" on page 17 of the Company's 1997 Proxy Statement, herein incorporated by reference.

PART IV

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

B. REPORTS ON FORM 8-K

No Reports on Form were filed during the fourth quarter of 1996 by the Company.

C. EXHIBITS

EXHIBIT NUMBER		NAME
3 (i)	-	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(a) of the Company's 1993 Annual Report on Form 10-K).
(ii)	-	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3(b) of the Company's 1993 Annual Report on Form 10-K)
4	-	Indenture dated January 1, 1993, with The First National Bank of Chicago, as trustee, pursuant to the Company's offering of $150 million of medium-term notes (incorporated by reference to Exhibit (4) of the Company's Report on Form 8-K dated January 15, 1993)
9	-	Voting Trust Agreement dated September 2, 1994 between the Company, U S WEST Capital Corporation and First Chicago Trust Company of New York (filed pursuant to Exhibit 10(f) herein)
10 (a)	-	Credit Agreement dated June 2, 1994 among the Company, Fund American Enterprises, Inc., FFOG, Inc., the banks named therein and The Chase Manhattan Bank (incorporated by reference to Exhibit 10(a) of the Company's 1994 Annual Report on Form 10-K)
(b)	-	Amendment No. 1 to the Credit Agreement dated June 1, 1995 among the Company, Fund American Enterprises, Inc., FFOG, Inc., the banks named therein and The Chase Manhattan Bank (incorporated by reference to Exhibit 10(b) of the Company's 1995 Annual Report on Form 10-K)
(c)	-	Amendment No. 2 to the Credit Agreement dated August 2, 1995 among the Company, Fund American Enterprises, Inc., FFOG, Inc., the banks named therein and The Chase Manhattan Bank (incorporated by reference to Exhibit 10(c) of the Company's 1995 Annual Report on Form 10-K)
(d)	-	Amendment No. 3 to the Credit Agreement dated August 11, 1995 among the Company, Fund American Enterprises, Inc., FFOG, Inc., the banks named therein and The Chase Manhattan Bank (incorporated by reference to Exhibit 10(d) of the Company's 1995 Annual Report on Form 10-K)
(e)	-	Credit Agreement dated November 26, 1996 among the Company, Fund American Enterprises, Inc., the Lenders (as named therein) and The

First National Bank of Chicago(*)

(f) - Credit Agreement dated November 26, 1996 among the White Mountains Holdings, Inc., the Lenders (as named therein) and The First National Bank of Chicago(*)

(g) - Credit Agreement dated November 26, 1996 among Valley Group, Inc., the Lenders (as named therein) and The First National Bank of Chicago(*)

(h) - Securities Purchase Agreement dated April 10, 1994 between the Company, U S WEST, Inc., U S WEST Capital Corporation and Financial Security Assurance Holdings Ltd. (incorporated by reference to Exhibit 10(a) of the Company's Report on Form 8-K dated April 10, 1994)

(i) - Stock Purchase Agreement dated August 8, 1995 between the Company, Skandia U.S. Holding Corporation, and Skandia America Corporation (incorporated by reference to Exhibit 10(e) of the Company's 1995 Annual Report on Form 10-K)

(j) - Securities Purchase Agreement dated March 6, 1996 between the Company and Folksamerica Holdings Company, Inc. (incorporated by reference to Exhibit 10(a) of the Company's Report on Form 8-K dated June 19, 1996)

(k) - Employment Agreement dated February 15, 1995, between the Company and John J. Byrne (incorporated by reference to Appendix II of the Company's Notice of 1995 Annual Meeting of Shareholders and Proxy Statement)(**)

(l) - Common Stock Warrant Agreement with respect to shares of the Company's Common stock between the Company and John B. Byrne (incorporated by reference to Exhibit 10(v) of the Company's Registration Statement on Form S-1 (No. 33-0199))(**)

(m) - The Company's Retirement Plan for Non-Employee Directors (incorporated by reference to Exhibit 10(aa) of the Company's 1992 Annual Report on Form 10-K)(**)

(n) - The Company's Voluntary Deferred Compensation Plan, as amended on November 15, 1996 (*)(**)

(o) - The Company's Deferred Benefit Plan, as amended on November 15, 1996 (*)(**)

(p) - The Company's Long-Term Incentive Plan, as amended February 15, 1995 (incorporated by reference to Appendix I of the Company's Notice of 1995 Annual Meeting of Shareholders and Proxy Statement (**)

(q) - Agreement dated June 5, 1996 among Source One Mortgage Services Corporation and Robert T. Richards (*)(**)

(r) - Source One Mortgage Services Corporation's Long-Term Incentive Plan (incorporated by reference to Exhibit 10(n) of the Company's 1994 Annual Report on Form 10-K)(**)

(s) - Source One Mortgage Services Corporation's Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10(s) of the Company's 1993 Annual Report on Form 10-K)(**)

(t) - Source One Mortgage Services Corporation's Amended and Restated Executive Phantom Stock Plan (incorporated by reference to Exhibit 10(t) of the Company's 1993 Annual Report on Form 10-K)(**)

(u) - Source One Mortgage Services Corporation's Stock Appreciation Rights Plan (incorporated by reference to Exhibit 10(u) of the Company's 1993 Annual Report on Form 10-K)(**)

(v) - Investment Contract by and between Source One Mortgage Services Corporation and James A. Conrad (incorporated by reference to Exhibit 10(v) of the Company's 1993 Annual Report on Form 10-K)(**)

(w) - Investment Contract by and between Source One Mortgage Services Corporation and Robert W. Richards (incorporated by reference to Exhibit 10(w) of the Company's 1993 Annual Report on Form 10-K(**)

(x) - Credit Agreement, dated December 13, 1993, among the Company and White River Corporation (incorporated by reference to Exhibit 10(x) of the Company's 1993 Annual Report on Form 10-K)(**)

(y) - Guaranty, dated February 28, 1997, by the Company to and for the benefit of Chemical Mortgage Company (*)

11 - Statement Re Computation of Per Share Earnings (*)

16(a) - Letter of Ernst & Young LLP dated March 27, 1997(*)

(b) - Letter of Coopers & Lybrand L.L.P. dated March 27, 1997 (*)

18 - Letter from Ernst & Young LLP regarding change in accounting principle (incorporated by reference to Exhibit 18 of the Company's 1994 Annual Report on Form 10-K)

21 - Subsidiaries of the Registrant (*)

23(a) - Consent of Ernst & Young LLP dated March 27, 1997(*)

(b) - Consent of Coopers & Lybrand L.L.P. dated March 27, 1997 relating to Valley (*)

(c) - Consent of Coopers & Lybrand L.L.P. dated March 27, 1997 relating to FSA (*)

24 - Powers of Attorney (*)

27 - Financial Data Schedule (*)

99(a) - Report to Coopers & Lybrand L.L.P. dated February 14, 1997

relating to Valley(*)
99(a) - Report to Coopers & Lybrand L.L.P. dated January 24, 1997 relating to FSA (*)

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(*) included herein.

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

D. FINANCIAL STATEMENT SCHEDULES

The financial statement schedules and report of independent auditors have been filed as part of this Annual Report on Form 10-K as indicated in the Index to Financial Statements and Financial Statement Schedules appearing on page 33 of this report.

FUND AMERICAN

SIGNATURES

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

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

Date: March 27, 1997

By: /s/ MICHAEL S. PAQUETTE

Michael S. Paquette
Vice President and Controller

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

SIGNATURE	TITLE	DATE
JOHN J. BYRNE* John J. Byrne	Chairman, President and Chief Executive Officer	March 27, 1997
HOWARD L. CLARK* Howard L. Clark	Director	March 27, 1997
HOWARD L. CLARK, JR.* Howard L. Clark, Jr.	Director	March 27, 1997
ROBERT P. COCHRAN* Robert P. Cochran	Director	March 27, 1997
GEORGE J. GILLESPIE, III* George J. Gillespie, III	Director	March 27, 1997
/s/ K. THOMAS KEMP K. Thomas Kemp	Executive Vice President and Director	March 27, 1997
GORDON S. MACKLIN* Gordon S. Macklin	Director	March 27, 1997
FRANK A. OLSON* Frank A. Olson	Director	March 27, 1997
MICHAEL S. PAQUETTE* Michael S. Paquette	Vice President and Controller	March 27, 1997
ALLAN L. WATERS* Allan L. Waters	Senior Vice President and Chief Financial Officer	March 27, 1997
ARTHUR ZANKEL* Arthur Zankel	Director	March 27, 1997

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

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

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

CONSOLIDATED BALANCE SHEETS

Dollars in millions	December 31, 1996	1995
ASSETS		
Common equity securities, at fair value (cost $101.1 and $232.1)	$ 160.8	$ 274.5
Fixed maturity investments, at fair value (cost $154.5 and $109.8)	155.4	110.7
Other investments (cost $119.7 and $86.7)	176.5	95.9
Short-term investments, at amortized cost (which approximated fair value)	67.5	103.6
Total investments	560.2	584.7
Cash	4.8	2.7
Capitalized mortgage servicing, net of accumulated amortization	410.9	397.1
Mortgage loans held for sale	314.9	381.0
Pool loan purchases	131.5	119.0
Mortgage claims receivable and real estate acquired, less allowance for mortgage loan losses of $15.4 and $13.5	51.5	45.4
Insurance premiums receivable	52.2	45.3
Investments in unconsolidated insurance affiliates	226.9	96.2
Other assets	227.7	200.5

Total assets	$ 1,980.6	$ 1,871.9
LIABILITIES		
Short-term debt	$ 407.9	$ 445.4
Long-term debt	424.2	407.3
Unearned insurance premiums	72.6	35.0
Loss and loss adjustment expense reserves	65.4	44.1
Accounts payable and other liabilities	279.5	196.4
Total liabilities	1,249.6	1,128.2
Minority interest - preferred stock of subsidiary	44.0	44.0
SHAREHOLDERS' EQUITY		
Common stock - authorized 125,000,000 shares, issued 31,940,202 and 32,719,279 shares	31.9	32.7
Paid-in surplus	366.5	375.5
Retained earnings	1,067.1	1,124.6
Common stock in treasury, at cost: 25,034,939 shares	(871.0)	(871.0)
Net unrealized investment gains, after tax	92.5	37.9
Total shareholders' equity	687.0	699.7
Total liabilities, minority interest and shareholders' equity	$ 1,980.6	$ 1,871.9

See Notes to Consolidated Financial Statements.

FUND AMERICAN

CONSOLIDATED INCOME STATEMENTS

Millions, except per share amounts	Year Ended December 31, 1996	1995	1994
REVENUES:			
Gross mortgage servicing revenue	$ 139.6	$ 141.9	$ 169.3
Amortization and impairment of capitalized mortgage servicing	(71.9)	(81.4)	(86.9)
Net gain on financial instruments	9.9	.8	-
Net mortgage servicing revenue	77.6	61.3	82.4
Net gain on sales of mortgages	38.3	24.0	29.5
Gain on sales of mortgage servicing rights	10.1	40.0	-
Other mortgage operations revenue	18.1	15.6	23.9
Property and casualty insurance premiums earned	109.7	5.8	-
Earnings from unconsolidated insurance affiliates	12.0	9.4	2.5
Other insurance operations revenue	9.4	10.8	-
Net investment income	57.3	55.4	90.2
Total revenues	332.5	222.3	228.5
EXPENSES:			
Compensation and benefits	91.3	111.6	69.2
General expenses	120.0	60.3	77.7
Interest expense	50.0	45.8	78.8
Insurance losses and loss adjustment expenses	85.9	8.2	-
Total expenses	347.2	225.9	225.7
Pretax operating earnings (loss)	(14.7)	(3.6)	2.8
Net realized investment gains	38.5	38.8	38.8
Pretax earnings	23.8	35.2	41.6
Income tax provision	18.9	16.7	20.5

AFTER TAX EARNINGS	4.9	18.5	21.1
Tax benefit from sale of discontinued operations	-	66.0	-
Loss on early extinguishment of debt, after tax	-	(.4)	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax	-	-	(44.3)
Net income (loss)	4.9	84.1	(23.2)
Dividends on preferred stock	-	(3.8)	(9.9)
Net income (loss) applicable to common stock	$ 4.9	$ 80.3	$ (33.1)
PRIMARY EARNINGS PER SHARE:			
After tax earnings	$ .60	$ 1.71	$ 1.20
Tax benefit from sale of discontinued operations	-	7.69	-
Loss on early extinguishment of debt, after tax	-	(.04)	-
Cumulative effect of accounting change	-	-	(4.71)
Net income (loss)	$ .60	$ 9.36	$ (3.51)
FULLY DILUTED EARNINGS PER SHARE:			
After tax earnings	$ .60	$ 2.02	$ 1.20
Tax benefit from sale of discontinued operations	-	7.18	-
Loss on early extinguishment of debt, after tax	-	(.04)	-
Cumulative effect of accounting change	-	-	(4.71)
Net income (loss)	$ .60	$ 9.16	$ (3.51)

See Notes to Consolidated Financial Statements.

FUND AMERICAN

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Millions	Total	Preferred stock	Common stock and paid-in surplus	Retained earnings	Common stock in treasury	Net unrealized investment gains (losses)	Loan for common stock issued
Balances at January 1, 1994	$905.0	$157.0	$384.2	$1,198.6	$(884.9)	$ 74.5	$(24.4)
Net loss	(23.2)	-	-	(23.2)	-	-	-
Dividends to preferred stockholders	(9.4)	-	-	(9.4)	-	-	-
Redemption of preferred stock	(82.0)	(82.0)	-	-	-	-	-
Purchases of common stock retired	(78.8)	-	(12.5)	(66.3)	-	-	-
Stock warrants exercised	4.9	-	-	(1.5)	6.4	-	-
Change in net unrealized investment gains and losses, after tax	(54.8)	-	-	-	-	(54.8)	-
Other	(.6)	-	-	-	-	-	(.6)
Balances at December 31, 1994	661.1	75.0	371.7	1,098.2	(878.5)	19.7	(25.0)
Net income	84.1	-	-	84.1	-	-	-
Dividends to stockholders	(4.8)	-	-	(4.8)	-	-	-
Redemption of preferred stock	(75.0)	(75.0)	-	-	-	-	-
Purchases of common stock retired	(65.4)	-	(9.7)	(55.7)	-	-	-
Stock options and warrants exercised	10.3	-	-	2.8	7.5	-	-
Extension of outstanding stock warrants	46.2	-	46.2	-	-	-	-
Change in net unrealized investment gains and losses, after tax	18.2	-	-	-	-	18.2	-
Repayment of loan for common stock issued	25.0	-	-	-	-	-	25.0
Balances at December 31, 1995	699.7	-	408.2	1,124.6	(871.0)	37.9	-
Net income	4.9	-	-	4.9	-	-	-
Dividends to common stockholders	(5.9)	-	-	(5.9)	-	-	-
Purchases of common stock retired	(66.3)	-	(9.8)	(56.5)	-	-	-
Change in net unrealized investment gains and losses, after tax	54.6	-	-	-	-	54.6	-
Balances at December 31, 1996	$687.0	$ -	$398.4	$1,067.1	$(871.0)	$ 92.5	$ -

See Notes to Consolidated Financial Statements.

FUND AMERICAN

CONSOLIDATED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 1996	1995	1994
Net income (loss)	$ 4.9	$ 84.1	$ (23.2)
Charges (credits) to reconcile net income (loss) to cash flows from operations:			
Tax benefit from sale of discontinued operations	-	(66.0)	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax servicing, after taxservicn	-	-	44.3
Undistributed earnings from unconsolidated insurance affiliates	(8.2)	(8.6)	(2.3)
Compensation expense resulting from warrant extension	-	46.2	-
Net realized investment gains	(38.5)	(38.8)	(38.8)
Decrease (increase) in mortgage loans held for sale	66.1	(170.5)	1,088.0
Gain on sales of mortgage servicing rights	(10.1)	(40.0)	-
Increase in unearned insurance premiums	37.6	2.7	-
Increase in insurance premiums receivable	(6.9)	(1.3)	-
(Decrease) increase in deferred insurance policy acquisition costs	(6.5)	.2	-
Net increase in insurance loss reserves	21.2	12.3	-
Write-off of goodwill and other intangible assets	32.6	-	-
Depreciation and amortization of servicing assets, goodwill and other	85.4	86.4	99.2
Capitalized excess mortgage servicing income	(10.1)	(7.4)	(16.7)
Net change in current and deferred income taxes receivable and payable	11.8	14.9	21.2
Change in other assets	(29.3)	(4.9)	24.8
Change in accounts payable and other liabilities	33.7	35.9	(7.3)
Other, net	4.6	(7.0)	4.7
Net cash provided from (used for) operating activities	188.3	(61.8)	1,193.9
Cash flows from investing activities:			
Net decrease in short-term investments	36.1	15.6	133.3
Sales and maturities of common stocks and other investments	229.8	204.5	338.2
Sales and maturities of fixed maturity investments	131.7	62.1	-
Purchases of common stocks and other investments	(85.0)	(63.7)	(137.8)
Purchases of fixed maturity investments	(180.8)	(48.8)	(48.5)
Acquisitions of consolidated insurance affiliates	(13.2)	(42.2)	-
Investments in unconsolidated insurance affiliates	(107.6)	(33.0)	(44.0)
Collections on mortgage origination and servicing assets	160.9	192.7	232.3
Additions to purchased mortgage servicing rights	(40.5)	(82.1)	(90.1)
Originated mortgage servicing rights	(38.0)	(31.2)	-
Proceeds from sales of mortgage servicing rights	11.7	181.1	70.2
Additions to other mortgage origination and servicing assets	(189.8)	(150.4)	(242.8)
Net (purchases) sales of fixed assets	(7.3)	.4	(3.6)
Net cash (used for) provided from investing activities	(92.0)	205.0	207.2
Cash flows from financing activities:			
Net (repayments) issuances of short-term debt	(36.2)	96.5	(1,314.5)
Issuances of long-term debt	15.0	-	-
Repayments of long-term debt	-	(93.7)	(23.9)
Proceeds from issuances of preferred stock by subsidiary	-	-	96.9
Redemptions of preferred stock	-	(75.0)	(82.0)
Purchases of common stock retired	(66.3)	(65.5)	(78.8)
Cash dividends paid to shareholders	(5.9)	(6.4)	(10.8)
Other	(.8)	2.1	2.8
Net cash used for financing activities	(94.2)	(142.0)	(1,410.3)
Net increase (decrease) in cash during year	2.1	1.2	(9.2)
Cash balance at beginning of year	2.7	1.5	10.7
Cash balance at end of year	$ 4.8	$ 2.7	$ 1.5

See Notes to Consolidated Financial Statements.

FUND AMERICAN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Fund American's principal businesses are conducted through White Mountains and Source One. White Mountains is an insurance holding company principally engaged through its subsidiaries and affiliates in the businesses of property and casualty insurance, financial guaranty insurance and reinsurance. Source One is one of the largest mortgage banking companies in the United States. Fund American also owns a passive investment portfolio.

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). All significant intercompany transactions have been eliminated in consolidation. The financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of Fund American. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

INVESTMENT SECURITIES

Under the provisions of SFAS No. 115, substantially all of Fund American's portfolio of common equity securities, fixed maturity investments and other investments are classified as securities available for sale and are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses excluded from earnings and reported as a net amount in a separate component of shareholders' equity.

Other investments include: non-redeemable preferred and common equity securities having no established public market value and carried at internally appraised fair value; securities which, due to restrictions regarding resale, are carried at a discount to the quoted market value for similar unrestricted securities; investment partnership interests accounted for using the equity method; mortgage loans held for investment; residual interests in REMIC's; interest rate floor contracts; and principal-only swap agreements. Mortgage loans held for investment are stated at the lower of cost or fair value, determined on an individual loan basis at the time the permanent investment decisions were made. REMICs are classified as held to maturity and are carried at amortized cost using a method which approximates the effective yield method of amortization. Interest rate floor contracts and principal-only swap agreements are considered held for interest rate risk management purposes and are carried at fair value with unrealized gains and losses reported in net gain on financial instruments.

Short-term investments are carried at amortized cost which approximated fair value as of December 31, 1996 and 1995. Short-term mortgage-backed securities are classified as trading securities and are stated at fair value with unrealized gains and losses, if any, reported in income.

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

Realized gains and losses resulting from sales of investment securities or from other than temporary impairments of value are accounted for using the specific identification method.

INSURANCE OPERATIONS

Premiums are taken into income as earned on a daily pro rata basis over the terms of the policies. Unearned premiums represent the portion of premiums applicable to future insurance coverage provided by policies in force. As of December 31, 1996, White Mountains' insurance subsidiaries insured property and casualty risks in Arizona, California, Idaho, New Hampshire, Oregon, Texas, Utah and Washington.

Policy acquisition costs include commissions and other costs that vary with and are primarily related to the acquisition of new and renewal insurance policies. Policy acquisition costs are deferred and amortized over the terms of the applicable policies.

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

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

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

MORTGAGE ORIGINATION AND SERVICING

Fund American acquired Source One in 1986. The purchase price paid for Source One in 1986 was in excess of the estimated fair value of the net assets acquired on that date and was allocated to goodwill. Prior to December 1996 Source One's goodwill was being amortized over 20 years. In December 1996 Fund American wrote off the remaining unamortized balance of Source One's goodwill and certain other intangible assets. See Note 5.

Mortgage loans held for sale are stated at the lower of aggregate cost or fair value.

Conventional mortgage loans are placed on a non-accrual basis when delinquent 90 days or more as to interest or principal. Interest on delinquent FHA insured loans is accrued at the insured rate beginning on the sixty-first day of delinquency. Interest on delinquent VA guaranteed loans is accrued at the loan rate during the period of delinquency.

Gains and losses from sales of mortgage loans are recognized when the proceeds are received. Loan origination fees, net of certain direct costs, have been deferred and are recognized as income when the related mortgage loans are sold. Discounts from the origination of mortgage loans held for sale are deferred and recognized as adjustments to gains or losses on sales.

Capitalized mortgage servicing includes certain costs incurred in the origination and acquisition of mortgage servicing rights which are deferred and amortized over the expected life of the loan. The total cost of acquiring mortgage loans, either through origination activities or purchase transactions, is allocated between the mortgage servicing rights and the loans based on their relative fair values. The fair values of mortgage servicing rights are estimated by calculating the present value of the expected future cash flows associated with such rights, incorporating assumptions that market participants would use in their estimates of future servicing income and expense. A current market rate is used to discount estimated future cash flows. Impairment of mortgage servicing

rights is measured on a disaggregated basis by stratifying the mortgage servicing rights based on one or more predominant risk characteristics of the underlying loans. Impairment is recognized through a valuation allowance for each individual stratum.

Capitalized mortgage servicing also includes the present value of future servicing revenue in excess of normal servicing revenue on loans sold with servicing retained. Such "excess servicing" is deferred and amortized using a method that relates the anticipated servicing revenue to total projected servicing revenue to be received over the expected life of the loan. Impairment tests for excess servicing are performed on a disaggregated basis. The original discount rate is used to discount excess servicing future cash flows.

Pool loan purchases, which are carried at cost, represent FHA insured, VA guaranteed and conventional loans which were either delinquent or in the process of foreclosure at the time they were purchased from GNMA, FNMA or FHLMC mortgage-backed security pools which Source One services or, to a lesser degree, from private investors. Interest is accrued on these purchased loans at a rate based on expected recoveries.

Mortgage claims receivable represent claims filed primarily with FHA and VA. These receivables are carried at cost less an estimated allowance for amounts that are not fully recoverable from the claims filed with the underlying

mortgage insuring agencies.

Real estate acquired is stated at the lower of net realizable value or the recorded balance satisfied at the date of acquisition, as determined on an individual property basis. Costs related to holding the properties are charged to expense as incurred.

The allowance for mortgage loan losses is based on an analysis of the mortgage loan servicing portfolio and, in management's judgment, is adequate to provide for estimated losses.

Mortgage servicing revenue represents fees earned for servicing real estate mortgage loans owned by investors and late charge income. The servicing fees are calculated based on the outstanding principal balances of the loans serviced and are recognized together with late charge income when received.

Source One adopted the provisions of SFAS No. 122, "Accounting for Mortgage Servicing Rights," an amendment to SFAS No. 65, as of January 1, 1995. SFAS No. 122 requires the total cost of acquiring mortgage loans, either through loan origination activities or purchase transactions, to be allocated to the mortgage servicing rights and the loans based on their relative fair values. The statement requires entities to measure impairment on a disaggregated basis by stratifying the mortgage servicing rights based on one or more predominant risk characteristics of the underlying loans. Impairment is recognized through a valuation allowance for each individual stratum. In accordance with SFAS No. 122, financial statements prior to 1995 have not been restated.

EARNINGS PER SHARE

For purposes of earnings per share, common stock equivalents include stock options, warrants and non-cash performance shares. The Series D Preferred Stock was not a common stock equivalent.

Primary earnings per share amounts are based on the weighted average number of common shares and dilutive common stock equivalents outstanding. In the calculation, income is adjusted for any preferred stock dividends. The weighted average shares used in the primary computation were 8,110,143; 8,581,456 and 9,405,093 for the years ended December 31, 1996, 1995 and 1994, respectively.

Fully diluted earnings per share amounts are based on the weighted average number of common shares outstanding, assuming full dilution. Income is adjusted for any preferred stock dividends when the preferred shares are anti-dilutive. The weighted average shares used in the fully diluted computation were 8,110,229; 9,189,054 and 9,408,785 for the years ended December 31, 1996, 1995 and 1994, respectively.

FUTURE APPLICATION OF ACCOUNTING STANDARD

SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," was issued in June 1996. SFAS No. 125 eliminates the distinction between "normal" servicing rights and excess servicing receivable and will change Source One's method of measuring the value of its capitalized excess servicing asset. In November 1996 the effective date of certain provisions of SFAS No. 125, including those impacting Source

One's capitalized excess servicing asset, was proposed to be deferred and is expected to become effective for all transfers of financial assets occurring after December 31, 1997. Earlier or retroactive application of SFAS No. 125 is not currently permitted. The Company has not yet determined what impact, if any, the adoption of this statement will have on its financial position or results of operations.

NOTE 2. INSURANCE OPERATIONS

CONSOLIDATED INSURANCE OPERATIONS RECENTLY ACQUIRED AND FORMED

On December 1, 1995, White Mountains acquired Valley and Charter for $41.7 million in cash less $3.0 million of purchase price adjustments. The purchase price for Valley and Charter was paid with proceeds from sales and maturities of short-term investments. Valley's wholly owned subsidiary, Valley Insurance Company, is an "A" rated, Northwest-based property and casualty company which writes personal and commercial lines through independent agents. In 1996 Valley Insurance Company wrote $81.9 million of direct premiums primarily in Oregon, Washington and California. Charter's wholly owned subsidiary, Charter Indemnity Company, wrote $70.0 million of gross non-standard automobile insurance premiums in Texas during 1996. The purchase price paid for Valley and Charter was $.9 million less than the aggregate book value and estimated fair value of the net assets of the companies on the date of acquisition. The resulting negative goodwill is being amortized to income on a straight-line basis over five years.

WMIC, a New Hampshire licensed commercial property and casualty insurance company, commenced its operations in September 1995 and wrote $2.4 in direct premiums during the year ended December 31, 1996. WMIC is currently licensed to

write business in Maine, Massachusetts, New Hampshire and Vermont and is expected to expand its operations to other states as additional state approvals are obtained. WMIC is a wholly-owned subsidiary of Valley Insurance Company.

On January 19, 1996, Valley Insurance Company purchased Valley National for $13.2 million, net of cash balances acquired. Valley National is licensed to write property and casualty insurance in 48 states. Assets acquired pursuant to the Valley National acquisition included an investment portfolio, consisting principally of fixed maturity investments, totalling $6.7 million. Valley National wrote its first policies in December 1996 and is expected to expand its operations in 1997. The purchase price paid for Valley National exceeded the fair value of the tangible assets received. The excess purchase price of $6.4 million is being amortized over a five year period.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY

The following table summarizes the Insurance Companies' loss and loss adjustment expense reserve activity for the years ended December 31, 1996 and 1995:

	Year Ended December 31,	
Millions	1996	1995
Beginning balance	$ 44.1	$ -
Reserves acquired through the purchase of Valley and Charter	-	39.9
Estimated losses and loss adjustment expenses incurred	82.1	5.2
Reserve strengthening for prior periods' losses and loss adjustment expenses	3.8	3.0
Losses and loss adjustment expenses paid	(64.6)	(4.0)
Ending balance	$ 65.4	$44.1

ADDITIONAL INSURANCE OPERATIONS INFORMATION

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

Total policyholders' surplus of the Insurance Companies, as reported to various regulatory authorities, as of December 31, 1996 and 1995, was $81.4 million and $86.8 million, respectively. The principal differences between the Insurance Companies' statutory amounts and the amounts reported in accordance with GAAP are not material and include deferred taxes, surplus debentures and deferred acquisition costs. The Insurance Companies' statutory policyholders' surplus at December 31, 1996, was in excess of the minimum requirements of relevant state insurance regulations. The Insurance Companies' ability to pay dividends is limited by the statutory capital requirements. At December 31, 1996, $75.6 million of the Insurance Companies' statutory surplus was unavailable for the payment of dividends to its shareholders without prior approval of regulatory authorities.

NOTE 3. TAX BENEFIT FROM SALE OF SUBSIDIARY

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

The conclusion in 1995 of IRS audits of Fund American's Federal income tax returns for all years through December 31, 1985, resolved certain of the tax matters affecting the amount of the Company's deductible tax loss from the sale of Fireman's Fund and the Company, therefore, re-estimated its tax reserve. As a result of the reserve re-estimation, the Company included in its 1995 income statement an additional $66.0 million income tax benefit from the sale.

The amount of tax benefit from the sale of Fireman's Fund ultimately realized by the Company may be significantly more or less than the Company's current estimate due to possible changes in or new interpretations of tax rules, possible amendments to Fund American's 1990 or prior years' Federal income tax returns, the results of further IRS audits and other matters affecting the amount of the deductible tax loss from the sale.

NOTE 4. INVESTMENT SECURITIES

Net investment income consisted of the following:

Millions	Year Ended December 31, 1996	1995	1994
Investment income:			
Mortgage loans held for sale	$ 39.3	$ 35.9	$ 66.6
Fixed maturity investments	10.4	9.0	3.3
Short-term investments	6.6	6.6	7.8
Common equity securities	4.3	2.5	11.1
Other	(2.3)	1.7	2.0
Total investment income	58.3	55.7	90.8
Less investment expenses and other charges	(1.0)	(.3)	(.6)
Net investment income, before tax	$ 57.3	$ 55.4	$ 90.2

Net realized investment gains and changes in net unrealized investment gains and losses were as follows:

Millions	Year Ended December 31, 1996	1995	1994
Gross realized investment gains	$ 43.3	$ 46.3	$ 67.0
Gross realized investment losses	(4.8)	(7.5)	(28.2)
Net realized investment gains	38.5	38.8	38.8
Net unrealized investment gains (losses) (a)	68.0	20.0	(82.4)
Total net investment gains (losses), before tax	$106.5	$ 58.8	$ (43.6)

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

Sales of investments, excluding short-term investments, totalled $364.1 million, $252.1 million and $340.3 million for the years ended December 31, 1996, 1995 and 1994, respectively.

The components of ending net unrealized investment gains and losses were as follows:

Millions	December 31, 1996	1995

Investment securities:		
Unrealized investment gains	$ 121.0	$ 54.5
Unrealized investment losses	(.8)	(2.3)
Total investment securities	120.2	52.2
Net unrealized gains from investments in unconsolidated insurance affiliates	22.1	6.1
Total net unrealized investment gains, before tax	$ 142.3	$ 58.3

The cost or amortized cost, gross unrealized investment gains and losses, and carrying values of fixed maturity investments as of December 31, 1996 and 1995, were as follows:

	December 31, 1996			
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
U. S. Government and agency obligations	$ 63.6	$ .8	$ (.1)	$ 64.3
U S WEST, Inc. redeemable preferred stock	49.1	-	-	49.1
Debt securities issued by industrial corporations	31.3	.3	(.1)	31.5
GNMA Mortgage-backed securities	9.1	-	-	9.1
Aggregate of holdings less than $10 million	1.4	-	-	1.4
Total fixed maturity investments	$154.5	$1.1	$ (.2)	$155.4

	December 31, 1996			
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
U S WEST, Inc. redeemable preferred stock	$ 48.8	$ -	$ -	$ 48.8
State and municipal obligations	33.3	.1	(.1)	33.3
U. S. Government and agency obligations	23.5	.7	-	24.2
Aggregate of holdings less than $10 million	4.2	.2	-	4.4
Total fixed maturity investments	$109.8	$1.0	$ (.1)	$110.7

The cost or amortized cost and carrying value of fixed maturity investments at December 31, 1996 and 1995, are shown below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31,			
	1996		1995	
Millions	Cost or amortized cost	Carrying value	Cost or amortized cost	Carrying value
Due in one year or less	$ 7.1	$ 7.1	$ 3.0	$ 3.0
Due after one year through five years	6.6	6.6	16.7	17.2
Due after five years through ten years	98.2	98.5	60.0	60.1
Due after ten years	33.5	34.1	30.1	30.4
GNMA Mortgage-backed securities	9.1	9.1	-	-
Total	$154.5	$155.4	$109.8	$110.7

Non-cash exchanges of investment securities totalling $2.3 million, $90.4 million and $.3 million during 1996, 1995 and 1994, respectively, are not reflected in the Consolidated Statements of Cash Flows.

NOTE 5. MORTGAGE SERVICING

Source One services loans throughout the United States. Source One's portfolio of mortgage loans serviced (including loans subserviced, interim servicing contracts and portfolios under contract to acquire but excluding loans sold but not transferred) totalled $29.2 billion and $31.8 billion as of December 31, 1996 and 1995, respectively. The servicing portfolio included GNMA guaranteed mortgage-backed securities of $13.5 billion and $10.7 billion as of December 31, 1996 and 1995, respectively. The following table summarizes the mortgage loan servicing portfolio as of December 31, 1996:

		Weighted average			
	Outstanding principal balance (millions)	Loan balance (thousands)	Interest rate	Net servicing fee rate	Remaining contractual life (months)
Loan Type:					
Residential:					
Conventional	$12,266	$ 69	8.41%	.409%	213
FHA	9,546	51	8.85	.434	271
VA	4,525	52	8.54	.434	260
Commercial	73	695	7.49	.154	166
	26,410	58	8.59	.422	242
Subservicing	2,791				
Total servicing portfolio	$29,201				

The servicing fee rates in the preceding table are shown after deducting applicable guarantee fees. Guarantee fees, when applicable, range from six basis points for governmental loans to approximately 30 basis points for certain conventional loans. Certain loans sold to private investors have no guarantee fees.

The following tables summarize Source One's mortgage loan servicing portfolio by interest rate range and by location of property:

	December 31, 1996			December 31, 1995		
Interest rate range	Number of loans	Aggregate principal balance (millions)	Weighted average interest rate	Number of loans	Aggregate principal balance (millions)	Weighted average interest rate
5.99% and lower	1,239	$ 87	5.49%	2,674	$ 114	5.51%
6.00% - 6.49%	5,477	291	6.22	8,208	434	6.19
6.50% - 6.99%	18,449	1,443	6.71	25,192	2,077	6.69
7.00% - 7.49%	51,791	3,416	7.15	64,052	4,573	7.16
7.50% - 7.99%	71,954	5,436	7.63	84,899	6,745	7.63
8.00% - 8.49%	62,120	4,455	8.10	60,843	4,315	8.10
8.50% - 8.99%	77,020	4,043	8.58	80,936	4,217	8.60
9.00% - 9.49%	37,690	2,049	9.06	38,939	2,234	9.08
9.50% - 9.99%	69,506	3,614	9.57	57,131	3,185	9.60
10% and above	83,533	4,367	10.49	71,177	3,937	10.55
Total	478,779	$29,201	8.48%	494,051	$31,831	8.33%

	December 31, 1996			December 31, 1995		
State	Number of loans	Aggregate principal balance (millions)	Percentage of servicing portfolio	Number of loans	Aggregate principal balance (millions)	Percentage of servicing portfolio
California	67,559	$ 5,811	19.9%	73,865	$ 6,668	20.9%
New York	43,406	2,555	8.7	45,830	2,803	8.8

Washington	26,583	2,054	7.0	30,064	2,386	7.5
Texas	31,603	1,673	5.7	28,841	1,705	5.4
Florida	29,463	1,495	5.1	28,123	1,502	4.7
Illinois	26,873	1,128	3.9	18,486	1,291	4.1
Michigan	17,836	1,157	4.0	30,235	1,308	4.1
New Jersey	14,446	979	3.4	15,201	1,056	3.3
Arizona	15,657	899	3.1	15,751	949	3.0
Virginia	16,116	840	2.9	15,481	826	2.6
Other	189,237	10,610	36.3	192,174	11,337	35.6
Total	478,779	$29,201	100.0%	494,051	$31,831	100.0%

The tables above include $2,791 million and $4,039 million outstanding principal balance of loans subserviced for others as of December 31, 1996 and 1995, respectively.

Escrow funds of approximately $207.8 million and $236.0 million as of December 31, 1996 and 1995, respectively, relating to mortgages serviced and subserviced, were held in non-interest bearing accounts at non-affiliated banks and are not included in the consolidated financial statements.

Source One has in force an errors and omissions policy in the amount of $20.0 million. Primary fidelity coverage with a single loss limit of $20.0 million and an aggregate loss limit of $40.0 million is provided under a Fund American master policy for which Source One pays a portion of the premium.

In December 1996, Fund American wrote off all $33.6 million pretax ($30.0 million after tax) of the remaining unamortized balance of goodwill and certain other intangible assets related to Source One. During 1996, Fund American had been re-assessing the recoverability of goodwill and certain other intangible assets related to Source

One and, in the fourth quarter of 1996, determined that it should write-off all such assets related to Source One. Factors considered in the determination to write-off all Source One's goodwill were (i) increased competition and industry consolidation during 1996 which had adversely impacted the value of both the mortgage loan production and servicing operations of Source One and (ii) the attainment of a definitive agreement in the fourth quarter of 1996 to sell the majority of Source One's mortgage servicing portfolio at essentially book value.

NOTE 6. CAPITALIZED SERVICING

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

To measure impairment of the mortgage servicing rights, Source One stratifies its mortgage loan servicing portfolio based on the portfolio's predominant risk characteristics which have been determined to be prepayment, default and operational risks. In estimating fair value, Source One used market consensus prepayment rates and discounted the future cash flows using discount rates that approximate current market rates. The prepayment assumptions used in the estimation of fair values are based on market prepayment expectations. The fair value of each stratum is computed and compared to its recorded book value to determine if a valuation allowance, or recovery of a previously established valuation allowance, is required.

As of December 31, 1996, Source One's $17.0 billion mortgage servicing portfolio to be sold in 1997 was valued as one stratum using the market price as indicated by the purchase and sale agreement with the third party purchaser. Accordingly, Source One evaluated the predominant risk characteristics on the remaining owned servicing portfolio which was stratified by interest rate, loan type (investor), original term to maturity and principal recourse. The discount rates used to estimate fair value were 10.5% for conventional loans, 12.0% for insured loans and, for 1996, 21.0% for recourse loans. As a result of refining the calculation during 1996 on its remaining owned servicing portfolio, Source One recognized $13.4 million of additional pretax impairment during the fourth quarter of 1996. As of December 31, 1995, the entire servicing portfolio was stratified by interest rate, loan type (investor) and original term to maturity.

The discount rate and prepayment assumptions are significant factors used in estimating the fair value of Source One's mortgage servicing rights and could be significantly impacted by changes in interest rates. Accordingly, it is likely that management's estimate of the fair value of the capitalized servicing asset will change from time to time due to changes in interest rates.

The following table summarizes the fair value of mortgage servicing rights and certain characteristics of Source One's servicing portfolio related to such mortgage servicing rights by loan type as of December 31, 1996:

Loan type	Fair value of mortgage servicing rights (millions)	Principal balance serviced (a) (millions)	Weighted average interest rate	Weighted average maturity (months)	Weighted average service fee
Insured	$207.3	$11,933	8.88%	264	.45%
Conventional	124.3	7,855	8.44	215	.38
Recourse	26.4	2,188	8.72	214	.31
Adjustable rate	16.2	997	7.97	301	.31
Total	$374.2	$22,973	8.67%	244	.41%

(a) Excludes $2.8 billion of subservicing and $3.4 billion of mortgage servicing rights related to originations not capitalized prior to the adoption of SFAS No. 122.

The 1995 adoption of SFAS No. 122 as it relates to the capitalization of originated mortgage servicing rights resulted in the recognition of an additional pretax gain on sales of mortgages of $27.2 million for the year ended December 31, 1995. The impairment provisions of SFAS No. 122 resulted in a pretax charge of $28.0 million for 1995.

In 1994 Source One adopted an accounting methodology that measured impairment of the purchased mortgage servicing rights asset on a disaggregated basis by discounting estimated future cash flows using a current market rate. Prior to 1994 Source One measured impairment of the purchased mortgage servicing rights asset on a disaggregated basis including a cost of capital charge for estimating future cash flows. The adoption of the new accounting methodology, recorded as a cumulative adjustment as of January 1, 1994, resulted in a $68.1 million pretax, $44.3 million after tax, charge to income for 1994.

Source One estimates the fair value of its capitalized excess servicing asset by discounting the anticipated future cash flows over the estimated life of the related loans. Source One uses interest only ("I/O") strip interest rates as quoted by market participants to determine the appropriate discount rates and prepayment speed assumption rates that are based on interest rates, loan types and original term to maturity. The discount rate used to capitalize excess servicing for the year ended December 31, 1996, ranged from 12.0% to 12.6%; was 12.0% for the year ended December 31, 1995; and ranged from 8.0% to 10.0% for the year ended December 31, 1994. For the years ended December 31, 1996, 1995 and 1994, the weighted average discount rates inherent in the carrying amount of the capitalized excess servicing asset were 10.4%, 10.0% and 9.1%, respectively.

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

Millions	Purchased servicing	Originated servicing	Excess servicing	Valuation allowance	Deferred gain on sale of servicing	Total capitalized servicing
Balances at January 1, 1994	$ 570.2	$ -	$ 96.5	$ -	$ -	$ 666.7
Cumulative effect of accounting change	(68.1)	-	-	-	-	(68.1)
Additions	69.7	-	16.7	-	(19.9)	66.5
Scheduled amortization	(61.7)	-	(12.1)	-	-	(73.8)
Impairment and unscheduled amortization	(12.8)	-	(.4)	-	-	(13.2)
Amortization of deferred gain	-	-	-	-	2.7	2.7
Sales	(21.7)	-	(28.6)	-	-	(50.3)
Balances at December 31, 1994	475.6	-	72.1	-	(17.2)	530.5
Additions	64.2	31.2	7.4	-	-	102.8
Scheduled amortization	(43.9)	(1.4)	(7.5)	-	-	(52.8)
Impairment and unscheduled amortization	-	-	(.5)	(28.0)	-	(28.5)
Amortization of deferred gain	-	-	-	-	4.2	4.2
Sales	(132.4)	-	(26.7)	-	-	(159.1)
Balances at December 31, 1995	363.5	29.8	44.8	(28.0)	(13.0)	397.1
Additions	77.4	38.0	10.1	-	-	125.5
Scheduled amortization	(56.7)	(6.3)	(6.9)	-	-	(69.9)
Impairment and unscheduled amortization	-	-	(1.1)	(.9)	-	(2.0)

Amortization of deferred gain	-	-	-	-	6.1	6.1
Sales	(37.7)	-	(8.2)	-	-	(45.9)
Balances at December 31, 1996	$ 346.5	$61.5	$ 38.7	$(28.9)	$ (6.9)	$ 410.9

During 1996 Source One sold the rights to service $3.3 billion of mortgage loans for net proceeds of $55.9 million, resulting in a pretax gain of $10.1 million. During 1995 Source One sold the rights to service $11.0 billion of mortgage loans for net proceeds of $199.1 million, resulting in a pretax gain of $40.0 million. During 1994 Source One sold the rights to service $3.9 billion of mortgage loans for net proceeds of $70.2 million and continues to service a portion of these loans pursuant to a subservicing agreement. A gain of $19.9 million was deferred in 1994 and is being recognized as income over the five-year life of the subservicing agreement. In the fourth quarter of 1996, the third party sold the rights to service approximately $1.0 billion of these loans subserviced by Source One which resulted in Source One recognizing $2.4 million of the deferred gain on an accelerated basis.

NOTE 7. MORTGAGE LOANS HELD FOR SALE AND POOL LOAN PURCHASES

The following tables summarize Source One's mortgage loans held for sale and pool loan purchases:

	December 31,	
Millions	1996	1995
Adjustable rate mortgage loans, weighted average interest rates of 6.60% and 6.55%	$ 35.1	$ 17.5
Fixed rate five year through 20 year mortgage loans, weighted average interest rates of 7.73% and 7.47%	51.2	59.5
Fixed rate 30 year mortgage loans, weighted average interest rates of 8.19% and 7.89%	228.0	383.0
Total principal amount	314.3	380.1
Net premiums	.6	.9
Total mortgage loans held for sale	$314.9	$381.0

	December 31,			
	Principal balance		Number of loans	
Dollars in Millions	1996	1995	1996	1995
Loan type: FHA	$ 89.9	$ 77.6	1,621	1,433
VA	35.3	32.5	592	545
Conventional	6.3	8.9	75	106
Total pool loan purchases	$131.5	$119.0	2,288	2,084

NOTE 8. DEBT

SHORT-TERM DEBT

Short-term debt outstanding consisted of the following:

	December 31,	
Millions	1996	1995
Charter: Notes payable due in 1996 and 1997 and lease obligations	$ 1.7	$ 20.8

Source One:		
Commercial paper	362.2	256.6
Credit agreement borrowings	45.0	64.5
Debentures due in 1996	-	74.6
Medium term notes due in 1996	-	29.7
Less net discounts	(1.0)	(.8)
Total Source One	406.2	424.6
Total short-term debt	$ 407.9	$ 445.4

The weighted average interest rates of short-term debt outstanding during 1996 and 1995 were as follows:

	Year Ended December 31,	
	1996	1995
Parent Company:		
Revolving credit facility	5.82%	6.57%
Loan guarantee	-	5.36%
Charter: Notes payable	6.50%	6.50%
Source One:		
Commercial paper	5.69%	6.14%
Credit agreements and bid loans	6.19%	6.57%

In June 1994 the Company entered into a revolving credit agreement with a syndicate of banks. Under the agreement, through August 9, 1996, the Company and certain of its subsidiaries could borrow up to $75.0 million at short-term market interest rates. The credit agreement contained certain customary covenants, including a $475.0 million minimum tangible net worth requirement and a minimum financial asset coverage requirement. At December 31, 1995, the Company had no borrowings outstanding under the agreement.

In November 1996 the Company entered into a new revolving credit agreement with a syndicate of banks. Under the agreement, through November 25, 1997, the Company and certain of its subsidiaries may borrow up to $35.0 million at short-term market interest rates. The credit agreement contains certain customary covenants including a minimum tangible net worth requirement, a minimum financial asset coverage requirement and a maximum leverage ratio requirement. At December 31, 1996, the Company was in compliance with all covenants under the facility and had no borrowings outstanding under the agreement.

In August 1993 the Company sold a $30.0 million principal amount secured loan receivable from the Company's Chairman to a third party. The Company had guaranteed repayment of the loan and, therefore, in accordance with GAAP, had reflected the guarantee of the loan as indebtedness on the balance sheet. The loan matured and was repaid on October 23, 1995.

In November 1995 Charter issued two notes totalling $20.2 million. Certain of the notes were due in 1996 and other notes could be extended to be payable in three equal installments in 1997, 1998 and 1999. During 1996 Charter elected to extend the maturity of $3.2 million of notes payable. The notes are collateralized by certain assets of Charter.

Source One has a $650.0 million domestic and Euro commercial paper program. The weighted average number of days to maturity of commercial paper outstanding at December 31, 1996 and 1995, was 23 days and 19 days, respectively.

In August 1995 Source One entered into a $60.0 million unsecured revolving credit facility which expires in July 1997. As of December 31, 1996 and 1995, there was $45.0 million and $60.0 million outstanding under this arrangement, respectively. Source One also has a revolving credit agreement under which it can borrow up to $10.0 million through June 30, 1997. As of December 31, 1996 and 1995, there was $0 and $4.5 million outstanding under this agreement, respectively.

In 1986 Source One issued $125.0 million of 8.25% debentures due November 1, 1996. During 1996 and 1995 Source One repurchased and retired $74.6 and $50.4 million in principal amount of these debentures, respectively.

In 1989 Source One issued $40.0 million of medium-term notes due in 1996 and having a total weighted average interest rate of 9.65%. During 1996 and 1995 Source One repurchased and retired in principal amount $29.7 million and $10.3 million of these notes, respectively.

In November 1996 Source One amended and restated its secured revolving credit agreement. The provisions of the amended agreement increased the size of the facility from $500 million to $750 million. The size of the facility may be

further increased at Source One's option with bank concurrence up to $1.25 billion. Borrowings under the facility and commercial paper backed by the facility are secured primarily by Source One's mortgage loans receivable and mortgage servicing portfolio. The facility expires on November 12, 1999. As of December 31, 1996, Source One had no outstanding borrowings under this facility.

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

Under the credit agreements described above, Source One receives interest expense credits as a result of holding escrow and custodial funds in trust accounts at non-affiliated banks.

LONG-TERM DEBT

Long-term debt outstanding consisted of the following:

Millions	December 31, 1996	1995
Parent Company:		
Medium-term notes	$ 116.2	$ 116.2
Less net discounts	(.8)	(.9)
Total Parent Company	115.4	115.3
Source One:		
Medium-term notes, 8.875% due in 2001	138.4	138.4
Debentures, 9.0% due in 2012	100.0	100.0
Subordinate debentures, 9.375% due in 2025	56.0	56.0
Less net discounts	(2.8)	(2.4)
Total Source One	291.6	292.0
Valley: Medium-term notes	15.0	-
Charter: Notes payable in 1998 and 1999	2.2	-
Total long-term debt	$ 424.2	$ 407.3

During 1993 the Company issued $150.0 million in principal amount of medium-term notes for net cash proceeds of $148.0 million after related costs. Proceeds from the issuance of the notes were used to repay an

existing revolving credit facility and for general corporate purposes. During 1995 and 1994 the Company repurchased $8.8 million and $25.0 million, respectively, in principal amount of the notes due February 2003. At December 31, 1996, the remaining outstanding notes had an average maturity of 6.4 years and an average yield to maturity of 7.82%.

In November 1996 White Mountains and Valley entered into a five year credit facility under which they may borrow $50.0 million and $15.0 million, respectively, at market interest rates. The $15.0 million of borrowings under the facility available to Valley are guaranteed by White Mountains. The facility contains certain customary covenants including a minimum tangible net worth requirement, a minimum financial asset coverage requirement, a maximum leverage ratio requirement, a minimum fixed charge coverage ratio requirement and a minimum policyholders' surplus requirement. The facility also limits White Mountains' ability to pay dividends to its shareholders. As of December 31, 1996, White Mountains and its subsidiaries were in compliance with all covenants under the facility. During 1996 Valley borrowed $15.0 million under the facility with a weighted average interest rate of 5.825%. White Mountains had no borrowings during 1996 under the facility.

In 1991 Source One issued $160.0 million of 8.875% medium-term notes due in 2001. During 1995 Source One repurchased and retired in principal amount $21.6

million of these notes.

In 1992 Source One issued $100.0 million of 9% debentures due in 2012 pursuant to a $250.0 million shelf registration statement. The proceeds from issuance were used for general corporate purposes.

On December 8, 1995, Source One exchanged and retired 2,239,061 shares of Source One Preferred Stock for $56.0 million in principal amount of 9.375% subordinated debentures. The subordinated debentures are due on December 31, 2025. The subordinated debentures are redeemable at the option of Source One, in whole or part, at any time on or after May 1, 1999. The non-cash portion of the exchange of subordinated debentures for Source One Preferred Stock is not reflected in the Consolidated Statements of Cash Flows.

Total interest paid by Fund American for both short-term and long-term debt was $51.5 million, $47.9 million and $80.1 million in 1996, 1995 and 1994, respectively.

NOTE 9. INCOME TAXES

The Company and its qualifying subsidiaries file a consolidated Federal income tax return. The Federal income tax provision is computed on the consolidated taxable income of the Company and those subsidiaries.

The total income tax provision (benefit) consisted of the following:

	Year Ended December 31,		
Millions	1996	1995	1994
Tax on pretax earnings:			
Federal	$ 18.1	$ 16.6	$ 20.2
State and local	.8	.1	.3
Income tax provision on pretax earnings	18.9	16.7	20.5
Tax benefit from sale of discontinued operations	-	(66.0)	-
Tax benefit from loss on early extinguishment of debt	-	(.2)	-
Tax benefit from cumulative effect of accounting change - purchased mortgage servicing	-	-	(23.8)
Total income tax provision (benefit)	$ 18.9	$ (49.5)	$ (3.3)
Net income tax payments (recoveries)	$ 7.0	$ 2.6	$ (.7)
Tax provision (benefit) recorded directly to shareholders' equity related to:			
Exercises of employee stock options and warrants	$ -	$ .2	$ (2.0)
Changes in net unrealized investment gains and losses	$ 29.4	$ 9.8	$ (29.5)

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

	Year Ended December 31,		
Millions	1996	1995	1994
Current provision	$ 22.5	$ 26.4	$ 21.9
Deferred benefit	(3.6)	(9.7)	(1.4)
Total income tax provision on pretax earnings	$ 18.9	$ 16.7	$ 20.5

Deferred income taxes reflect the net tax effects of temporary differences

between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax return purposes. Significant components of Fund American's net deferred Federal income tax asset and liability follow:

Millions	December 31, 1996	1995
Deferred tax assets related to:		
Employee compensation and benefit accruals	$ 32.8	$ 30.3
Capitalized mortgage servicing	18.4	13.7
Unearned insurance premiums	4.9	2.3
Allowance for mortgage loan losses	4.8	4.8
Other items	12.8	10.2
Total deferred tax assets	73.7	61.3
Deferred tax liabilities related to:		
Net unrealized investment gains	49.0	13.4
Earnings from insurance affiliates	6.7	4.0
Purchase accounting adjustments	6.2	10.2
Deferred acquisition costs	4.6	2.3
Other items	8.5	6.6
Total deferred tax liabilities	75.0	36.5
Net deferred Federal income tax (liability) asset	$ (1.3)	$ 24.8

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

Millions	Year Ended December 31, 1996	1995	1994
Tax provision at Federal statutory rate	$ 8.3	$ 12.3	$ 14.6
Differences in taxes resulting from:			
Minority interest dividends	1.3	2.7	2.3
Write-off of goodwill and other intangible assets	8.1	-	-
Purchase accounting adjustments	.7	.7	.7
Dividends received deduction	(2.3)	(1.9)	(2.2)
Tax reserve adjustments	4.2	2.3	4.6
Other, net	(1.4)	.6	.5
Total income tax provision on pretax earnings	$ 18.9	$ 16.7	$ 20.5

Sections 382 and 383 of the IRC impose limitations on the use of certain tax benefits by a corporation that undergoes a more than 50% ownership change. The tax benefits which may be limited include loss carryforwards and built-in losses and deductions existing on the date of ownership change. The annual limitation for the utilization of such benefits during a five-year post-change period is generally calculated by multiplying the value of the corporation (as defined by the IRC) at the time of the ownership change by an interest rate (a long-term tax-exempt bond rate defined by the IRC). While regulatory guidance on the subject is not complete, the Company believes that it had an ownership change during 1992 so as to make the Section 382 and 383 limitations applicable to Fund American. Fund American believes that the imposition of such limitations will not have a material adverse effect on its financial position or results of operations.

NOTE 10. RETIREMENT AND POST-RETIREMENT PLANS

In 1993 the Company and certain of its subsidiaries established nonqualified defined contribution plans for a select group of management employees for the purpose of providing retirement and postretirement benefits (the "Deferred Benefit Plans"). The amount of annual contributions to the Deferred Benefit

Plans are determined using actuarial assumptions; however, participants in the Deferred Benefit Plans may choose between various investment options for their plan balances. At December 31, 1996 and 1995, Fund American's liability to participants pursuant to the Deferred Benefit Plans was $2.9 million and $1.9 million, respectively.

In 1993 the Company and certain of its subsidiaries also established nonqualified plans for a select group of management employees for the purpose of deferring current compensation (the "Deferred Compensation Plans"). Pursuant to the Deferred Compensation Plans, participants may voluntarily defer all or a portion of qualifying remuneration payable by Fund American. Participants in the Deferred Compensation Plans may choose between various investment options for their plan balances. At December 31, 1996 and 1995, Fund American's liability to participants pursuant to the Deferred Compensation Plans was $21.8 million and $16.5 million, respectively.

Through December 1, 1995, substantially all the employees of Valley and Charter were covered under a defined benefit pension plan sponsored by the former parent of Valley and Charter. Coverage for employees under that plan was terminated as of December 31, 1995. Valley established a new defined contribution plan for the benefit of substantially all Valley and Charter employees as of January 1, 1996. The new plan provides Valley and Charter employees with full credit for prior service. The pension cost and funding status of the new plan are not material to Fund American's financial statements.

Substantially all Valley and Charter employees are eligible to participate in an employee savings plan qualified under Section 401(k) of the IRC (the "Valley 401(k) Plan"). Contributions to the Valley 401(k) Plan can be invested in various investment options which do not currently include Shares. There is an employer match provision to the Valley 401(k) Plan which is equal to 50% of the first 6% of employee compensation contributed to the plan, subject to IRC limits. Employees of the Company and White Mountains are eligible to participate in the Valley 401(k) Plan beginning January 1, 1997. Fund American expects to add Shares to the investment options offered under the Valley 401(k) Plan beginning in the third quarter of 1997.

Source One established its defined benefit pension plan as of July 1, 1986, for the benefit of its employees. Benefits under the Source One plan are based on years of service and each employee's highest average eligible compensation over five consecutive years in his or her last ten years of employment. Funding of retirement costs complies with the minimum funding requirements specified by the Employee Retirement Income Security Act. Cash contributions made by Source One to the plan for the years ended December 31, 1996, 1995 and 1994, totalled $1.3 million, $1.7 million and $1.1 million, respectively.

Source One also has a supplemental pension plan which is a nonqualified, unfunded benefit plan designed to provide supplementary retirement benefits for employees whose pensionable compensation exceeds statutory limits.

The following table sets forth the pension cost and actuarial assumptions used in determining the funded status of Source One's qualified defined benefit pension plan:

Dollars in millions	Year Ended December 31, 1996	1995	1994
PENSION COST FOR PERIOD:			
Service cost for period	$ 1.6	$ 1.4	$ 1.6
Interest cost on projected benefit obligation	1.6	1.4	1.3
Actual return on plan assets	(2.0)	(3.8)	1.0
Net amortization and deferral	.9	2.6	(1.5)
Total pension cost	$ 2.1	$ 1.6	$ 2.4
FUNDED STATUS AT END OF PERIOD:			
Actuarial present value of benefit obligation:			
Accumulated benefit obligation, including vested benefits of $16.6, $15.1 and $11.0	$18.6	$17.2	$12.6
Effect of projected future salary increases	5.1	6.8	5.1
Total projected benefit obligation	23.7	24.0	17.7
Plan assets at fair value	20.9	18.1	13.1
Projected benefit obligation in excess of plan assets	2.8	5.9	4.6
Aggregate of items not yet charged to earnings	(.3)	(4.2)	(2.7)

Pension cost accrued at end of period	$ 2.5	$ 1.7	$ 1.9
ACTUARIAL ASSUMPTIONS:			
Discount rate	7.25%	7.0%	8.0%
Rate of increase in future compensation levels	5.0%	6.0%	6.0%
Expected long-term rate of return on plan assets	8.0%	8.0%	8.0%

Total accrued postretirement benefit costs included in accounts payable and other liabilities for Source One employees was $3.5 million and $3.3 million at December 31, 1996 and 1995, respectively.

NOTE 11. EMPLOYEE STOCK PLANS

At the Company's 1995 Annual Meeting shareholders approved certain amendments to the Fund American Long-Term Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for granting to executive officers and other key employees of the Company (and certain of its subsidiaries) various types of stock-based incentive awards including stock options and performance shares. At December 31, 1996, 430,000 Shares remained available for grants under the Incentive Plan.

Stock options are rights to purchase a specified number of Shares at or above the fair market value of Shares at the time an option is granted. Stock options generally vest over a four year period and expire no later than ten years after the date on which they are granted.

Performance shares are conditional grants of a specified maximum number of Shares or an equivalent amount of cash. The grants are generally payable, subject to the attainment of a specified return on equity, at the end of three to five year periods or as otherwise determined by the Compensation Committee of the Board. The Compensation Committee consists solely of non-management directors.

The following table details the transactions applicable to non-qualified stock options to acquire Shares:

	Number	Exercise price
Balance at December 31, 1993 and 1994	7,125	$24.82-$32.60
Exercised during 1995	4,125	$ 24.82
Balance at December 31, 1995 and 1996	3,000	$27.13-$32.60

All Fund American stock options outstanding during the three year period ended December 31, 1996, were fully vested and exercisable.

Pursuant to the Incentive Plan 70,000 and 56,429 performance shares were granted in 1996 and 1995, respectively. No performance shares were granted in 1994. During 1996, no performance shares were cancelled and 10,650 performance shares were paid in cash. No performance shares were cancelled or paid during 1994 and 1995. At December 31, 1996, 235,529 performance shares were outstanding. Of the performance shares outstanding at December 31, 1996, 54,100 are valued as being equivalent to one Fund American Share plus one-half White River Share. The remaining 181,429 performance shares outstanding at December 31, 1996, are valued as being equivalent to one Fund American Share. The financial goal for full payment of the performance shares is the achievement of a 13% to 15% annual return on equity measured over the applicable performance periods.

In 1985 the Company's Chairman purchased warrants from American Express Company ("American Express") entitling him to buy 1,700,000 Shares for $25.75 per Share. Warrants to purchase 420,000 Shares, 130,000 Shares and 150,000 Shares were exercised by the Chairman during 1992, 1994 and 1995, respectively, leaving warrants to purchase 1,000,000 Shares outstanding at December 31, 1995. Pursuant to a proposal approved by shareholders at the Company's 1995 Annual Meeting, the expiration date with respect to the warrants outstanding at December 31, 1995, was extended from January 2, 1996, to January 2, 2002. In accordance with APB No. 25, the warrant extension resulted in a $46.2 million pretax charge to compensation expense which was recorded in the second quarter of 1995. No warrants were exercised by the Chairman during 1996.

Pursuant to certain anti-dilution adjustments related to the distribution of White River Shares to the Company's shareholders, the Chairman received in 1993

warrants entitling him to purchase 640,000 White River Shares for $8.18 per share, and the exercise price for the Chairman's warrants to purchase Fund American Shares was reduced to $21.66 per Share. The Chairman exercised all the warrants to purchase White River Shares on November 19, 1993.

Source One has various long-term incentive plans which provide for the granting, to key senior management employees of Source One, stock-based and cash incentive awards. Awards made pursuant to the plans are payable upon the achievement of specified financial goals over multi-year periods.

Source One also has a qualified employee stock plan. Contributions to this plan are determined at the discretion of Source One's Board of Directors. In October 1996 Source One amended this plan to add an employee savings plan feature qualified under Section 401(k) of the IRC. Contributions to the plan can be invested in various investments including Shares. There is no employer match provision to the plan.

SFAS No. 123, "Accounting for Stock Based Compensation," was issued in October 1995. That standard requires significantly more disclosure regarding all employee stock options and encourages companies to recognize compensation expense for stock-based awards based on the fair value of such awards on the date of grant. Alternatively, companies may continue following existing accounting standards provided that disclosures are made regarding the net income and earnings per share impact as if the value recognition and measurement criteria of SFAS No. 123 had been adopted. Fund American has not adopted the recognition and measurement criteria of SFAS No. 123 and alternatively has chosen to disclose the pro forma effects of SFAS No. 123 as it relates to outstanding warrants and performance shares granted in 1995 and 1996, as follows:

Millions, except per share amounts	Year Ended December 31, 1996	1995
Net income (loss):		
As reported	$ 4.9	$ 84.1
Pro forma	(.9)	108.6
Primary net income (loss) per share:		
As reported	$ .60	$ 9.36
Pro forma	(.11)	12.21
Fully diluted net income (loss) per share:		
As reported	$ .60	$ 9.16
Pro forma	(.11)	11.82

NOTE 12. MINORITY INTEREST - PREFERRED STOCK OF SUBSIDIARY

In March 1994 Source One issued 4,000,000 shares of 8.42% Source One Preferred Stock, having a liquidation preference of $25.00 per share, for net cash proceeds of $96.9 million. On December 8, 1995, Source One exchanged and retired 2,239,061 shares of Source One Preferred Stock for $56.0 million in principal amount of subordinated debentures. The Source One Preferred Stock is not redeemable prior to May 1, 1999. In consolidation, dividends on the Source One Preferred Stock are included as a component of Fund American's interest expense.

NOTE 13. SHAREHOLDERS' EQUITY

SERIES D AND E PREFERRED STOCK

Through July 31, 1994, the Series D Preferred Stock had an annual dividend rate of 7.75% and was initially redeemable for cash or, at the Company's option, for Shares (based on the then current market value of Shares) on July 31, 1994. On August 1, 1994, the Company redeemed 22,778 shares of the Series D Preferred Stock for $82.0 million, an amount equal to the stock's liquidation preference. In accordance with the terms of the Series D Preferred Stock, the annual dividend rate for the remaining 20,833 shares of the Series D Preferred Stock outstanding was increased to 8.75% and the stock's term was extended to July 31, 1995. On July 31, 1995, the Company redeemed all 20,833 remaining shares of the

Series D Preferred Stock for $75.0 million of cash, an amount equal to the stock's liquidation preference.

COMMON SHARE REPURCHASES

During 1996, 1995 and 1994 the Company repurchased 779,077 Shares, 877,868 Shares and 1,128,057 Shares, respectively, for $66.3 million, $65.5 million and $78.8 million, respectively. All such repurchased Shares have been retired. At December 31, 1996, the Company had outstanding authorization to purchase an additional 250,923 Shares.

LOAN FOR COMMON STOCK ISSUED

On December 30, 1992, pursuant to a request from the Board, the Company's Chairman, John J. Byrne, agreed to an early exercise of stock options and warrants to purchase 1,000,000 Shares. The Board's request reflected concerns regarding proposed tax legislation which could have limited or eliminated the Company's tax benefits from certain employee stock options and warrants exercised in 1993 and thereafter. To encourage exercise of the stock options and warrants, the Company provided a $30.0 million 4% secured loan to Mr. Byrne. The loan was reported on the December 31, 1994, balance sheet in other assets ($4.3 million) and shareholders' equity ($25.0 million). The non-recourse loan was fully repaid on its maturity date, October 23, 1995.

As approved by shareholders at the 1995 Annual Meeting, the Company entered into a five year employment contract (the "Agreement") with Mr. Byrne. The Agreement provided Mr. Byrne with the right to receive from the Company a guarantee of a loan obtained from a third party, in an amount up to $15.0 million, upon the maturity of his existing loan with the Company. In accordance with the Agreement, in October 1995 the Company guaranteed a $15.0 million loan from a third party to Mr. Byrne. The new loan is recourse to Mr. Byrne's net worth and has a term ending December 31, 1999, a market interest rate and otherwise standard commercial terms. The Company was not required to provide collateral protection for its guarantee of the loan and, accordingly, the loan guarantee is not recorded on the balance sheet.

COMMON STOCK DIVIDENDS

During 1994 the Company did not pay regular cash dividends to holders of Shares. In the fourth quarter of 1995 the Board reinstated a $.20 regular quarterly dividend on Shares. During 1995 and 1996, the Company declared and paid cash dividends totalling $.20 and $.80 per Share, respectively. The Board currently intends to reconsider from time to time the declaration of regular periodic dividends on Shares with due consideration given to the financial characteristics of Fund American's remaining invested assets and operations and the amount and regularity of its cash flows at the time.

NOTE 14. SHAREHOLDERS' RIGHTS PLAN

The Board adopted in 1987, and in 1988 and 1993 amended, a Shareholders' Rights Plan under which rights to purchase preferred stock were distributed to shareholders at the rate of one right for each Share (the "Rights"). Each Right entitles the holder to purchase one one-thousandth of a share of the Company's Series A Cumulative Participating Preferred Stock ("Series A Preferred").

The Rights enable the holders to acquire additional equity in either the Company or an "Acquiring Person," and are exercisable if an unrelated person or group (other than American Express or a wholly-owned subsidiary thereof, any subsidiary of the Company, any employee benefit plan of the Company or its subsidiaries or certain affiliates of the Company and certain persons who inadvertently and temporarily cross the 25% threshold) acquires beneficial ownership of 25% or more of the outstanding Shares (such a 25% or more beneficial owner is deemed an "Acquiring Person"). Thereafter, the Rights would trade separately from Shares and separate certificates representing the Rights would be issued. The terms of the Series A Preferred 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 would entitle each holder of a Right to purchase, at the exercise price, that number of one one-thousandth of a share of Series A Preferred equivalent to the number of Shares which, at the time of the transaction, would have a market value of twice the exercise price. If certain acquisitions of the Company occur, a similar right to purchase securities of the Company or the entity acquiring the Company at a discount would arise.

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

Person, the Board may mandatorily exchange all or some of the Rights for consideration per Right equal to one-half of the securities issuable upon the exercise of one Right pursuant to the terms of the Rights Agreement (or the common share equivalent) and without payment of the exercise price. The Rights, which do not have the right to vote or receive dividends, expire November 25, 1997, and may be redeemed by the Company at a price of $.01 per Right at any time prior to the earlier of (i) such time as a person becomes an Acquiring Person or (ii) the expiration date. Under certain circumstances, the Board may redeem the Rights only if a majority of the disinterested directors (as defined in the Shareholders' Rights Plan) agrees that the redemption is in the best interests of the Company and its shareholders.

In 1987 the Company reserved 600,000 of its authorized preferred shares as Series A Preferred for issuance pursuant to the Shareholders' Rights Plan.

NOTE 15. INDUSTRY SEGMENTS

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

Millions	Year Ended December 31, 1996	1995	1994
REVENUES:			
Mortgage operations	$ 184.7	$ 175.9	$ 202.5
Insurance operations	142.3	33.2	2.6
Other	5.5	13.2	23.4
Total	$ 332.5	$ 222.3	$ 228.5
PRETAX EARNINGS:			
Mortgage operations	$ (2.1)	$ 35.3	$ (1.7)
Insurance operations	.2	18.9	2.6
Other	25.7	(19.0)	40.7
Total	$ 23.8	$ 35.2	$ 41.6
ENDING IDENTIFIABLE ASSETS:			
Mortgage operations	$1,131.1	$ 1,138.5	$ 1,213.9
Insurance operations	586.2	373.7	124.0
Other	263.3	359.7	469.4
Total	$1,980.6	$ 1,871.9	$ 1,807.3

NOTE 16. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

INVESTMENT IN FSA

Fund American owned 3,460,200 and 2,460,200 shares of FSA Common Stock at December 31, 1996 and 1995, respectively. This represented approximately 11.5% and 7.8%, respectively, of the total shares of FSA Common Stock outstanding at those times. Fund American had voting rights to an additional 3,893,940 shares of FSA Common Stock at December 31, 1996 and 1995, raising Fund American's voting control of FSA to approximately 23.0% and 19.0%, respectively. At December 31, 1996 and 1995, Fund American also owned FSA Options and Preferred Stock which, in total, give Fund American the right to acquire up to 4,560,607 additional shares of FSA Common Stock for aggregate consideration of $125.7 million. As of December 31, 1996 and 1995, Fund American's economic interest in FSA was 25.1% and 21.0%, respectively.

Fund American's investment in FSA Common Stock is accounted for using the equity method. FSA Common Stock is publicly traded on the NYSE. The market value of the FSA Common Stock as of December 31, 1996, as quoted on the NYSE, exceeded Fund American's carrying value of the FSA Common Stock on the equity method. Fund American's investment in FSA Options and Preferred Stock is accounted for under the provisions of SFAS No. 115 whereby the investments are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses excluded from earnings and reported as a net amount in a

separate component of shareholders' equity.

The following table summarizes financial information for FSA:

Millions	1996	1995
FSA BALANCE SHEET DATA:		
Total investments	$ 1,154.4	$ 1,110.7
Total assets	1,537.7	1,490.3
Deferred premium revenue, net	360.0	330.3
Loss and loss adjustment expense reserve, net	42.2	50.2
Preferred shareholder's equity	.7	.7
Common shareholders' equity	800.6	777.2
FSA INCOME STATEMENT DATA:		
Gross premiums written	$ 177.0	$ 110.7
Net premiums written	121.0	77.6
Net premiums earned	90.4	69.3
Net investment income	65.1	49.0
Net income	80.8	55.0
AMOUNTS RECORDED BY FUND AMERICAN:		
Investment in FSA Common Stock	$ 92.3	$ 60.0
Investment in FSA Options and Preferred Stock	19.8	2.5
Total Investment in FSA	$ 112.1	$ 62.5
Equity in earnings from FSA Common Stock (a)	$ 7.8	$ 5.4
Equity in net unrealized investment gains (losses) from FSA's investment portfolio, before tax (b)	(1.0)	4.5
Unrealized investment gains on FSA Options and Preferred Stock, before tax (b)	17.3	.3

(a) Recorded net of related amortization of goodwill.

(b) Recorded directly to shareholders' equity.

At December 31, 1996 and 1995, Fund American's consolidated retained earnings included $13.8 million and $6.9 million, respectively, of undistributed earnings of FSA.

INVESTMENT IN FOLKSAMERICA

Fund American owned 6,920,000 shares of Folksamerica Preferred Stock at December 31, 1996. This represents 50.0% of the total Folksamerica voting shares outstanding at that time. At December 31, 1996, Fund American also owned ten year Folksamerica Warrants to purchase up to 6,920,000 shares of Folksamerica Common Stock for aggregate consideration of $79.4 million. Fund American acquired its investments in Folksamerica on June 19, 1996.

Fund American's investments in Folksamerica are accounted for under the provisions of SFAS No. 115 whereby the investments are reported at fair value as of the balance sheet date, with related unrealized investment gains and losses excluded from earnings and reported as a net amount in a separate component of shareholders' equity. Dividends earned on the Folksamerica Preferred Stock are recorded as earnings from unconsolidated insurance affiliates.

The following table summarizes financial information for Folksamerica:

Millions	1996

FOLKSAMERICA BALANCE SHEET DATA:	
Total investments	$ 711.4
Total assets	994.8
Unearned premium reserve, net	59.9
Loss and loss adjustment expense reserve, net	490.0
Preferred shareholder's equity	79.4
Common shareholders' equity	88.2
FOLKSAMERICA INCOME STATEMENT DATA:	
Gross premiums written	$ 187.2
Net premiums written	171.9
Net premiums earned	181.4
Net investment income	32.4
Net income	17.1
AMOUNTS RECORDED BY FUND AMERICAN:	
Investment in Folksamerica Preferred Stock	$ 77.9
Investment in Folksamerica Warrants	2.2
Total Investment in Folksamerica	$ 80.1
Dividends from Folksamerica Preferred Stock (a)	$ 2.7
Unrealized investment gains on Folksamerica Warrants and Folksamerica Preferred Stock, before tax (b)	.2

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

(b) Recorded directly to shareholders' equity.

INVESTMENT IN MSA

At December 31, 1996 and 1995, Fund American owned 90,606 shares of MSA Common Stock. This represented approximately 33.2% and 33.1%, respectively, of the total shares of MSA Common Stock outstanding at those times. Fund American's investment in MSA is accounted for using the equity method.

The following tables summarize financial information for MSA:

Millions	1996	1995
MSA BALANCE SHEET DATA:		
Total investments	$ 249.4	$ 240.8
Total assets	316.2	309.6
Unearned premium reserve	64.0	58.4
Loss and loss adjustment expense reserves	120.1	116.2
Shareholders' equity	101.4	92.0
MSA INCOME STATEMENT DATA:		
Net premiums written	$ 147.2	$ 130.9
Net premiums earned	141.6	127.7
Net investment income	14.9	15.0
Net income	9.7	12.4

Millions	1996	1995
AMOUNTS RECORDED BY FUND AMERICAN:		
Investment in MSA Common Stock	$ 34.7	$ 33.7
Equity in earnings from MSA Common Stock (a)	1.5	4.0
Equity in net unrealized investment gains from MSA's investment portfolio, before tax (b)	(.5)	3.2

(a) Recorded net of related amortization of goodwill.

(b) Recorded directly to shareholders' equity.

At December 31, 1996 and 1995, Fund American's consolidated retained earnings included $6.5 million and $4.6 million, respectively, of undistributed earnings of MSA.

NOTE 17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Fund American utilizes derivative financial instruments in the management of interest rate risk. Fund American does not use derivative financial instruments for trading purposes. Fund American's use of derivative financial instruments is primarily limited to (i) commitments to extend credit, (ii) mandatory forward commitments, (iii) interest rate floor contracts and principal-only swap agreements and (iv) to achieve a fixed interest rate on existing variable rate obligations.

Source One is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its exposure to fluctuations in interest rates. These financial instruments primarily include commitments to extend credit and mandatory forward commitments. Those instruments involve, to varying degrees, elements of credit and market interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of risk Source One has related to the instruments.

Source One's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit (mortgage loan pipeline) is represented by the contractual notional amount of those commitments. Source One's locked mortgage loan pipeline commitments expected to close totalled $175.7 million and $221.9 million at December 31, 1996 and 1995, respectively. Fixed rate commitments result in Source One having market interest rate risk as well as credit risk. Variable rate commitments expose Source One primarily to credit risk. The amount of collateral required upon extension of credit is based on management's credit evaluation of the mortgagor and consists of the mortgagor's residential property.

Source One obtains mandatory forward commitments of up to 120 days to sell mortgage-backed securities to hedge the market interest rate risk associated with the portion of the mortgage loan pipeline that is expected to close and all mortgage loans receivable. At December 31, 1996 and 1995, Source One had $454.6 million and $561.0 million, respectively, of mandatory forward commitments outstanding. If secondary market interest rates decline after Source One commits to an interest rate for a loan, the loan may not close and Source One may incur a loss from the cost of covering its obligations under a related mandatory forward commitment. If secondary market interest rates increase after Source One commits to an interest rate for a loan and Source One has not obtained a forward commitment, Source One may incur a loss when the loan is subsequently sold.

Source One's risk management function closely monitors the mortgage loan pipeline to determine appropriate forward commitment coverage on a daily basis in order to manage the risk inherent in these off-balance-sheet financial instruments. In addition, the risk management area seeks to reduce counterparty risk by committing to sell mortgage loans only to approved dealers with no dealer having in excess of 20% of current commitments.

Source One sells loans through mortgage-backed securities issued pursuant to programs of GNMA, FNMA and FHLMC, or through institutional investors. Most loans are aggregated in pools of $1.0 million or more which are purchased by institutional investors after having been guaranteed by GNMA, FNMA or FHLMC. Substantially all GNMA securities are sold by Source One without recourse for loss of principal in the event of a subsequent default

by the mortgagor due to the FHA and VA insurance underlying such securities. Prior to December 1992, substantially all conventional securities were sold with recourse to Source One, to the extent of insufficient proceeds from private mortgage insurance, foreclosure and other recoveries. Since December 1992 all conventional loans have been sold without recourse to Source One.

Servicing agreements relating to mortgage-backed securities issued pursuant to programs of GNMA, FNMA or FHLMC require Source One to advance funds to make the required payments in the event of a delinquency by the borrower. Source One expects that it would recover most funds advanced upon cure of default by the borrower or foreclosure. However, funds advanced in connection with VA partially guaranteed loans and certain conventional loans (which are at most partially insured by private mortgage insurers) may not be fully recovered due to potential declines in collateral value. Source One is subject to limited amounts of risk with respect to these loans since the insurer has the option to reimburse the servicer for the lower of fair value of the property or the mortgage loan outstanding, in addition to the VA guarantee on the loan. In addition, most of Source One's servicing agreements for mortgage-backed securities typically require the payment to investors of a full month's interest on each loan although the loan may be paid off (by optional prepayment or foreclosure) other than on a month-end basis. In this instance, Source One is obligated to pay the investor interest at the note rate from the date of loan payoff through the end of the calendar month without reimbursement.

At December 31, 1996 and 1995, Source One serviced approximately $13.5 billion

and $10.7 billion of GNMA loans (without substantial recourse), respectively, and $2.9 billion and $3.5 billion of conventional loans (with recourse), respectively.

To cover loan losses that may result from these servicing arrangements and other losses, Source One has provided an allowance for loan losses of $15.4 million and $13.5 million on the consolidated balance sheets at December 31, 1996 and 1995, respectively. Source One's management believes the allowance for loan losses is adequate to cover unreimbursed foreclosure advances and principal losses. During 1995 Source One refined the estimates used to calculate the allowance for loan losses to more accurately reflect Source One's loss experience. This change reduced the amount that would have been computed using the prior estimates.

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

The interest rate floor contracts derive their value from differences between the floor rate specified in the contract and market interest rates. The floor yields range from 5.47% to 6.24%. To the extent that market interest rates increase, the value of the floors declines. However, Source One is not exposed to losses in excess of its initial investment in the floors. The interest rate floor contracts are carried at fair value with unrealized gains and losses recorded in other mortgage operations revenue on the consolidated income statements. As of December 31, 1996 and 1995, the carrying value of Source One's open interest rate floor contracts totalled $4.8 million and $3.5 million, respectively, with a total notional principal amount of $1.0 billion and $.5 billion, respectively. The floors have terms ranging from two to five years.

The value of the principal-onlys swaps is determined by changes in the value of referenced principal-only strips. As of December 31, 1996, the carrying value of Source One's principal-only swap transactions totalled $3.2 million, with an original notional principal amount of $50.0 million. The principal-only swaps have a remaining term of 4.5 years.

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

NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values for Fund American's financial instruments have been determined by using appropriate market information and valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Therefore, the estimates provided herein are not necessarily indicative of the amounts that could be

realized in a current market exchange. Carrying value equals or approximates fair value for common equity securities, fixed maturity investments, derivative instruments, short-term investments, cash, other financial assets and other financial liabilities. For each other class of financial instrument for which it is practicable to estimate fair value, the following methods and assumptions were used to estimate such value:

Other Investments. The fair values of mortgage loans held for investment are estimated using quoted market prices for securities backed by similar loans, adjusting for differences in loan characteristics. Fair values of REMICs are estimated using discounted cash flow analyses reflecting I/O strip and LIBOR interest rates, and "Prepayment Speed Assumption" rates, taking into consideration the characteristics of the related collateral. For interest rate floor contracts and principal-only swap transactions, fair value is estimated based on quoted market prices for those or similar investments and equals carrying value. For all other securities classified as other investments fair values have been determined using quoted market values or internal appraisal techniques.

Capitalized Excess Mortgage Servicing. Fair value is estimated by computing the anticipated revenue to be received over the life of the related loans based on market consensus prepayment rates, discounted using quoted I/O strip interest rates.

Mortgage Loans Held for Sale. Fair values are estimated using quoted market

prices for securities backed by similar loans, adjusting for differences in loan characteristics.

Pool Loan Purchases. Fair values are estimated using (i) discounted cash flow analyses reflecting Source One's short-term incremental borrowing rate or (ii) quoted market prices for securities backed by similar loans.

Loans in Foreclosure and Mortgage Claims Receivable. Fair values are estimated by discounting anticipated future cash flows using Source One's short-term incremental borrowing rate.

Debt. Fair value is estimated by discounting future cash flows using incremental borrowing rates for similar types of borrowing arrangements. For subordinated debentures, fair value is based on quoted market prices.

Off-Balance-Sheet Financial Instruments. Fair value for commitments to sell mortgage loans is based on current settlement values for those commitments. Fair value for commitments to extend credit is based on current quoted market prices for securities backed by similar loans.

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

	December 31, 1996		December 31, 1995	
Millions	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Common equity securities	$160.8	$160.8	$274.5	$274.5
Fixed maturity investments	155.4	155.4	110.7	110.7
Other investments (excluding derivative instruments)	168.5	168.4	92.4	93.0
Derivative instruments:				
Interest rate floor contracts	4.8	4.8	3.5	3.5
Principal-only swaps	3.2	3.2	-	-
Short-term investments	67.5	67.5	103.6	103.6
Cash	4.8	4.8	2.7	2.7
Capitalized excess mortgage servicing	38.7	39.6	44.7	46.0
Mortgage loans held for sale	314.9	315.9	381.0	391.5
Pool loan purchases	131.5	135.8	119.0	122.3
Loans in foreclosure and mortgage claims receivable, net (a)	38.4	37.7	29.6	29.0
Other	35.9	35.9	25.7	25.7
FINANCIAL LIABILITIES:				
Short-term debt	407.9	407.9	445.4	449.0
Long-term debt	424.2	460.2	407.3	450.8
Other	18.3	18.3	12.4	12.4
OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS:				
Mandatory forward commitments	-	454.5	-	562.4
Commitments to extend credit expected to close	-	176.8	-	226.6

(a) Excludes $13.1 million and $15.8 million of real estate owned in 1996 and 1995, respectively.

Other financial assets includes investment income receivable, accounts receivable from securities sales, notes receivable and White River Shares held for delivery upon exercise of existing employee stock options. Other financial liabilities includes accrued interest payable, accounts payable on securities purchases, dividends payable to shareholders and liability for existing employee stock options to purchase White River Shares.

The estimated fair value amounts for Fund American's financial instruments have been determined using available market information and valuation methodologies. Such estimates provided herein are not necessarily indicative of the amounts that would be potentially realized in a current market exchange.

It is not practicable without incurring excessive costs to estimate the fair value of conventional loans sold with recourse, which is an off-balance-sheet financial instrument representing Source One's obligation to repurchase loans sold that subsequently default.

NOTE 19. RELATED PARTY TRANSACTIONS

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

Prior to the Joint Ownership Agreement, Fund American was a party to a "dry

lease" agreement dated January 2, 1995, for the use of aircraft owned by Haverford Transportation Inc. ("HTI") for corporate travel purposes. Messrs. Byrne and Kemp are the sole shareholders of HTI. During 1996, 1995 and 1994 Fund American paid HTI a total of $279,739, $183,563 and $190,150, respectively, pursuant to the dry lease arrangement. The terms of the

agreement provided for the use of HTI's aircraft (excluding pilot and fuel) for a fixed hourly charge of $200 for a single engine piston aircraft and $800 to $1,000 for a twin engine turbine aircraft. Based on the Company's experience in operating comparable aircraft, the hourly operating charges incurred by the Registrant pursuant to the HTI dry lease are considered to be representative of the actual hourly costs of operating HTI's aircraft. Fund American believes that its arrangement with HTI was on terms that were no less favorable to Fund American than would generally be available if secured through an arrangement with an unaffiliated third party.

In December 1993, BYRNE & sons, l.p. ("BYRNE & sons"), a partnership in which Mr. Byrne is the sole general partner, made an investment in the Merastar Partners Limited Partnership and the Southern Heritage Limited Partnership (the "Partnerships"). The Partnerships are involved in various property and casualty insurance ventures. Shortly after making its investment, BYRNE & sons offered one-third of the investment in the Partnerships to Fund American on equal terms and conditions. In May 1994 Fund American accepted the offer and paid BYRNE & sons a total of $338,558 representing reimbursement for one-third of Byrne & sons' cost for its investment in the Partnerships including interest of $5,225 at a 6.0% annual rate.

Through December 22, 1993, White River was a wholly-owned subsidiary of the Company. The Company currently owns 1,014,750 White River Shares, or approximately 20.8% of the outstanding White River Shares of which 295,932 shares, or 6.0% of the outstanding White River Shares, have been reserved by Fund American for delivery upon exercise of existing employee stock options and warrants. White River had outstanding the $50.0 million Term Note and the $40.0 million Revolver payable to the Company which were repaid on various dates during 1995. Gordon S. Macklin, a director of the Company, is the non-executive Chairman of White River.

Mr. Howard Clark, Jr., a director of the Company, is Vice Chairman of Lehman Brothers, Inc. Lehman Brothers Inc. has, from time to time, provided various services to Fund American including investment banking services, brokerage services, underwriting of debt and equity securities and financial consulting services.

Mr. Robert P. Cochran, a director of the Company, is Chief Executive Officer of FSA. FSA has been retained by Fund American to manage portions of its fixed maturity portfolio.

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

Mr. Arthur Zankel, a director of the Company, is Co-Managing Partner of First Manhattan Co. First Manhattan Co. has provided brokerage, discretionary investment management and non-discretionary investment advisory services to Fund American from time to time.

Fund American believes that all the above transactions were on terms that were reasonable and competitive. Additional transactions of this nature may be expected to take place in the ordinary course of business in the future.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1996 and 1995 is shown in the following table. The quarterly financial data includes, in the opinion of management, all recurring adjustments necessary for a fair presentation of the results of operations for the interim periods.

	1996 Three Months Ended (a)				1995 Three Months Ended (b)			
Millions, except per share amounts	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenues	$ 72.0	$ 90.0	$ 82.8	$ 87.7	$ 53.6	$ 48.6	$ 43.3	$ 76.8
Expenses	119.3	81.3	77.0	69.6	52.8	42.9	86.8	43.4
Pretax operating earnings (loss)	(47.3)	8.7	5.8	18.1	.8	5.7	(43.5)	33.4
Net realized investment gains (losses)	10.4	(1.6)	1.3	28.4	7.0	4.4	10.4	17.0

Pretax earnings (loss)	(36.9)	7.1	7.1	46.5	7.8	10.1	(33.1)	50.4
Income tax provision (benefit)	(5.8)	3.4	3.6	17.7	5.4	3.5	(10.6)	18.4
After tax earnings (loss)	(31.1)	3.7	3.5	28.8	2.4	6.6	(22.5)	32.0
Tax benefit from sale of discontinued operations	-	-	-	-	-	-	66.0	-
Loss on early extinguishment of debt, after tax	-	-	-	-	-	-	(.2)	(.2)
Net income (loss)	$ (31.1)	$ 3.7	$ 3.5	$ 28.8	$ 2.4	$ 6.6	$ 43.3	$ 31.8
Primary earnings per share:								
After tax earnings (loss)	$ (3.99)	$ .46	$ .42	$ 3.45	$ .29	$ .75	$ (2.95)	$ 3.43
Net income (loss)	(3.99)	.46	.42	3.45	.29	.75	5.08	3.41
Fully diluted earnings per share:								
After tax earnings (loss)	(3.99)	.46	.42	3.45	.29	.75	(2.44)	3.23
Net income (loss)	(3.99)	.46	.42	3.45	.29	.75	4.68	3.22

(a) The quarterly amounts for the three month period ended December 31, 1996, include a $33.6 million pretax write-off of all Source One's existing goodwill and certain other intangible assets and $28.4 million of pretax impairment of Source One's capitalized mortgage servicing asset. These two items served to decrease fourth quarter 1996 net income by $48.5 million.

(b) The quarterly amounts for the three month periods ended June 30 and March 31, 1995, have been restated to reflect the adoption as of January 1, 1995, of SFAS No. 122. Prior to restatement, net income for the three month periods ended June 30 and March 31, 1995, was $48.2 million and $28.9 million, respectively.

FUND AMERICAN

REPORT ON MANAGEMENT'S RESPONSIBILITIES

The financial information included in this annual report, including the audited consolidated financial statements, has been prepared by the management of Fund American. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and, where necessary, include amounts based on informed estimates and judgments. In those instances where there is no single specified accounting principle or standard, management makes a choice from reasonable, accepted alternatives which are believed to be most appropriate under the circumstances. Financial information presented elsewhere in this annual report is consistent with that shown in the financial statements.

Fund American maintains internal financial and accounting controls designed to provide reasonable and cost effective assurance that assets are safeguarded from loss or unauthorized use, that transactions are recorded in accordance with management's policies and that financial records are reliable for preparing financial statements. The internal controls structure is documented by written policies and procedures which are communicated to all appropriate personnel and is updated as necessary. Fund American's business ethics policies require adherence to the highest ethical standards in the conduct of its business. Compliance with these controls, policies and procedures is continuously maintained and monitored by management.

Ernst & Young LLP are Fund American's independent auditors and have audited the consolidated financial statements of Fund American as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, and issued their report thereon dated March 21, 1997, which appears on page F-35 herein. Coopers & Lybrand L.L.P. serves as independent auditors of Valley. Their report, dated February 14, 1997 on their audit of Valley as of and for the year ended December 31, 1996, has been included as Exhibit 99(a).

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

The Audit Committee of the Board is comprised of all non-management directors and has general responsibility for the oversight and surveillance of the accounting, reporting and financial control practices of Fund American. The Audit Committee, which reports to the full Board, annually reviews the effectiveness of the independent auditors, Fund American's internal auditors and management with respect to the financial reporting process and the adequacy of internal controls. Both the internal auditors and the independent auditors have, at all times, free access to the Audit Committee, without members of management present, to discuss the results of their audits, the adequacy of internal controls and any other matter that they believe should be brought to the attention of the Audit Committee.

John J. Byrne	Allan L. Waters	Michael S. Paquette
Chairman of the Board, President and Chief Executive Officer	Senior Vice President and Chief Financial Officer	Vice President and Controller

FUND AMERICAN

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Fund American Enterprises Holdings, Inc., as of December 31, 1996 and 1995, and the related consolidated income statements and statements of shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our audits also included the financial statement schedules listed at Item 14(d). Our responsibility is to express an opinion on these financial statements and schedules based on our audits. We did not audit the consolidated financial statements of Valley Group, Inc., a wholly-owned subsidiary, representing substantially all of the Company's consolidated insurance operations, which statements reflect total assets of $288.0 million as of December 31, 1996 and total revenues of $126.9 million for the year then ended, and the consolidated financial statements of Financial Security Assurance Holdings Ltd. ("FSA"), an equity method investee. The Company's equity method investment in FSA represents $92.3 million of assets at December 31, 1996 and its equity in FSA's earnings represents $7.8 million of total revenues for the year then ended. Those statements were audited by other auditors, Coopers and Lybrand L.L.P., whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Valley Group, Inc. and FSA, with respect to the amounts in the preceeding sentence, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fund American Enterprises Holdings, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statements schedules when considered in relation to the basic financial statements taken as a whole present fairly in all material respects the information set forth therein.

As discussed in the Notes to Consolidated Financial Statements, in 1995 the Company changed its method of accounting for originated mortgage servicing rights and in 1994 the Company changed its methodology used to measure impairment of purchased mortgage servicing rights.

Ernst & Young LLP
New York, New York
March 21, 1997

FUND AMERICAN

SCHEDULE I

MARKETABLE SECURITIES AND OTHER INVESTMENTS

COMMON EQUITY SECURITIES

	December 31, 1996

Shares and units in thousands, dollars in millions	Shares or units	Cost	Fair value	Percent of total fair value
Energy, natural resources and related industries:				
San Juan Basin Royalty Trust	10,995	$ 50.4	$ 90.7	56.4%
Veritas DGC Inc.	835	5.4	14.7	9.1
Aggregate of holdings less than $10.0 million		5.0	5.9	3.7
Total energy, natural resources and related industries		60.8	111.3	69.2
All other:				
Mid Ocean Limited	388	12.2	20.4	12.7
Vanguard Institutional Index Fund	183	12.8	12.6	7.8
Aggregate of holdings less than $10.0 million		15.3	16.5	10.3
Total common equity securities		$101.1	$160.8	100.0%

FIXED MATURITY INVESTMENTS

Millions	December 31, 1996 Cost or amortized cost	Fair value
U. S. Government and agency obligations	$ 63.6	$ 64.3
U S WEST, Inc. redeemable preferred stock	49.1	49.1
Debt securities issued by industrial corporations	31.3	31.5
GNMA mortgage-backed securities	9.1	9.1
Aggregate of holdings less than $10.0 million	1.4	1.4
Total fixed maturity investments	$ 154.5	$ 155.4

OTHER INVESTMENTS

Millions	December 31, 1996 Cost or amortized cost	Carrying value
Travelers Property Casualty Corp. restricted common shares	$ 50.8	$ 90.3
White River Corporation restricted common shares	21.1	39.2
Mortgage loans held for investment	23.4	23.4
Aggregate of holdings less than $10.0 million	24.4	23.6
Total other investments	$ 119.7	$ 176.5

FUND AMERICAN

SCHEDULE III

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

CONDENSED BALANCE SHEETS

Millions	December 31, 1996	1995
Assets:		
Fixed maturity investments	$ 46.0	$ -
Common equity securities and other investments	100.1	8.0
Short-term investments, at amortized cost	.3	23.9
Cash	-	-
Other assets	18.1	18.9

Investments in unconsolidated insurance affiliates	27.7	2.5
Investments in consolidated affiliates	725.2	825.4
Total assets	$ 917.4	$ 878.7
Liabilities:		
Debt	$ 115.4	$ 115.3
Accounts payable and other liabilities	115.0	63.7
Total liabilities	230.4	179.0
Shareholders' equity	687.0	699.7
Total liabilities and shareholders' equity	$ 917.4	$ 878.7

CONDENSED INCOME STATEMENTS

Millions	Year Ended December 31, 1996	1995	1994
Revenues	$ 11.7	$ 28.7	$ 14.2
Expenses	15.5	68.9	21.2
Pretax operating loss	(3.8)	(40.2)	(7.0)
Net realized investment gains (losses)	(3.1)	12.6	22.7
Pretax earnings (loss)	(6.9)	(27.6)	15.7
Income tax provision (benefit)	.5	(8.7)	7.6
Parent company only operating income (loss)	(7.4)	(18.9)	8.1
Earnings from consolidated affiliates	12.3	37.4	13.0
Tax benefit from sale of discontinued operations	-	66.0	-
Loss on early extinguishment of debt, after tax	-	(.4)	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax	-	-	(44.3)
Consolidated net income (loss)	$ 4.9	$ 84.1	$ (23.2)

FUND AMERICAN

SCHEDULE III
(CONTINUED)

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

CONDENSED STATEMENTS OF CASH FLOWS

Millions	Year Ended December 31, 1996	1995	1994
Net income (loss)	$ 4.9	$ 84.1	$ (23.2)
Charges (credits) to reconcile net income to net cash from operations:			
Tax benefit from sale of discontinued operations	-	(66.0)	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax	-	-	44.3
Compensation expense resulting from warrant extension	-	46.2	-
Net realized investment losses (gains)	3.1	(12.6)	(22.7)
Earnings from consolidated subsidiaries	(12.3)	(37.4)	(13.0)
Undistributed earnings from unconsolidated insurance affiliates	(1.1)	(9.0)	(2.5)
Dividends and return of capital distributions received from subsidiaries	65.0	233.3	121.3
Changes in current income taxes receivable and payable	28.4	2.9	35.1
Deferred income tax provision (benefit)	.1	(13.5)	2.8
Other, net	(15.9)	(3.7)	10.0
Net cash provided from operations	72.2	224.3	152.1
Cash flows from investing activities:			
Net decrease in short-term investments	28.2	34.3	69.6
Sales and maturities of common equity securities and other investments	134.4	45.1	73.3
Purchases of common equity securities and other investments	(108.9)	(41.3)	(60.3)
Investments in consolidated affiliates	(25.2)	(77.2)	-
Investments in unconsolidated affiliates	(27.7)	(33.8)	(44.0)
Purchases of fixed assets	(.8)	-	-
Net cash (used for) provided from investing activities	-	(72.9)	38.6
Cash flows from financing activities:			
Repayments of long-term debt	-	(7.9)	(23.9)
Redemption of preferred stock	-	(75.0)	(82.0)
Proceeds from issuances of common stock from treasury	-	3.3	2.8
Purchases of common stock retired	(66.3)	(65.5)	(78.8)
Dividends paid to shareholders	(5.9)	(6.4)	(10.8)
Net cash used for financing activities	(72.2)	(151.5)	(192.7)
Net decrease in cash during year	-	(.1)	(2.0)
Cash balance at beginning of year	-	.1	2.1

Cash balance at end of year	$ -	$ -	$ .1

Exh 10(e)

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$35,000,000

CREDIT AGREEMENT

AMONG

FUND AMERICAN ENTERPRISES HOLDINGS, INC.,

as Borrower,

FUND AMERICAN ENTERPRISES, INC.,

as Subsidiary Borrower,

THE LENDERS NAMED HEREIN

and

THE FIRST NATIONAL BANK OF CHICAGO,

as Agent

DATED AS OF

November 26, 1996

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EXHIBITS

SCHEDULES

CREDIT AGREEMENT

This Credit Agreement, dated as of November 26, 1996, is among FUND AMERICAN ENTERPRISES HOLDINGS, INC., a Delaware corporation, FUND AMERICAN ENTERPRISES, INC., a Delaware corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrowers have requested the Lenders to make financial accommodations to them in the aggregate principal amount of $35,000,000, the proceeds of which the Borrowers will use for the working capital and general corporate needs of the Borrowers and their Subsidiaries; and

B. The Lenders are willing to extend such financial accommodations on the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

As used in this Agreement:

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

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

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

cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

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

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

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

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

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

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

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

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

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

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

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

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

"Bankruptcy Code" means Title 11, United States Code, sections 1 et

seq., as the same may be amended from time to time, and any successor thereto or replacement therefor which may be hereafter enacted.

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

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

"Borrowers" means, collectively, the Borrower and the Subsidiary Borrower.

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

"Borrowing Notice" is defined in Section 2.7.

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

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

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

"Change" is defined in Section 3.2.

"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than John J. Byrne or any Plan or any Benefit Plan of the Borrower or any of its Subsidiaries), including without limitation any acquisition effected by means of any transaction contemplated by Section 6.12, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 20% or more of the outstanding shares of voting stock of the Borrower or of the Subsidiary Borrower, or (b) during any period of 12 consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "Continuing Directors") who (i) were directors of the Borrower or of the Subsidiary Borrower, as the case may be, on the first day of each such period or (ii) subsequently became directors of the Borrower or of the Subsidiary Borrower, as the case may be, and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower or of the Subsidiary Borrower, as the case may be, to constitute a majority of the board of directors of the Borrower or of the Subsidiary Borrower, as the case may be, or (c) during any period of 12 consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower or of the Subsidiary Borrower, as the case may be, on the first day of each such period to constitute a majority of the Senior Management of the Borrower or of the Subsidiary Borrower, as the case may be; provided, however, that (x) the provisions of this definition shall not apply to the Subsidiary Borrower in connection with a transaction permitted by Section 6.12(d)(ii) and (y) clauses (b) and (c) of this definition shall not apply to the Subsidiary Borrower during the time the Subsidiary Borrower is a Wholly-Owned Subsidiary of the Borrower

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

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

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

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

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

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

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

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

"Default" means an event described in Article VII.

"Environmental Laws" is defined in Section 5.18.

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

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

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

amount of First Chicago's relevant Eurodollar Advance and having a maturity approximately equal to such Interest Period.

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

"Facility Fee" is defined in Section 2.4(a).

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

"Finance Assets" means each of the following: (a) investments in securities issued or fully guaranteed by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of
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the United States of America is pledged in support thereof), (b) investments in equity securities traded on the New York Stock Exchange, the American Stock Exchange or NASDAQ and securities convertible in to such equity securities, (c) investments in Investment Grade Obligations, (d) investments in money market funds substantially all the assets of which are comprised of securities of the types described in clauses (a) through (c) above and (e) so long as put rights with respect thereto are available to the Borrowers, investments in US West Preferred Stock; provided, that Finance Assets shall not include any securities
pledged to secure any obligation (contingent or otherwise).

"Finance Assets Ratio" means with respect to any Person, at any time, the ratio of (a) Finance Assets of such Person at such time to (b) the sum of (i) Funded Indebtedness of such Person at such time minus (ii) cash and Money
Market Investments of such Person at such time. For purposes of this definition, Finance Assets shall be valued, without duplication, at fair market value to the extent there exists a readily ascertainable fair market value for such Finance Asset or, in the event there exists no such readily ascertainable fair market value for such Finance Asset, at book value, as calculated in accordance with Agreement Accounting Principles.

"Financial Statements" is defined in Section 5.5.

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

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

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

"FSA Transfer" means the transfer by White Mountains Holdings, Inc. to the Borrower and/or the Subsidiary Borrower of White Mountains Holdings, Inc.'s equity interest in Financial Security Assurance Holdings Ltd., provided that the
aggregate dollar amount of the fair market value of the equity interests so transferred shall not exceed $25,000,000.

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

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

"Hazardous Materials" is defined in Section 5.18.

"Indebtedness" of a Person means such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances, or similar instruments, (e) Capitalized Lease Obligations, (f) Rate Hedging Obligations, (g) Contingent Obligations, (h) obligations for which such Person is obligated pursuant to or in respect of a Letter of Credit and (i) repurchase obligations or liabilities of such Person with respect to accounts or notes receivable sold by such Person; provided that financial guarantees entered into in the ordinary
course of business by Financial Security Assurance Holdings Ltd. or its subsidiaries shall not be included within "Indebtedness" for purposes of Section
6.19.2 (if Financial Security Assurance Holdings Ltd. shall become a
Subsidiary).

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

"Interest Period" means, with respect to a Eurodollar Advance, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on (but exclude) the day which corresponds numerically to such date one, two, three or six months thereafter; provided, however, that if there is no such numerically

corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest

Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day; provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment Grade Obligations" means, as of any date, investments having a National Association of Insurance Commissioners investment rating of 1 or 2, or a S&P rating within the range of ratings from AAA to BBB-, or a Moody's rating within the range of ratings from Aaa to Baa3.

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

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

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

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

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

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

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

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

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

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

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

"Leverage Ratio" means, at any time, the ratio of (a) the combined Funded Indebtedness of the Borrower and the Subsidiary Borrower at such time to (b) the sum of the combined Funded Indebtedness of the Borrower and the Subsidiary Borrower at such time plus the Borrower's Net Worth at such time, in all cases determined in accordance with Agreement Accounting Principles.

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

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

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

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

"Material Adverse Effect" means a material adverse effect on (a) the business, Property, condition (financial or other), performance, results of

operations, or prospects of the Borrower and its Subsidiaries taken as a whole or of the Subsidiary Borrower and its Subsidiaries taken as a whole, (b) the ability of either of the Borrowers or any Subsidiary to perform its obligations under the Loan Documents, or (c) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Maturity Date" means May 25, 1998.

"Money Market Investments" means (a) direct obligations of the United States of America, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States of America, or of any agency thereof, in either case maturing not more than one year from the date of acquisition thereof; (b) certificates of deposit issued by any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least $500,000,000, maturing not more than 90 days from the date of acquisition thereof; (c) commercial paper rated A-1 or better or P-1 or better by S&P or Moody's, respectively, maturing not more than 90 days from the date of acquisition thereof; and (d) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a dollar weighted average maturity of not more than one year, and for the calculation of this

dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

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

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

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

"Non-Excluded Taxes" is defined in Section 2.17(a).

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

"Notice of Assignment" is defined in Section 12.3.2.

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

"Participants" is defined in Section 12.2.1.

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

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

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

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

"Proceeding" is defined in Section 5.18.

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

leased or operated by such Person.

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

"Purchasers" is defined in Section 12.3.1.

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

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

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

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

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

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

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

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 et seq.
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"Relevant Borrower" means, with respect to any outstanding or requested Loan or Advance, whichever of the Borrowers is the existing or proposed primary obligor in respect of such Loan or Advance.

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

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

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

"Revolver Termination Date" means November 25, 1997.

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

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

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

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

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

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

"Stock Transfers" means, collectively, (a) any repurchase by the Borrower of its capital stock and (b) any extraordinary dividend or distribution declared and paid or made by the Borrower to the holders of its capital stock, including, without limitation, any distribution by the Borrower of the shares of capital stock of any of its Subsidiaries.

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

"Subsidiary Borrower" means Fund American Enterprises, Inc., a Delaware corporation.

"Subsidiary Guarantor" means the Subsidiary Borrower in its capacity as a guarantor pursuant to Article XV.

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

"Transferee" is defined in Section 12.4.

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

"Unfunded Liability" means the amount (if any) by which the present value of all vested and unvested accrued benefits under a Single Employer Plan exceeds the fair market value of assets

allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or

the giving of notice, or both, would constitute a Default.

"US West Preferred Stock" means the US West Series B cumulative redeemable preferred stock $1.00 par value per share purchased by the Borrower pursuant to and subject to the terms of the Securities Purchase Agreement dated April 10, 1994 among the Borrower, US West, Inc., US West Capital Corporation and Financial Security Assurance Holdings Ltd. (as such agreement may be amended from time to time).

"Valley Credit Agreement" means the Credit Agreement, dated as of November 26, 1996, among Valley Group, Inc., the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time.

"White Mountains Credit Agreement" means the Credit Agreement, dated as of November 26, 1996, among White Mountains Holdings, Inc., the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or other wise modified from time to time.

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

The foregoing definitions (other than the definitions of "Borrower" and "Borrowers") shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

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

Commitments to lend hereunder shall expire on the Revolver Termination Date. Principal payments made after the Revolver Termination Date may not be reborrowed.

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

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

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

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

2.3. Types of Advances. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with Sections 2.7 and 2.8.

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

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

2.5. Minimum Amount of Each Advance. Each Advance shall be in the minimum amount of $2,000,000 (and in integral multiples of $500,000 if in excess thereof), provided, however, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment

and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

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

2.7. Method of Selecting Types and Interest Periods for New Advances. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; provided, however, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

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

(b) the Relevant Borrower which is to receive such Advance;

(c) the aggregate amount of such Advance;

(d) the Type of Advance selected;

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

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

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

2.8. Conversion and Continuation of Outstanding Advances. ABR Advances shall continue as ABR Advances unless and until such ABR Advances are converted into Eurodollar Advances. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an ABR Advance unless the Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of Section 2.5, the Borrower may elect from time to

time to convert all or any part of an

Advance of any Type into any other Type or Types of Advances; provided, however, that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "Conversion/ Continuation Notice") of each conversion of an ABR Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) on the conversion date, in the case of a conversion into an ABR Advance, or at least three (3) Business Days, in the case of a conversion into or continuation of a Eurodollar Advance, prior to the date of the requested conversion or continuation, specifying:

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

(b) the Relevant Borrower with respect to such Advance;

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

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

2.9. Changes in Interest Rate, etc. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined as applicable to such Eurodollar Advance plus the Applicable Eurodollar Margin. Changes in the Applicable Eurodollar Margin will take effect simultaneously with each change in a Level. No Interest Period may end after the Revolver Termination Date.

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

of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in Section 7.6 or 7.7.

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

2.12. Notes. Each Lender is hereby authorized to record the principal

amount of each of its Loans and each repayment on the schedule attached to its Note; provided, however, that neither the failure to so record nor any error in such recordation shall affect the Relevant Borrower's obligations under such Note.

2.13. Interest Payment Dates; Interest and Fee Basis. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.14. Notification of Advances, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

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

2.16. Non-Receipt of Funds by the Agent. Unless the Borrowers or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrowers, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrowers have not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to the Federal Funds Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrowers shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (a) in the case of payment by a Lender, the Federal Funds Effective Rate for such day, or (b) in the case of payment by the Borrowers, the interest rate applicable to the relevant Loan.

2.17. Taxes. (a) Any payments made by the Borrowers under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax based upon any income imposed on the Agent or any Lender by the jurisdiction in which the Agent or such Lender is incorporated or has its principal place of business or maintains its Lending Installation. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable

hereunder at the rates or in the amounts specified in or pursuant to this Agreement; provided, however, that the Borrowers shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this Section 2.17. Whenever any Non-Excluded Taxes are payable by the Borrowers, as promptly as practicable thereafter the Borrowers shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrowers fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required

documentary evidence, the Borrowers shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this Section 2.17 shall survive the termination of this Agreement and the payment of
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all other amounts payable hereunder.

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

2.18. Agent's Fees. The Borrowers shall pay to the Agent those
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fees, in addition to the Facility Fees referenced in Section 2.4(a), in the
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amounts and at the times separately agreed to between the Agent and the Borrowers.

ARTICLE III

CHANGE IN CIRCUMSTANCES

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

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from either of the Borrowers (excluding taxation of the overall net income of any Lender or applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending

Installation is incorporated or has its principal place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation (other than reserves and

assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

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

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

3.2. Changes in Capital Adequacy Regulations. If a Lender determines
the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (a) any change after the date
of this Agreement in the Risk-Based Capital Guidelines, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means
(a) the risk-based capital guidelines in effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. Availability of Types of Advances. If any Lender determines that
maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (a) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not

available, or (b) the interest rate applicable to a Eurodollar Advance does not accurately or fairly reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of Eurodollar Advances until such circumstance no longer exists and require any Eurodollar Advances to be repaid.

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

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

statement of any Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under Sections 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. Initial Loans. The Lenders shall not be required to make the initial Advance hereunder unless the Borrower has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) Charter Documents; Good Standing Certificates. Copies of the certificate of incorporation of the Borrower and the Subsidiary Borrower, together with all amendments thereto, both certified by the appropriate governmental officer in their respective jurisdictions of incorporation, together with a good standing certificate issued by the

Secretary of State of their respective jurisdictions of incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) By-Laws and Resolutions. Copies, certified by the Secretary or Assistant Secretary of the Borrower and the Subsidiary Borrower, of their respective by-laws and of their respective Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which the Borrower and the Subsidiary Borrower are a party.

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

(d) Officer's Certificate. A certificate signed by an Authorized Officer of the Borrower and the Subsidiary Borrower, in form and substance satisfactory to the Agent, to the effect that on the initial Borrowing Date (both before and after giving effect to the consummation of the other transactions contemplated hereby and the making of the Loans hereunder): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of the Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the Borrowers have obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and warranties set forth in Article V of this Agreement is true and correct on and as of the initial Borrowing Date; and (v) since December 31, 1995, no event or change has occurred that has caused or evidences a Material Adverse Effect.

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

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

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

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

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

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

4.2. Each Future Advance. The Lenders shall not be required to make any Advance unless on the applicable Borrowing Date:

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

(b) The representations and warranties contained in Article V are true and correct as of such Borrowing Date;

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

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

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

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrowers represent and warrant to the Lenders that:

5.1. Corporate Existence and Standing. Each of the Borrower and each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business

is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect. As of the date of this Agreement, the Subsidiary Borrower is a Wholly-Owned Subsidiary of the Borrower.

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

5.3. Compliance with Laws and Contracts. The Borrower and its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign

government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by the Borrowers of the Loan Documents to which it is a party, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations G, T, U and X), order, writ, judgment, injunction, decree or award binding on the Borrower or any Subsidiary or the Borrower's or any Subsidiary's charter, articles or certificate of incorporation or by-laws, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which the Borrower or any Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the Loan Documents) in, of or on the property of the Borrower or any Subsidiary pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on Schedule 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. Governmental Consents. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents. Neither the Borrower nor any Subsidiary is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or

award binding upon or applicable to the Borrower or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. Financial Statements. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1995 audited consolidated financial statements of the Borrower and its Subsidiaries, and (b) the unaudited consolidated financial statements of the Borrower and its Subsidiaries through June 30, 1996 (collectively, the "Financial Statements"). Each of the Financial Statements was prepared in accordance with Agreement Accounting Principles and fairly presents the consolidated financial condition and operations of the Borrower and its Subsidiaries at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. Material Adverse Change. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries or of the Subsidiary Borrower and its Subsidiaries has occurred since December 31, 1995.

5.7. Taxes. The Borrower and its Subsidiaries have filed or caused to be filed on a timely basis and in correct form all United States federal and applicable foreign, state and local tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower or any Subsidiary, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles and as to which no Lien exists. As of the date hereof, the United States income tax returns of the Borrower on a consolidated basis have been audited by the Internal Revenue Service through its fiscal period ending October 23, 1985, and all tax periods beginning on or after October 24, 1985 are currently being audited. No tax liens have been filed and no claims are being asserted with respect to any such taxes which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of any taxes or other governmental charges are in accordance with Agreement Accounting Principles.

5.8. Litigation and Contingent Obligations. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any Subsidiary or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. Neither the Borrower nor any Subsidiary has any material contingent obligations incurred

outside of the ordinary course of its business except as set forth on Schedule 5.8 or disclosed in the financial statements required to be delivered under Sections 6.1(a) and (b) and as permitted under this Agreement.

5.9. Capitalization. Schedule 5.9 hereto contains (a) an accurate description of the Borrower's capitalization as of September 30, 1996 and (b) an accurate list of all of the existing Subsidiaries as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of the Borrower and of each Subsidiary have

been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens.

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

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

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

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

5.14. Certain Fees. No broker's or finder's fee or commission was, is or will be payable by the Borrower or any Subsidiary with respect to any of the transactions contemplated by this Agreement, except as described in Section 9.5. The Borrowers hereby jointly and severally agree to indemnify the Agent and the Lenders against, and agree that they will hold each of them harmless from, any claim, demand or liability for broker's or finder's fees or commissions alleged to have been incurred by the Borrowers in connection with any of the transactions contemplated by this Agreement and any expenses (including, without limitation, attorneys' fees and time charges of

attorneys for the Agent or any Lender, which attorneys may be employees of the Agent or any Lender) arising in connection with any such claim, demand or liability. No other similar fee or commissions will be payable by the Borrower or any Subsidiary for any other services rendered to the Borrower or any Subsidiary ancillary to any of the transactions contemplated by this Agreement.

5.15. Solvency. As of the date hereof, after giving effect to the

consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by the Borrower or its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the Loans incurred by the Borrowers under this Agreement, each of the Borrower and the Subsidiary Borrower, each on a consolidated basis, is Solvent.

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

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

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

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

ARTICLE VI

COVENANTS

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

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

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis

(consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows.

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

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

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

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

(f) As soon as possible and in any event within 10 days after receipt by either Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or Environmental Permit by the Borrower or any of its Subsidiaries. Within ten days of the Borrower or any Subsidiary having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, the Borrower shall provide the Agent with written notice thereof.

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

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

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

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

(k) As soon as possible and in any event within [3] days after either Borrower obtains knowledge thereof, notice of any change in the Applicable Credit Rating of S&P or Moody's.

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

6.2. Use of Proceeds. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower

and its Subsidiaries, including but not limited to the purchase of Finance Assets. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances in a manner which would violate, or result in a violation of, Regulation G, Regulation T, Regulation U or Regulation X, or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

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

6.4. Conduct of Business. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of as it is presently conducted, to not conduct any significant business except for financial services, and to do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted. The Borrower shall cause the Subsidiary Borrower to remain a Wholly-Owned Subsidiary unless and until the Subsidiary Borrower shall have irrevocably waived its right to be a borrower hereunder and shall have repaid all outstanding Advances and other Obligations of such Subsidiary Borrower.

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

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

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

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

6.9. Inspection. The Borrower will, and will cause each Subsidiary to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders,

by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. The Borrower will keep or cause to be kept, and cause each Subsidiary to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles.

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

distributions or repurchase or redemption of such stock or other transaction, the Borrower may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock and any options or other rights in respect thereof.

6.11. Indebtedness. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and any renewals, extensions, refundings or refinancings of such Indebtedness;

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

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

(e) other Indebtedness, so long as after giving effect to the incurrence of any such Indebtedness the covenants contained in Section 6.19 shall be complied with on a pro forma basis as of the date such Indebtedness was incurred.

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

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

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

(c) the Borrower may merge or consolidate with any other Person, so long as immediately thereafter (and after giving effect thereto), (i) no Default or Unmatured Default exists, (ii) the Borrower is the continuing or surviving corporation and (iii) the covenants contained in Section 6.19 shall be complied with on a pro forma basis on the date of, and after giving effect to, such merger or consolidation; and

(d) the Subsidiary Borrower may merge or consolidate with any other Person, so long as immediately thereafter (and after giving effect thereto), (i) whether or not the Loans attributable to the Subsidiary Borrower are outstanding on the date of the consummation of such merger or consolidation, (x) no Default or Unmatured Default exists, (y) the Subsidiary Borrower is the continuing or surviving corporation and (z) the covenants contained in Section 6.19 shall be complied with on a pro forma basis on the date of, and after giving effect to, such merger or consolidation or (ii) in the event no Loans attributable to the Subsidiary Borrower are outstanding on the date of the consummation of such merger or consolidation, (x) no Default or Unmatured Default exists, (y) the Subsidiary Borrower shall have delivered written notice to the Lenders at least 15 days prior to the date of the consummation of such merger or consolidation and (z) the Subsidiary Borrower shall have delivered a certificate (in form and substance acceptable to the Agent and executed by an Authorized Officer) to the Agent on, and dated, the date of the consummation of such merger or consolidation (A) stating that it relinquishes its rights to request Loans under this Agreement and (B) confirming that the Subsidiary Borrower has paid in full all amounts then due and owing to any Lender under Sections 3.5 or 9.7 and under Section 15 to the extent the Borrower incurred Obligations of the type described in Sections 3.5 or 9.7 on or prior to the date of the consummation of such merger or consolidation, it being understood and agreed that upon the delivery of such certificate the Subsidiary Borrower shall cease to be one of the Borrowers hereunder and shall have no rights, duties or obligations under this Agreement and references to the Subsidiary Borrower as such in this Agreement shall be deemed to be deleted.

6.13. Contingent Obligations. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (a) the issuance of financial guarantees in the ordinary course of business and consistent with past practices, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business and (d) the issuance of intercompany guarantees so long as the primary obligation is permitted pursuant to this Agreement.

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

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

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

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

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

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

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

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

6.15. Affiliates. The Borrower will not, and will not permit any Subsidiary to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate (other than a Wholly-Owned Subsidiary), except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction and except for the FSA Transfer.

6.16. Environmental Matters. The Borrower shall and shall cause each of

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

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

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

6.19. Financial Covenants.

6.19.1. Minimum Net Worth. The Borrower shall at all times after the date hereof, maintain a minimum Net Worth at least equal to the sum of (a) $587,595,887 minus (b) an amount equal to the aggregate reduction in Net Worth attributable to all Stock Transfers made after September 30, 1996, plus (c) an amount equal to 90% of the cash and non-cash proceeds of any equity securities issued by the Borrower after September 30, 1996.

6.19.2. Leverage Ratio. The Borrower shall at all times after the date hereof maintain a Leverage Ratio of not greater than 25%.

6.19.3. Borrower Finance Assets Ratio. The Borrower shall, at any time Loans are outstanding to the Borrower and the sum of cash and Money Market Investments of the Borrower

is less than the aggregate outstanding principal amount of Funded Indebtedness of the Borrower at such time, maintain a Finance Assets Ratio of not less than 1.5:1.0.

6.19.4. Subsidiary Borrower Finance Assets Ratio. The Subsidiary Borrower shall, at any time Loans are outstanding to the Subsidiary Borrower and the sum of cash and Money Market Investments of the Subsidiary Borrower is less than the aggregate outstanding principal amount of Funded Indebtedness of the Subsidiary Borrower at such time, maintain a Finance Assets Ratio of not less than 1.5:1.0.

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

6.21. ERISA Compliance.

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

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

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

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

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

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

ARTICLE VII

DEFAULTS

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

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

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

7.3. The breach by the Borrower of any of the terms or provisions of Section 6.2, Section 6.3(a) or Sections 6.10 through 6.15 or Section 6.17 through 6.21.

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

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

7.6. The Borrower or any of its Significant Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial portion of its Property, (d) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this Section 7.6, (f) fail to contest in good faith any appointment or

proceeding described in Section 7.7 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.7. Without the application, approval or consent of the Borrower or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its

Significant Subsidiaries or any substantial portion of its Property, or a proceeding described in Section 7.6(d) shall be instituted against the Borrower or any of its Significant Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty consecutive days.

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

7.9. Any Change in Control shall occur.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

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

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

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

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

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

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

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

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

(e) Amend this Section 8.2;

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

(g) Release the Borrower from its obligations under Article XIV; or

(h) Except as permitted by Section 6.12(d)(ii), release the Subsidiary Borrower from its obligations under Article XV.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. The Agent may waive payment

of the fee required under Section 12.3.2 without obtaining the consent of any other party to this Agreement.

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

ARTICLE IX

GENERAL PROVISIONS

9.1. Survival of Representations. All representations and warranties of the Borrowers contained in this Agreement or of the Borrower or any Subsidiary contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

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

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

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

9.5. Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrowers, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrowers, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated September 5, 1996, in favor of First Chicago.

9.6. Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. Expenses; Indemnification. The Borrowers shall reimburse the Agent for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrowers also agree to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents. The Borrowers further agree to indemnify the Agent and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the

Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrowers under this Section shall survive the termination of this Agreement.

9.8. Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. Nonliability of Lenders. The relationship between the Borrowers and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrowers. Neither the Agent nor any Lender undertakes any responsibility to the Borrowers to review or inform the Borrower of any matter in connection with any phase of the Borrowers' business or operations. The Borrowers shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to the Borrowers by the Agent or the Lenders is for the protection of the Agent and the Lenders and neither of the Borrowers nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and the Borrowers hereby waive, release and agree not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby or the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. THE BORROWERS HEREBY IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL

OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWERS HEREBY IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVE ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWERS IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWERS AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. THE BORROWERS, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. Disclosure. The Borrowers and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time

may hold other investments in, make other loans to or have other relationships with the Borrowers, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to the Borrowers or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. Certain Notices. The Borrowers, the Agent and the Lenders agree that notwithstanding any provisions herein to the contrary, (a) all notices and directions permitted or required to be given hereunder by or to the Subsidiary Borrower may be given by or to the Borrower, (b) the Agent and the Lenders may rely and act upon all such notices and directions given by the Borrower purportedly on behalf of the Subsidiary Borrower as if such notices and directions had been given by the Subsidiary Borrower itself and (c) the Agent may disburse the proceeds of

Advances to the Subsidiary Borrower to the Borrower for the account of the Subsidiary Borrower or as the Borrower may otherwise direct.

9.18. Treatment of Certain Information: Confidentiality.

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

(b) Each Lender and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices, any non-public information supplied to it by either Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statue, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender as provided in clause (a) above, (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) agrees with the respective Lender to keep such information confidential on substantially the terms set forth in this Section 9.18(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of either Borrower or any of its Subsidiaries at any time during the continuance of a Default; provided that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by either Borrower.

ARTICLE X

THE AGENT

10.1. Appointment. First Chicago is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this Article X. The Agent shall not have a fiduciary relationship in respect of the Borrowers or any Lender by reason of this Agreement.

10.2. Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with

such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrowers or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrowers to the Agent at such time, but is voluntarily furnished by the Borrowers to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by Section 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by the Borrowers for which the Agent is entitled to reimbursement by the Borrowers under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents, and (c) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents; provided, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrowers referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender, including, without limitation, pursuant to Article XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrowers or any of their respective Subsidiaries in which the Borrowers or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrowers and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrowers, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall

have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrowers. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrowers and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrowers. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrowers shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $50,000,000 and with a Lending Installation in the United States of America. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this Article X shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. Setoff. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower or the Subsidiary Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower or the Subsidiary Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. Ratable Payments. If any Lender, whether by setoff or otherwise,

has payment made to it upon its Loans (other than payments received pursuant to Section 2.17, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrowers to a Lender, other than Indebtedness evidenced by any of the Notes

held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (a) the Borrowers shall not have the right to assign their respective rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in compliance with Section 12.3. Notwithstanding clause (b) of the preceding sentence, any Lender may at any time, without the consent of the Borrowers or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; provided, however, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with Section 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. Participations.

12.2.1. Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrowers under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrowers and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in clauses (a) through (h) of Section 8.2.

12.2.3. Benefit of Setoff. The Borrowers agree that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were

owing directly to it as a Lender under the Loan Documents; provided, that each Lender shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender.

12.3. Assignments.

12.3.1. Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a lender, such assignment shall be in a minimum amount of $5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of Exhibit C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Agent and, so long as no Default under Section 7.2, 7.6 or 7.7 is continuing, the Borrowers, shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof. Such consent shall not be unreasonably withheld.

12.3.2. Effect; Effective Date. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to Exhibit C hereto (a "Notice of Assignment"), together with any consents required by Section 12.3.1, and (b) payment of a $3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or action by the Borrowers, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrowers shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. Dissemination of Information. Subject to Section 9.18, the Borrowers authorize each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries.

12.5. Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 2.17.

ARTICLE XIII

NOTICES

13.1. Giving Notice. All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3)

Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. Change of Address. The Borrowers, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XIV

BORROWER GUARANTY

14.1. The Borrower hereby absolutely, irrevocably and unconditionally guarantees prompt, full and complete payment when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter, of (a) the principal of and interest on the Advances made by the Lenders to, and the Notes held by the Lenders of, the Subsidiary Borrower and (b) all other amounts from time to time owing to the Lenders by the Subsidiary Borrower under this Agreement, the Notes and the other Loan Documents, including without limitation all Obligations of the Subsidiary Borrower (solely for purposes of this Article XIV, collectively referred to as the "Guaranteed Debt"). This is a guaranty of payment, not a guaranty of collection.

14.2. The Borrower waives notice of the acceptance of this Article XIV (solely for purposes of this Article XIV, referred to as the "Guaranty") and of the extension or incurrence of the Guaranteed Debt or any part thereof. The Borrower further waives all setoffs and counterclaims and presentment, protest, notice, filing of claims with a court in the event of receivership, bankruptcy or reorganization of the Subsidiary Borrower, demand or action on delinquency in respect of the Guaranteed Debt or any part thereof, including any right to require the Agent or any Lender to sue the Subsidiary Borrower, or any other person obligated with respect to the Guaranteed

Debt or any part thereof, or otherwise to enforce payment thereof against any collateral securing the Guaranteed Debt or any part thereof.

14.3. The Borrower hereby agrees that, to the fullest extent permitted by law, its obligations hereunder shall be continuing, absolute and unconditional under any and all circumstances and not subject to any reduction, limitation, impairment, termination, defense (other than indefeasible payment in full), setoff, counterclaim or recoupment whatsoever (all of which are hereby expressly waived by it to the fullest extent permitted by law), whether by reason of any claim of any character whatsoever, including, without limitation, any claim of waiver, release, surrender, alteration or compromise. The validity and enforceability of this Guaranty shall not be impaired or affected by any of the following: (a) any extension, modification or renewal of, or indulgence with respect to, or substitution for, the Guaranteed Debt or any part thereof or any agreement relating thereto at any time; (b) any failure or omission to perfect or maintain any lien on, or preserve rights to, any security or collateral or to enforce any right, power or remedy with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto, or any collateral securing the Guaranteed Debt or any part thereof; (c) any waiver of any right, power or remedy or of any default with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (d) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral securing the Guaranteed Debt or any part thereof, any other guaranties with respect to the Guaranteed Debt or any part thereof, or any other obligations of any person or entity with respect to the Guaranteed Debt or any part thereof; (e) the enforceability or validity of the Guaranteed Debt or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (f) the application of payments received from any source to the payment of indebtedness other than the Guaranteed Debt, any part thereof or amounts which are not covered by this Guaranty even though the Agent or any Lender might lawfully have elected to apply such payments to any part or all of the Guaranteed Debt or to amounts which are not covered by this Guaranty; (g) any change of ownership of the Subsidiary Borrower or the insolvency, bankruptcy or any other change in the legal status of the Subsidiary Borrower; (h) any change in, or the imposition of, any law, decree, regulation or other governmental act which does or might impair, delay or in any way affect the validity, enforceability or the payment when due of the Guaranteed Debt; (i) the failure of the Subsidiary Borrower to maintain in full force, validity or effect or to obtain or renew when required all governmental and other approvals, licenses or consents required in connection with the Guaranteed Debt or this Guaranty, or to take any other action required in connection with the performance of all obligations pursuant to the Guaranteed Debt or this Guaranty; (j) the existence of any claim, setoff or other rights which the Borrower may have at any time against the Subsidiary Borrower in connection herewith or with any unrelated transaction; (k) the Agent's or a Lender's election, in any case or proceeding instituted under

chapter 11 of the Bankruptcy Code, of the application of section 1111(b)(2) of the Bankruptcy Code; (l) any borrowing, use of cash collateral, or grant of a security interest by the Subsidiary Borrower, as debtor in possession, under section 363 or 364 of the Bankruptcy Code; (m) the disallowance of all or any portion of the Agent's or a Lender's claims for repayment of the Guaranteed Debt under section 502 or 506 of the Bankruptcy Code; or (n) any other fact or circumstance which might otherwise constitute grounds at law or equity for the discharge or release of the Borrower from its obligations hereunder, all whether or not

the Borrower shall have had notice or knowledge of any act or omission referred to in the foregoing clauses (a) through (n) of this paragraph. It is agreed that the Borrower's liability hereunder is independent of any other guaranties or other obligations at any time in effect with respect to the Guaranteed Debt or any part thereof and that the Borrower's liability hereunder may be enforced regardless of the existence, validity, enforcement or non-enforcement of any such other guaranties or other obligations or any provision of any applicable law or regulation purporting to prohibit payment by the Subsidiary Borrower of the Guaranteed Debt in the manner agreed upon between the Agent, the Lenders and the Subsidiary Borrower.

14.4. Credit may be granted or continued from time to time by the Agent and/or any Lender to the Subsidiary Borrower without notice to or authorization from the Borrower regardless of the Subsidiary Borrower's financial or other condition at the time of any such grant or continuation. Neither the Agent nor any Lender shall have any obligation to disclose or discuss with the Borrower its assessment of the financial condition of the Subsidiary Borrower.

14.5. Until the irrevocable payment in full of the Obligations and termination of all commitments which could give rise to any Obligation, the Borrower shall have no right of subrogation with respect to the Guaranteed Debt and hereby waives any right to enforce any remedy which the Agent and/or the Lenders now has or may hereafter have against the Subsidiary Borrower, any endorser or any other guarantor of all or any part of the Guaranteed Debt, and the Borrower hereby waives any benefit of, and any right to participate in, any security or collateral given to the Agent and/or the Lenders to secure payment of the Guaranteed Debt or any part thereof or any other liability of the Subsidiary Borrower to the Agent and/or the Lenders.

14.6. The Borrower authorizes the Agent and the Lenders to take any action or exercise any remedy with respect to any collateral from time to time securing the Guaranteed Debt, which the Agent and the Lenders in their sole discretion (but subject, as applicable, to the terms of this Agreement and of any documentation pursuant to which a Lien in such collateral is granted) shall determine, without notice to the Borrower. Notwithstanding any reference herein to any collateral securing any of the Guaranteed Debt, it is acknowledged that, on the date hereof, neither the Borrower nor any of its Subsidiaries has granted, or has any obligation to grant, any security interest in or other lien on any of its property as security for the Guaranteed Debt.

14.7. In the event the Agent and/or the Lenders in their sole discretion elects to give notice of any action with respect to any collateral securing the Guaranteed Debt or any part thereof, ten (10) days' written notice mailed to the Borrower by ordinary mail at the address shown hereon shall be deemed reasonable notice of any matters contained in such notice. The Borrower consents and agrees that neither the Agent nor any Lender shall be under any obligation to marshall any assets in favor of the Borrower or against or in payment of any or all of the Guaranteed Debt.

14.8. In the event that acceleration of the time for payment of any of the Guaranteed Debt is stayed upon the insolvency, bankruptcy or reorganization of the Subsidiary Borrower, or otherwise, all such amounts shall nonetheless be payable by the Borrower forthwith upon demand by Agent. The Borrower further agrees that, to the extent that the Subsidiary Borrower makes a payment or payments to the Agent or any Lender on the Guaranteed Debt, or the Agent or a Lender

receive any proceeds of collateral securing the Guaranteed Debt, which payment or receipt of proceeds or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be returned or repaid to the Subsidiary Borrower, its estate, trustee, receiver, debtor in possession or any other party, including, without limitation, the Borrower, under any insolvency or bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment, return or repayment, the obligation or part thereof which has been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date when such initial payment, reduction or satisfaction occurred.

14.9. No delay on the part of the Agent or any Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, and no single or partial exercise by the Agent or any Lender of any right, power or

remedy shall preclude any further exercise thereof; nor shall any amendment, supplement, modification or waiver of any of the terms or provisions of this Guaranty be binding upon the Agent or any Lender, except as expressly set forth in a writing duly signed and delivered by the Agent and the Lenders. The failure by the Agent and/or the Lenders at any time or times hereafter to require strict performance by the Subsidiary Borrower or the Borrower of any of the provisions, warranties, terms and conditions contained in any promissory note, security agreement, agreement, guaranty, instrument or document now or at any time or times hereafter executed pursuant to the terms of, or in connection with, this Agreement by the Subsidiary Borrower or the Borrower and delivered to the Agent or any Lender shall not waive, affect or diminish any right of the Agent or any Lender at any time or times hereafter to demand strict performance thereof, and such right shall not be deemed to have been waived by any act or knowledge of the Agent or any Lender, its agents, officers or employees, unless such waiver is contained in an instrument in writing duly signed and delivered by the Agent or such Lender. No waiver by the Agent or any Lender of any default shall operate as a waiver of any other default or the same default on a future occasion, and no action by the Agent or any Lender permitted hereunder shall in any way affect or impair the Agent's or such Lender's rights or powers, or the obligations of the Borrower under this Guaranty. Any determination by a court of competent jurisdiction of the amount of any Guaranteed Debt owing by the Subsidiary Borrower to the Agent and the Lenders shall be conclusive and binding on the Borrower irrespective of whether the Borrower was a party to the suit or action in which such determination was made.

14.10. Subject to the provisions of Section 14.8, this guaranty shall continue in effect until this Agreement has terminated, the Guaranteed Debt has been paid in full and the other conditions of this guaranty have been satisfied.

ARTICLE XV

SUBSIDIARY GUARANTY

15.1. The Subsidiary Guarantor hereby absolutely, irrevocably and unconditionally guarantees prompt, full and complete payment when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter, of (a) the principal of and interest on the

Advances made by the Lenders to, and the Notes held by the Lenders of, the Borrower and (b) all other amounts from time to time owing to the Lenders by the Borrower under this Agreement, the Notes and the other Loan Documents, including without limitation all Obligations of the Borrower (solely for purposes of this Article XV, collectively referred to as the "Guaranteed Debt"). This is a guaranty of payment, not a guaranty of collection.

15.2. The Subsidiary Guarantor waives notice of the acceptance of this Article XV (solely for purposes of this Article XV, referred to as the "Guaranty") and of the extension or incurrence of the Guaranteed Debt or any part thereof. The Subsidiary Guarantor further waives all setoffs and counterclaims and presentment, protest, notice, filing of claims with a court in the event of receivership, bankruptcy or reorganization of the Borrower, demand or action on delinquency in respect of the Guaranteed Debt or any part thereof, including any right to require the Agent or any Lender to sue the Borrower, other person obligated with respect to the Guaranteed Debt or any part thereof, or otherwise to enforce payment thereof against any collateral securing the Guaranteed Debt or any part thereof.

15.3. The Subsidiary Guarantor hereby agrees that, to the fullest extent permitted by law, its obligations hereunder shall be continuing, absolute and unconditional under any and all circumstances and not subject to any reduction, limitation, impairment, termination, defense (other than indefeasible payment in full), setoff, counterclaim or recoupment whatsoever (all of which are hereby expressly waived by it to the fullest extent permitted by law), whether by reason of any claim of any character whatsoever, including, without limitation, any claim of waiver, release, surrender, alteration or compromise. The validity and enforceability of this Guaranty shall not be impaired or affected by any of the following: (a) any extension, modification or renewal of, or indulgence with respect to, or substitution for, the Guaranteed Debt or any part thereof or any agreement relating thereto at any time; (b) any failure or omission to perfect or maintain any lien on, or preserve rights to, any security or collateral or to enforce any right, power or remedy with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto, or any collateral securing the Guaranteed Debt or any part thereof; (c) any waiver of any right, power or remedy or of any default with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (d) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral securing the Guaranteed Debt or any part thereof, any other guaranties with respect to the Guaranteed Debt or any part thereof, or any other obligations of any person or entity with respect to the

Guaranteed Debt or any part thereof; (e) the enforceability or validity of the Guaranteed Debt or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (f) the application of payments received from any source to the payment of indebtedness other than the Guaranteed Debt, any part thereof or amounts which are not covered by this Guaranty even though the Agent or any Lender might lawfully have elected to apply such payments to any part or all of the Guaranteed Debt or to amounts which are not covered by this Guaranty; (g) any change of ownership of the Borrower or the insolvency, bankruptcy or any other change in the legal status of the Borrower; (h) any change in, or the imposition of, any law, decree, regulation or other governmental act which does or might impair, delay or in any way affect the validity, enforceability or the payment when due of the Guaranteed Debt; (i) the failure of the Borrower to maintain in full

force, validity or effect or to obtain or renew when required all governmental and other approvals, licenses or consents required in connection with the Guaranteed Debt or this Guaranty, or to take any other action required in connection with the performance of all obligations pursuant to the Guaranteed Debt or this Guaranty; (j) the existence of any claim, setoff or other rights which the Subsidiary Borrower may have at any time against the Borrower in connection herewith or with any unrelated transaction; (k) the Agent's or a Lender's election, in any case or proceeding instituted under chapter 11 of the Bankruptcy Code, of the application of section 1111(b)(2) of the Bankruptcy Code; (l) any borrowing, use of cash collateral, or grant of a security interest by the Borrower, as debtor in possession, under section 363 or 364 of the Bankruptcy Code; (m) the disallowance of all or any portion of the Agent's or a Lender's claims for repayment of the Guaranteed Debt under section 502 or 506 of the Bankruptcy Code; or (n) any other fact or circumstance which might otherwise constitute grounds at law or equity for the discharge or release of the Subsidiary Guarantor from its obligations hereunder, all whether or not the Subsidiary Guarantor shall have had notice or knowledge of any act or omission referred to in the foregoing clauses (a) through (n) of this paragraph. It is

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agreed that the Subsidiary Guarantor's liability hereunder is independent of any other guaranties or other obligations at any time in effect with respect to the Guaranteed Debt or any part thereof and that the Subsidiary Guarantor's liability hereunder may be enforced regardless of the existence, validity, enforcement or non-enforcement of any such other guaranties or other obligations or any provision of any applicable law or regulation purporting to prohibit payment by the Borrower of the Guaranteed Debt in the manner agreed upon between the Agent, the Lenders and the Borrower.

15.4. Credit may be granted or continued from time to time by the Agent and/or any Lender to the Borrower without notice to or authorization from the Subsidiary Guarantor regardless of the Borrower's financial or other condition at the time of any such grant or continuation. Neither the Agent nor any Lender shall have any obligation to disclose or discuss with the Subsidiary Guarantor its assessment of the financial condition of the Borrower.

15.5. Until the irrevocable payment in full of the Obligations and termination of all commitments which could give rise to any Obligation, the Subsidiary Guarantor shall not have any right of subrogation with respect to the Guaranteed Debt and hereby waives any right to enforce any remedy which the Agent and/or any Lender now has or may hereafter have against the Borrower, any endorser or any other guarantor of all or any part of the Guaranteed Debt, and the Borrower hereby waives any benefit of, and any right to participate in, any security or collateral given to the Agent and/or the Lenders to secure payment of the Guaranteed Debt or any part thereof or any other liability of the Borrower to the Agent and/or the Lenders.

5.6. The Subsidiary Guarantor authorizes the Agent and the Lenders to take any action or exercise any remedy with respect to any collateral from time to time securing the Guaranteed Debt, which the Agent and Lenders in their sole discretion (but subject, as applicable, to the terms of this Agreement and of any documentation pursuant to which a Lien in such collateral is granted) shall determine, without notice to the Subsidiary Borrower. Notwithstanding any reference herein to any collateral securing any of the Guaranteed Debt, it is acknowledged that, on the date hereof, neither the Borrower nor any of its Subsidiaries has granted, or has any obligation

to grant, any security interest in or other lien on any of its property as security for the Guaranteed Debt.

15.7. In the event the Agent and/or the Lenders in their sole discretion elects to give notice of any action with respect to any collateral securing the Guaranteed Debt or any part thereof, ten (10) days' written notice mailed to the Subsidiary Guarantor by ordinary mail at the address shown hereon shall be deemed reasonable notice of any matters contained in such notice. The Subsidiary Borrower consents and agrees that neither the Agent nor any Lender shall be under any obligation to marshall any assets in favor of the Subsidiary Borrower or against or in payment of any or all of the Guaranteed Debt.

15.8. In the event that acceleration of the time for payment of any of the Guaranteed Debt is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, or otherwise, all such amounts shall nonetheless be payable by the Subsidiary Guarantor forthwith upon demand by the Agent. The Subsidiary Guarantor further agrees that, to the extent that the Borrower makes a payment or payments to the Agent or any Lender on the Guaranteed Debt, or the Agent or a Lender receive any proceeds of collateral securing the Guaranteed Debt, which payment or receipt of proceeds or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be returned or repaid to the Borrower, its estate, trustee, receiver, debtor in possession or any other party, including, without limitation, the Subsidiary Borrower, under any insolvency or bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment, return or repayment, the obligation or part thereof which has been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date when such initial payment, reduction or satisfaction occurred.

15.9. No delay on the part of the Agent or any Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, and no single or partial exercise by the Agent or any Lender of any right, power or remedy shall preclude any further exercise thereof; nor shall any amendment, supplement, modification or waiver of any of the terms or provisions of this Guaranty be binding upon the Agent or any Lender, except as expressly set forth in a writing duly signed and delivered by the Agent and the Lenders. The failure by the Agent or any Lender at any time or times hereafter to require strict performance by the Subsidiary Borrower or the Borrower of any of the provisions, warranties, terms and conditions contained in any promissory note, security agreement, agreement, guaranty, instrument or document now or at any time or times hereafter executed pursuant to the terms of, or in connection with, this Agreement by the Subsidiary Borrower or the Borrower and delivered to the Agent or any Lender shall not waive, affect or diminish any right of the Agent or any Lender at any time or times hereafter to demand strict performance thereof, and such right shall not be deemed to have been waived by any act or knowledge of the Agent or any Lender, its agents, officers or employees, unless such waiver is contained in an instrument in writing duly signed and delivered by the Agent or such Lender. No waiver by the Agent or any Lender of any default shall operate as a waiver of any other default or the same default on a future occasion, and no action by the Agent or any Lender permitted hereunder shall in any way affect or impair the Agent or such Lender's rights or powers, or the obligations of the Subsidiary Guarantor under this Guaranty. Any determination by a court of competent jurisdiction of the amount of any Guaranteed Debt owing by the Borrower or the Subsidiary Borrower to the Agent and the Lenders shall be

conclusive and binding on the Subsidiary Guarantor irrespective of whether the Subsidiary Borrower was a party to the suit or action in which such determination was made.

15.10. Subject to the provisions of Section 15.8, this guaranty shall
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continue in effect until this Agreement has terminated, the Guaranteed Debt has been paid in full and the other conditions of this guaranty have been satisfied.

ARTICLE XVI

SALE OF SUBSIDIARY BORROWER

16.1. In addition to the transactions permitted by Section 6.12(d), the
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Borrower may at any time sell, transfer or otherwise dispose of 100% of the capital stock of the Subsidiary Borrower in a single transaction so long as (a) no Loans attributable to the Subsidiary Borrower are outstanding on the date of the consummation of such transaction, (b) no Default or Unmatured Default exists, (c) the Borrower shall have delivered written notice to the Lenders at least 15 days prior to the date of the consummation of such transaction and (d) the Subsidiary Borrower shall have delivered a certificate (in form and substance acceptable to the Agent and executed by an Authorized Officer) to the Agent on, and dated, the date of the consummation of such transaction (i) stating that it relinquishes its rights to request Loans under this Agreement and (ii) confirming that the Subsidiary Borrower has paid in full all amounts then due and owing to any Lender under Sections 3.5 or 9.7 and under Section 15
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to the extent the Borrower incurred Obligations of the type described in Sections 3.5 or 9.7 on or prior the date of the consummation of such transaction. Upon the delivery of such certificate, the Subsidiary Borrower shall cease to be one of the Borrowers hereunder and shall have no rights, duties or obligations under this Agreement and references to the Subsidiary Borrower as such in this Agreement shall be deemed to be deleted.

[signature pages to follow]

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire
Attn: _____

Fax No.: _____

Tel. No.: _____

FUND AMERICAN ENTERPRISES, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire
Attn: _____

Fax No.: _____

Tel. No.: _____

Commitments

Commitment	$ _____	THE FIRST NATIONAL BANK OF CHICAGO, Individually and as Agent
		By: _____
		Print Name: _____
		Title: _____
		Address: 153 West 51st Street New York, NY 10019 Attn: Samuel W. Bridges First Vice President
		Fax No.: (212) 373-1393 Tel. No.: (212) 373-1142
	$ _____	[OTHER LENDERS]
	_____	
Aggregate Initial Commitment	$ ==========	

$50,000,000

CREDIT AGREEMENT

AMONG

WHITE MOUNTAINS HOLDINGS, INC.,

as Borrower,

THE LENDERS NAMED HEREIN

and

THE FIRST NATIONAL BANK OF CHICAGO,

as Agent

DATED AS OF

November 26, 1996

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EXHIBITS

Exhibit A (Article 1)	Note
Exhibit B (Section 6.1(g))	Compliance Certificate
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Schedule 5.3	-	Approvals and Consents
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Schedule 5.17	-	Insurance Licenses
Schedule 5.18	-	Material Restrictions
Schedule 6.15	-	Liens

CREDIT AGREEMENT

This Credit Agreement, dated as of November 26, 1996, is among WHITE MOUNTAINS HOLDINGS, INC., a New Hampshire corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrower has requested the Lenders to make financial accommodations to it in the aggregate principal amount of $50,000,000, the proceeds of which the Borrower will use for the working capital and general corporate needs of the Borrower and its Subsidiaries and

B. The Lenders are willing to extend such financial accommodations on the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

As used in this Agreement:

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

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

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

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

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders hereunder. The initial Aggregate Commitment is $50,000,000.

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

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

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

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing annual statutory financial statements and shall contain the type of information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Eurodollar Margin" has the meaning ascribed to it, and shall be determined in accordance with Schedule 1.

"Applicable Facility Fee Margin" has the meaning ascribed to it, and shall be determined in accordance with, Schedule 1.

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

"Asset Disposition" means any sale, transfer or other disposition (outside the ordinary course of business) of any material asset of the Borrower in a single transaction or in a series of related transactions (other than the sale of Margin Stock or the sale of a Money Market Investment the proceeds of which are utilized to pay dividends permitted by Section 6.10).

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

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

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

"Borrower" means White Mountains Holdings, Inc., a New Hampshire corporation, and its successors and assigns.

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

"Borrowing Notice" is defined in Section 2.8.

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

dollars are carried on in the London interbank market, and (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

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

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

"Change" is defined in Section 3.2.

"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than Parent, any Wholly-Owned Subsidiary of Parent, John J. Byrne or any Plan or any Benefit Plan of Parent, the Borrower or any of their Subsidiaries), including without limitation any acquisition effected by means of any transaction contemplated by Section 6.12,
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of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 20% or more of the outstanding shares of voting stock of the Borrower; or (b) during any period of 12 consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "Continuing Directors") who
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(i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was

approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower; or (c) during any period of 12 consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower on the first day of each such period to constitute a majority of the Senior Management of the Borrower.

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

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

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

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

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

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

"Conversion/Continuation Notice" is defined in Section 2.9.

"Corporate Base Rate" means a rate per annum equal to the corporate base rate of interest publicly announced by First Chicago from time to time, changing when and as said corporate base rate changes. The Corporate Base Rate is a reference rate and does not necessarily represent the lowest or best rate

of interest actually charged to any customer. First Chicago may make commercial loans or other loans at rates of interest at, above or below the Corporate Base Rate.

"Default" means an event described in Article VII.

"Environmental Laws" is defined in Section 5.19.

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

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

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

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

"Facility Fee" is defined in Section 2.4(a).

"Facility Termination Date" means November 26, 2001.

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

"Finance Assets" means each of the following: (a) investments in securities issued or fully guaranteed by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), (b) investments in equity securities traded on the New York Stock Exchange, the American Stock Exchange or NASDAQ and securities convertible in to such equity securities, (c) investments in Investment Grade Obligations, (d) investments in money market funds substantially all the assets of which are comprised of securities of the types described in clauses (a) through (c) above, (e) investments in Wholly-Owned Subsidiaries of the Borrower, (f) investments in Main Street America Holdings, Inc., Folksamerica Holding Company Inc. and Financial Security Assurance Holdings Ltd. and (g) so long as put rights with respect thereto are available to the Borrower, investments in

US West Preferred Stock; provided, that Finance Assets shall not include any securities pledged to secure any obligations (contingent or otherwise).

"Finance Assets Ratio" means, at any time, the ratio of (a) Finance Assets of the Borrower at such time to (b) the excess of (i) Funded Indebtedness of the Borrower at such time over (ii) cash and Money Market Investments of the Borrower at such time. For purposes of this definition, Finance Assets shall be valued, without duplication, at fair market value to the extent there exists a readily ascertainable fair market value for such Finance Asset or, in the event there exists no such readily ascertainable fair market value for such Finance Assets, at book value, as calculated in accordance with Agreement Accounting Principles.

"Financial Statements" is defined in Section 5.5.

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

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

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

"Fixed Charges Coverage Ratio" means, as of the end of any Fiscal Quarter, the ratio of (a) the sum, without duplication, of, (i) cash and Money Market Investments of the Borrower and Valley as of the end of such Fiscal Quarter, plus (ii) cash dividends and interest payments received by the Borrower and Valley during the four Fiscal Quarters then ended from Persons which are not Wholly-Owned Subsidiaries of the Borrower or Valley at the time such payments were made, plus (iii) an amount equal to the maximum amount of dividends and intercompany fees available to be paid to the Borrower and Valley without approval of any Governmental Authority by each Wholly- Owned Subsidiary of the Borrower and Valley as of the end of such Fiscal Quarter in the case of a Wholly-Owned Subsidiary of the Borrower or Valley other than a Wholly-Owned Insurance Subsidiary and during the succeeding four Fiscal Quarters in the case of Wholly-Owned Insurance Subsidiaries of the Borrower or Valley to (b) Fixed Charges.

"Fixed Charges" means, with respect to the Borrower and Valley, as of the end of any Fiscal Quarter, the sum, without duplication, of (a) interest expenses payable on outstanding Indebtedness (determined by adjusting the principal amount of such Indebtedness for scheduled amortization payments as reflected in clauses (c), (d) and (e) below and assuming that the applicable interest rate in effect as of the date of determination would remain constant during the succeeding four Fiscal Quarter period), (b) dividends payable on preferred stock, (c) Indebtedness payable pursuant to the scheduled amortization of such Indebtedness, (d) Loans payable pursuant to Section 2.1(b) (determined
by assuming that the principal amount of Loans as of the date of determination would remain constant during the succeeding four Fiscal Quarter period) as a result of reductions in the Aggregate Commitment occurring in any such period pursuant to Section 2.7(a) (other than on November 26, 2001), and (e) Loans (as defined in the Valley Credit Agreement) payable pursuant to Section 2.1(b) of the Valley Credit Agreement (determined by assuming that the outstanding

principal amount of such Loans as of the date of determination would remain constant during the succeeding four Fiscal Quarter period) as a result of reductions in the Aggregate Commitment (as defined in the Valley Credit Agreement) occurring in any such period pursuant to Section 2.7(a) of the Valley Credit Agreement (other than on November 26, 2001), in each case for the period of four Fiscal Quarters immediately following the date of determination.

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

"FSA Transfer" means the transfer by the Borrower to Parent and/or Fund American Enterprises, Inc. of the Borrower's equity interest in Financial Security Assurance Holdings Ltd., provided that the aggregate dollar amount of the fair market value of the equity interests so transferred shall not exceed $25,000,000.

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

"Hazardous Materials" is defined in Section 5.19.

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

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

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

the next succeeding Business Day; provided, however, that if said next
succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, partnership interests, notes, debentures or other securities of any other Person made by such Person.

"Investment Grade Obligations" means, as of any date, investments having an NAIC investment rating of 1 or 2, or a Standard & Poor's rating within the range of ratings from AAA to BBB-, or a Moody's rating within the range of ratings from Aaa to Baa3.

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

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

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

"Leverage Ratio" means, at any time, the ratio of (a) the consolidated Funded Indebtedness of the Borrower and its Subsidiaries at such time to (b) the sum of the consolidated Funded Indebtedness of the Borrower and its Subsidiaries plus the Borrower's Net Worth at such time, in all cases determined in
accordance with Agreement Accounting Principles.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance business.

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

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

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

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

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

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

acquisition thereof; (b) certificates of deposit issued by any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least $500,000,000, maturing not more than 90 days from the date of acquisition thereof; (c) commercial paper rated A-1 or better P-1 or better by Standard & Poor's Ratings Group or Moody's Investors Services, Inc., respectively, maturing not more than 90 days from the date of acquisition thereof; and (d) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a dollar weighted average maturity of not more than one year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

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

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

"Net Available Proceeds" means (a) with respect to any Asset Disposition, the sum of cash or readily marketable cash equivalents received (including by way of a cash generating sale or discounting of a note or account receivable) therefrom, whether at the time of such disposition or subsequent thereto, in excess in the case of any Asset Disposition of any amounts derived from such sale used (and permitted by this Agreement to be used) within five Business Days after such sale to make a Permitted Reinvestment, or (b) with respect to any sale or issuance of equity securities of the Borrower, cash or readily marketable cash equivalents received therefrom, whether at the time of such sale or issuance or subsequent thereto, net, in either case, of all legal, title and recording tax

expenses, commissions and other fees and all costs and expenses incurred, including, without limitation, incremental income taxes resulting from such transaction.

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

"Non-Excluded Taxes" is defined in Section 2.18(a).

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

"Notice of Assignment" is defined in Section 12.3.2.

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

"Parent" means Fund America Enterprises Holdings, Inc., a Delaware corporation.

"Participants" is defined in Section 12.2.1.

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

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

"Permitted Reinvestment" means an Investment in a Finance Asset or any other Investment approved by the Required Lenders.

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

instrumentality thereof.

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

"Proceeding" is defined in Section 5.19.

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

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

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

"Purchasers" is defined in Section 12.3.1.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing quarterly statutory financial statements and shall contain the type of financial information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

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

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

"Regulation G" means Regulation G of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by Persons other than

banks, brokers and dealers for the purpose of purchasing or carrying margin stocks applicable to such Persons.

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

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

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

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 et seq.
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"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event; provided, that a failure to meet the minimum
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funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

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

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

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

"SAP" means, with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the insurance commissioner (or other similar authority) in the jurisdiction of such Person for the preparation of annual statements and other financial reports by insurance companies of the same type as such Person in effect from time to time; provided, however, that if
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any changes in statutory accounting practices from those in effect on the date of this Agreement are

adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of statutory accounting practices in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to Section 5.5 (g) and (h) hereof.

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

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

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

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

"Statutory Surplus" means, with respect to any Insurance Subsidiary at any time, the statutory capital and surplus of such Insurance Subsidiary at such time, as determined in accordance with SAP ("Liabilities, Surplus and Other Funds" statement, page 3, line 25 of the Annual Statement for the 1995 Fiscal Year entitled "Surplus as Regards Policyholders").

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

"Termination Event" means, with respect to a Plan which is subject to Title IV of ERISA, (a) a Reportable Event, (b) the withdrawal of the Borrower or any other member of the Controlled Group from such Plan during a plan year in which the Borrower or any other member of the

Controlled Group was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA, (c) the termination of such Plan, the filing of a notice of intent to terminate such Plan or the treatment of an amendment of such Plan as a termination under Section 4041 of ERISA, (d) the institution by the PBGC of proceedings to terminate such Plan or (e) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or appointment of a trustee to administer, such Plan.

"Transferee" is defined in Section 12.4.

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

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

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

"US West Preferred Stock" means the US West Series B cumulative redeemable preferred stock $1.00 par value per share purchased by Parent pursuant to and subject to the terms of the Securities Purchase Agreement dated April 10, 1994 among Parent, US West, Inc., US West Capital Corporation and Financial Security Assurance Holdings, Ltd. (as such agreement may be amended from time to time).

"Valley Credit Agreement" means the Credit Agreement, dated as of November 26, 1996, among Valley, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time.

"Valley" means Valley Group, Inc., an Oregon corporation.

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

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. References herein to particular columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding column, line or section of such Person's Quarterly Statement, or if no such corresponding column, line or section exists or if any report form changes, then to the corresponding item referenced thereby. In

the event that the columns, lines or sections of the Annual Statement referenced herein are changed or renumbered, all such references shall be deemed references to such column, line or section as so renumbered or changed. Each accounting term used herein which is not otherwise defined herein shall be defined in accordance with Agreement Accounting Principles or SAP, as applicable, unless otherwise specified.

ARTICLE II

THE CREDITS

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

(b) The Borrower hereby agrees that if at any time, as a result of reductions in the Aggregate Commitment pursuant to Section 2.7 or otherwise, the aggregate balance of the Loans exceeds the Aggregate Commitment, the Borrower shall repay immediately its then outstanding Loans in such amount as may be necessary to eliminate such excess.

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

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

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

2.3. Types of Advances. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with Sections 2.8 and 2.9.

2.4. Facility Fee; Reductions in Aggregate Commitment. (a) The Borrower agrees to pay to the Agent for the account of each Lender a facility fee ("Facility Fee") in an amount equal to the Applicable Facility Fee Margin per annum times the daily average Commitment of such

Lender from the date hereof to and including the Facility Termination Date, payable on each Payment Date hereafter and on the Facility Termination Date. All accrued Facility Fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Loans hereunder.

(b) The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in a minimum aggregate amount of $2,000,000 upon at least three (3) Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction; provided, however, that the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances. Such reductions shall be in addition to reductions occurring pursuant to Section 2.7(b). Voluntary commitment reductions pursuant to this Section 2.4(b) shall be applied to the mandatory commitment reductions required to be made pursuant to Section 2.7(a) in direct order of maturity.

2.5. Minimum Amount of Each Advance. Each Advance shall be in the minimum amount of $2,000,000 (and in integral multiples of $500,000 if in excess thereof); provided, however, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

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

2.7. Mandatory Commitment Reductions. (a) The Aggregate Commitment shall be automatically and permanently reduced by the following amounts (or such lesser amount as a result of reductions pursuant to Section 2.7(c)) on the following dates:

Date	Reduction Amount
December 31, 1998	$3,000,000
December 31, 1999	$3,000,000
December 31, 2000	$4,000,000
November 26, 2001	$40,000,000

(b) The Aggregate Commitment shall also be automatically and permanently reduced in the amounts and at the times set forth below:

(i) within 5 Business Days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 100% of the aggregate Net Available Proceeds in excess of $1,000,000 realized upon all Asset Dispositions in any Fiscal Year of the Borrower; and

(ii) within 5 Business Days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 85% of the Net Available Proceeds realized upon the sale by the Borrower of any equity securities issued by it after the date of this Agreement in excess of an aggregate amount of $1,000,000 (other than a sale of common stock of the Borrower to Parent).

(c) Mandatory commitment reductions under Section 2.7(b) shall be cumulative and in addition to reductions occurring pursuant to Section 2.4(b). Any mandatory commitment reductions under Section 2.7(b) shall be applied to the mandatory commitment reductions required to be made pursuant to Section 2.7(a) in the inverse order of maturity.

(d) Any reduction in the Aggregate Commitment pursuant to this Section 2.7 or otherwise shall ratably reduce the Commitment of each Lender.

2.8. Method of Selecting Types and Interest Periods for New Advances. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; provided, however, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

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

(b) the aggregate amount of such Advance;

(c) the Type of Advance selected;

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

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

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

2.9. Conversion and Continuation of Outstanding Advances. ABR Advances shall continue as ABR Advances unless and until such ABR Advances are converted into Eurodollar Advances. Each Eurodollar Advance shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into an ABR Advance unless the Borrower shall have given the Agent a

Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for the same or another Interest Period. Subject to the terms of Section 2.5, the Borrower may elect from time to time to convert all or any part of an Advance of any Type into any other Type or Types of Advances; provided, however, that any conversion of any Eurodollar Advance shall be made on, and only on, the last day of the Interest Period applicable thereto. The Borrower shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of an ABR Advance or continuation of a Eurodollar Advance not later than 10:00 a.m. (Chicago time) on the conversion date, in the case of a conversion into an ABR Advance, or at least three (3) Business Days, in the case of a conversion into or continuation of a Eurodollar Advance, prior to the date of the requested conversion or continuation, specifying:

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

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

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

2.10. Changes in Interest Rate, etc. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined as applicable to such Eurodollar Advance plus the Applicable Eurodollar Margin. No Interest Period may end after the Facility Termination Date. The Borrower shall select Interest Periods so that it is not necessary to repay any portion of a Eurodollar Advance prior to the last day of the applicable Interest Period in order to make a mandatory repayment required pursuant to Section 2.7(a).

2.11. Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.8 or 2.9, no Advance may be made as, converted into or continued as a Eurodollar Advance (except with the consent of the Agent and the Required Lenders) when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that each Eurodollar Advance and ABR Advance shall bear interest (for the remainder of the applicable Interest Period in the case of Eurodollar Advances) at a rate per annum equal to the rate otherwise applicable plus two percent

(2%) per annum; provided, however, that such increased rate shall automatically and without action of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in Section 7.6 or 7.7.

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

interest and fees as it becomes due hereunder.

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

2.14. Interest Payment Dates; Interest and Fee Basis. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.15. Notification of Advances, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

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

2.17. Non-Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrower has not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to the Federal Funds Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrower shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (a) in the case of payment by a Lender, the Federal Funds Effective Rate for such day, or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

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

required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Agreement; provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this Section 2.18. Whenever any Non-Excluded Taxes are payable by the Borrower, as promptly as practicable thereafter the Borrower shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required

documentary evidence, the Borrower shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this Section 2.18 shall survive the termination of this Agreement and the payment of all other amounts payable hereunder.

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

2.19. Agent's Fees. The Borrower shall pay to the Agent those fees, in addition to the Facility Fees referenced in Section 2.4(a), in the amounts and at the times separately agreed to between the Agent and the Borrower.

ARTICLE III

CHANGE IN CIRCUMSTANCES

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

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding taxation of the overall net income of any Lender or applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending Installation is incorporated or has its principal

place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

(b) imposes or increases or deems applicable any reserve,

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

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

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

3.2. Changes in Capital Adequacy Regulations. If a Lender determines
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the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (a) any change after the date
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of this Agreement in the Risk-Based Capital Guidelines, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means
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(a) the risk-based capital guidelines in effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

3.3. Availability of Types of Advances. If any Lender determines that
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maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (a) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available, or (b) the interest rate applicable to a Eurodollar Advance does not accurately or fairly

reflect the cost of making or maintaining such Advance, then the Agent shall suspend the availability of the Eurodollar Advances until such circumstance no longer exists and require any Eurodollar Advances to be repaid.

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

3.5. Lender Statements; Survival of Indemnity. To the extent reasonably
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possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to such Lender under Sections 2.18, 3.1 and 3.2 or to avoid the unavailability of a
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Type of Advance under Section 3.3, so long as such designation is not
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disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under Section 3.1, 3.2 or 3.4. Such written statement shall set forth in
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reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advance shall be calculated as though each Lender funded its Eurodollar Advances through the purchase of a deposit of the type and

maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under Sections 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. Initial Loans. The Lenders shall not be required to make the initial Advance hereunder unless the Borrower has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) Charter Documents; Good Standing Certificates. Copies of the certificate of incorporation of the Borrower, together with all amendments thereto, both certified by the appropriate governmental officer in its jurisdiction of incorporation, together with a good standing certificate issued by the Secretary of State of the jurisdiction of its incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) By-Laws and Resolutions. Copies, certified by the Secretary or Assistant Secretary of the Borrower, of its by-laws and of its Board of Directors' resolutions

authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party.

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

(d) Officer's Certificate. A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the initial Borrowing Date (both before and after giving effect to the consummation of the transactions contemplated hereby and the making of the Loans hereunder): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of the Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the Borrower has obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and warranties set forth in Article V of this Agreement is true and correct on and as of the initial Borrowing Date; and (v) since December 31, 1995, no event or change has occurred that has caused or evidences a Material Adverse Effect.

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

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

(g) Loan Documents. Executed originals of this Agreement and each of the Loan Documents, which shall be in full force and effect, together with all schedules, exhibits, certificates, instruments,

opinions, documents and financial statements required to be delivered pursuant hereto and thereto.

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

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

(j) Regulatory Matters. Receipt of any required regulatory approvals from any Governmental Authority.

(k) Investment Policy Guidelines. Certified copy of the investment policy guidelines adopted by the finance committee of the board of directors of the Borrower.

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

4.2. Each Future Advance. The Lenders shall not be required to make any Advance unless on the a pplicable Borrowing Date:

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

(b) The representations and warranties contained in Article V are true and correct as of such Borrowing Date;

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

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

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

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1. Corporate Existence and Standing. Each of the Borrower and each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business

is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

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

5.3. Compliance with Laws and Contracts. The Borrower and its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by the Borrower of the Loan Documents, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations G, T, U and X), order, writ, judgment, injunction, decree or award binding on the Borrower or any Subsidiary or the Borrower's or any Subsidiary's charter, articles or certificate of incorporation or by-laws, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which the Borrower or any Subsidiary is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the Loan Documents) in, of or on the property of the Borrower or any Subsidiary pursuant to the terms of any such indenture, instrument or agreement, or (c) require any consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on Schedule 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. Governmental Consents. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents or the application of the proceeds of the Loans or any other transaction contemplated in the Loan Documents. Neither the Borrower nor any Subsidiary is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to the Borrower or such Subsidiary, in each case the

consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. Financial Statements. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1995 unaudited consolidated financial statements of the Borrower and its Subsidiaries, (b) the unaudited consolidated financial statements of the Borrower and its Subsidiaries through September 30, 1996, (c) the December 31, 1995 audited financial statements of Charter Group, Inc. and its Subsidiaries, (d) the December 31, 1995 audited financial statements of Valley Insurance Co., (e) the December 31, 1995 audited balance sheet of Valley and its Subsidiaries, (f) the September 30, 1996 unaudited balance sheets and income statements of Parent, the Borrower, Valley (excluding White Mountains Insurance Company related transactions), While Mountains Insurance Company (as if no business was reinsured through Valley Insurance Company), Financial Security Assurance Holdings Ltd., Folksamerica Holding Company, Inc. and Main Street America Holdings, Inc.; (g) the December 31, 1995 Annual Statement of each Insurance Subsidiary and (h) the September 30, 1996 Quarterly Statement of each Insurance Subsidiary (collectively, the "Financial Statements"). Each of the Financial Statements (other than as described in clause (f)) was prepared in accordance with Agreement Accounting Principles or SAP, as applicable, and fairly presents the consolidated financial condition and operations of the Person which is the subject of such Financial Statements at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. Material Adverse Change. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries has occurred since December 31, 1995.

5.7. Taxes. Neither the Borrower nor any of its Subsidiaries is required to file United States federal, foreign, state or local tax returns. As of the date hereof, the United States income tax returns of Parent on a consolidated basis have been audited by the Internal Revenue Service through its

fiscal period ending October 23, 1985, and all tax periods beginning on or after October 24, 1985 are currently being audited. No tax liens have been filed and no claims are being asserted with respect to any taxes of Parent which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of Parent in respect of any taxes or other governmental charges of Parent are in accordance with Agreement Accounting Principles.

5.8. Litigation and Contingent Obligations. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting the Borrower or any Subsidiary or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. Neither the Borrower nor any Subsidiary has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on Schedule 5.16 or disclosed in the financial statements required to be delivered under Section 6.1(a) and (b) and as permitted under this Agreement.

5.9. Capitalization. Schedule 5.9 hereto contains (a) an accurate description of the Borrower's capitalization as of September 30, 1996 (after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date) and (b) an accurate list of all of the existing Subsidiaries as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of the Borrower and of each Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens. No authorized but unissued or treasury shares of capital stock of the Borrower or any Subsidiary are subject to any option, warrant, right to call or commitment of any kind or character. Except as set forth on Schedule 5.9 or pursuant to management incentive plans implemented after the date of this Agreement, neither the Borrower nor any Subsidiary has any outstanding stock or securities convertible into or exchangeable for any shares of its capital stock, or any right issued to any Person (either preemptive or other) to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to any of its capital stock or any stock or securities convertible into or exchangeable for any of its capital stock other than as expressly set forth in the certificate or articles of incorporation of the Borrower or such Subsidiary. Neither the Borrower nor any Subsidiary is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital stock or any convertible securities, rights or options of the type described in the preceding sentence except as otherwise set forth on Schedule 5.9 or pursuant to management incentive plans implemented after the date of this Agreement.

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

5.11. Defaults. No Default or Unmatured Default has occurred and is

continuing.

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

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

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

5.15. Solvency. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by the Borrower or its Subsidiaries with respect to the transactions contemplated by the Loan Documents and the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date, each of the Borrower and each Subsidiary is Solvent.

5.16. Indebtedness. Attached hereto as Schedule 5.16 is a complete and correct list of all Indebtedness of the Borrower and its Subsidiaries outstanding on the date of this Agreement (other than Indebtedness in a principal amount not exceeding $500,000 for a single item of Indebtedness and $2,000,000 in the aggregate for all such Indebtedness listed, it being understood and agreed that any such Indebtedness shall be permitted to exist pursuant to Section 6.11(b) notwithstanding the absence thereof on Schedule 5.16), showing the aggregate principal amount which was outstanding on such date after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date.

5.17. Insurance Licenses. Schedule 5.17 hereto lists all of the jurisdictions in which any Insurance Subsidiary holds a License and is authorized to and does transact insurance business as of the date of this Agreement. No such License, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To the Borrower's knowledge, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.18. Material Agreements. Except as set forth in Schedule 5.18 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes conditions upon the ability of any Subsidiary to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to the Borrower, (c) repay loans or advances from Borrower or (d) grant Liens to the Agent to secure the Obligations. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party, which default could reasonably be expected to have a

Material Adverse Effect.

5.19. Environmental Laws. There are no claims, investigations, litigation, administrative proceedings, notices, requests for information (each a "Proceeding"), whether pending or threatened, or judgments or orders asserting violations of applicable federal, state and local environmental, health and safety statutes, regulations, ordinances, codes, rules, orders, decrees, directives and standards ("Environmental Laws") or relating to any toxic or hazardous waste, substance or chemical or any pollutant, contaminant, chemical or other substance defined or regulated pursuant to any Environmental Law, including, without limitation, asbestos, petroleum, crude oil or any fraction thereof ("Hazardous Materials") asserted against the Borrower or any of its Subsidiaries, other than in connection with an insurance policy issued in the ordinary course of business to any Person (other than Parent or any Subsidiary of Parent), which, in any case, could reasonably be expected to have a Material Adverse Effect. As of the date hereof, the Borrower and its Subsidiaries do not have liabilities exceeding $100,000 in the aggregate for all of them with respect to compliance with applicable Environmental Laws or related to the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials, and no facts or circumstances exist which could give rise to such liabilities with respect to compliance with applicable Environmental Laws and the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials.

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

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

ARTICLE VI

COVENANTS

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

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

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows accompanied by a certificate of said accountants that, in the course of the examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

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

(c) (i) Upon the earlier of (A) fifteen (15) days after the regulatory filing date or (B) seventy-five (75) days after the close of each fiscal year of each Insurance Subsidiary, copies of the unaudited

Annual Statement of such Insurance Subsidiary, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP and (ii) no later than each June 15, copies of financial statements prepared in accordance with SAP, or generally accepted accounting principles with a reconciliation to SAP, and certified by independent certified public accountants of recognized national standing.

(d) Upon the earlier of (i) ten (10) days after the regulatory filing date or (ii) sixty (60) days after the close of each of the first three (3) fiscal quarters of each fiscal year of each Insurance Subsidiary, copies of the unaudited Quarterly Statement of each of the Insurance Subsidiaries, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP.

(e) Promptly and in any event within ten (10) days after (i) learning thereof, notification of any changes after the date of this Agreement in the rating given by A.M. Best & Co. in respect of any Insurance Subsidiary and (ii) receipt thereof, copies of any ratings analysis by A.M. Best & Co. relating to any Insurance Subsidiary.

(f) Copies of any outside actuarial reports prepared with respect to any valuation or appraisal of any Insurance Subsidiary, promptly after the receipt thereof.

(g) Together with the financial statements required by clauses (a) and (b) above, a compliance certificate in substantially
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the form of Exhibit B hereto signed by the Borrower's chief financial
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officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

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

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

(j) As soon as possible and in any event within 10 days after receipt by the Borrower, a copy of (i) any notice, claim, complaint or order to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into the environment, and (ii) any notice, complaint or citation alleging any violation of any Environmental Law or Environmental Permit by the Borrower or any of its Subsidiaries. Within ten days of the Borrower or any Subsidiary having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, the Borrower shall provide the Agent with written notice thereof.

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

(l) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission, the National Association of Securities Dealers, any securities exchange, the NAIC or any insurance commission or department or analogous Governmental Authority (including any filing made by the Borrower or any Subsidiary pursuant to any insurance holding company act or related rules or regulations), but excluding routine or non-material filings with the NAIC, any insurance commissioner or department or analogous Governmental Authority.

(m) Promptly and in any event within ten (10) days after learning thereof, notification of (i) any material tax assessment, demand, notice of proposed deficiency or notice of deficiency received by Parent or any other Consolidated Person or (ii) the filing of any tax Lien or commencement of any judicial proceeding by or against any

such Consolidated Person, if any such assessment, demand, notice, Lien or judicial proceeding relates to tax liabilities in excess of ten percent (10%) of the net worth (determined according to generally accepted accounting standards and without reduction for any reserve for such liabilities) of the Borrower and its Subsidiaries taken as a whole.

(n) Promptly after available, any management letter prepared by the accountants conducting the audit of the financial statements delivered pursuant to Section 6.1(a).

(o) Promptly after reviewed by the board of directors of the Borrower, a copy of the Borrower's investment policy compliance report.

(p) Such other information (including, without limitation, the annual Best's Advance Report Service report prepared with respect to each Insurance Subsidiary rated by A.M. Best & Co. and non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. Use of Proceeds. The Borrower will, and will cause each Subsidiary to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including but not limited to the purchase of Finance Assets. The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances in any manner which would violate, or result in the violation of, Regulation G, Regulation T, Regulation U or Regulation X or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. Notice of Default. The Borrower will give prompt notice in writing to the Lenders of the occurrence of (a) any Default or Unmatured Default, (b) of any other event or development, financial or other, relating specifically to the Borrower or any of its Subsidiaries (and not of a general economic or political nature) which could reasonably be expected to have a Material Adverse Effect, (c) receipt by the Borrower or any Subsidiary of any notice from any Governmental Authority of the expiration without renewal, revocation or suspension of, or the institution of any proceedings to revoke or suspend, any License now or hereafter held by any Insurance Subsidiary which is required to conduct insurance business in compliance with all applicable laws and regulations and the expiration, revocation or suspension of which could reasonably be expected to have a Material Adverse Effect, (d) receipt by the Borrower or any Subsidiary of any notice from any Governmental Authority of the institution of any disciplinary proceedings against or in respect of any Insurance Subsidiary, or the issuance of any order, the taking of any action or any request for an extraordinary audit for cause by any Governmental Authority which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (e) any material judicial or administrative order of which the Borrower or any Subsidiary is aware limiting or controlling the insurance business of any Insurance Subsidiary (and not the insurance industry generally) which has

been issued or adopted or (f) the commencement of any litigation of which the Borrower or any Subsidiary is aware which could reasonably be expected to create a Material Adverse Effect.

6.4. Conduct of Business. The Borrower will, and will cause each Subsidiary to, (a) carry on and conduct its business in substantially the same manner as it is presently conducted, (b) not conduct any significant business except for financial services, (c) do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except where the failure to maintain such authority could not reasonably be expected to have a Material Adverse Effect and (d) do all things necessary to renew, extend and continue in effect all Licenses which may at any time and from time to time be necessary for any Insurance Subsidiary to operate its insurance business in compliance with all applicable laws and regulations except for any License the loss of which could not reasonably be expected to have a Material Adverse Effect; provided, that any Insurance Subsidiary may withdraw from one or more states (other than its state of domicile) as an admitted insurer if such withdrawal is determined by the Borrower's Board of Directors to be in the best interest of the Borrower and could not reasonably be expected to have a Material Adverse Effect.

6.5. Taxes. At any time on and after the date the Borrower or any of its Subsidiaries is required to do so, the Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in

good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with generally accepted accounting principles or SAP, as applicable.

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

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

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

6.9. Inspection. The Borrower will, and will cause each Subsidiary to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of

accounts and other financial records of the Borrower and each Subsidiary, and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. The Borrower will keep or cause to be kept, and cause each Subsidiary to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles or SAP, as applicable.

6.10. Dividends. The Borrower will not declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock) or redeem, repurchase or otherwise acquire or retire any of its capital stock or any options or other rights in respect thereof at any time outstanding, except that (so long as no Default or Unmatured Default exists before or after giving effect to the declaration or payment of such dividends or distributions or repurchase or redemption of such stock or other transaction, (a) the Borrower may make the FSA Transfer and (b) the Borrower may declare and pay dividends, and make distributions, on its common stock and repurchase and redeem and otherwise acquire or retire its common stock and any options or other rights thereof in an aggregate amount not to exceed (i) during the Borrower's 1997 Fiscal Year, 1% of the Borrower's Net Worth as of December 31, 1996, (ii) during the Borrower's 1998 Fiscal Year, 2% of the Borrower's Net Worth as of December 31, 1997, and (iii) during any Fiscal Year thereafter, 3% of the Borrower's Net Worth as of the end of the Fiscal Year preceding the Fiscal Year during which such transaction is consummated.

6.11. Indebtedness. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and described in Schedule 5.16 hereto and any renewals, extensions, refundings or refinancings of such Indebtedness; provided that the amount thereof is not increased and the maturity of principal thereof is not shortened (unless to a maturity occurring after the Facility Termination Date);

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

(d) Indebtedness permitted under the Valley Credit Agreement;

(e) Indebtedness secured by Liens permitted pursuant to Section 6.15(f); and

(f) other Indebtedness of the Borrower or any Subsidiary to

the extent not otherwise included in subparagraphs (a) through (e) of this Section 6.11 or in Section 6.14, in an aggregate amount outstanding at any one time not to exceed $5,000,000.

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

(a) a Wholly-Owned Subsidiary may merge with (i) the Borrower, (ii) any Wholly-Owned Subsidiary of the Borrower or (iii) any other Person so long as no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and the surviving entity of such merger is a Wholly-Owned Subsidiary of the Borrower;

(b) a Significant Subsidiary (other than Valley) may merge or consolidate with any Person so long as neither the Borrower nor any of its Subsidiaries shall hold any capital stock of such Significant Subsidiary after giving effect to such merger or consolidation; and

(c) the Borrower or Valley may merge into any Person so long as (i) the Borrower or Valley, as the case may be, is the surviving entity of such merger, (ii) no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and (iii) the covenants contained in Section 6.20 shall be complied with on a pro forma basis on the date of, and after giving effect to, such merger.

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

(a) Investments in existence on the date hereof;

(b) loans and advances to employees in the ordinary course of business and consistent with past practices;

(c) Investments made in Subsidiaries and in Main Street America Holdings, Inc., Folksamerica Holding Company Inc. and Financial Security Assurance Holdings Ltd.;

(d) Purchases of businesses or entities engaged in the insurance and/or insurance services business which do not constitute hostile takeovers; and

(e) other Investments, so long as any such Investment is materially consistent with the Borrower's investment policy guidelines as approved from time to time by the finance committee of the board of directors of the Borrower (a copy of the current version of such guidelines having been delivered to each Lender); provided that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders.

6.14. Contingent Obligations. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (a) the issuance of financial guarantees in the ordinary course of business, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course

of business and (d) the issuance of intercompany guarantees so long as the primary obligation is permitted under this Agreement.

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

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

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

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

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

(e) Liens existing on the date hereof and described in Schedule 6.15 hereto;

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

(g) Liens not otherwise permitted by the foregoing clauses (a) through (f) securing any Indebtedness of the Borrower, provided that the aggregate principal amount of Indebtedness secured by Liens permitted by this clause (g) shall not exceed $3,000,000 at any time.

6.16. Affiliates. The Borrower will not, and will not permit any Subsidiary to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliates (other than a Wholly-Owned Subsidiary), except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transactions and except for the FSA Transfer.

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

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

6.19. Inconsistent Agreements. The Borrower shall not, nor shall it permit any Subsidiary to, enter into any indenture, agreement, instrument or other arrangement which by its terms, (a) other than pursuant to the Valley Credit Agreement (as in effect on the date of this Agreement) or pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon, the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay dividends or make other

distributions on its capital stock, (ii) make loans or advances to the Borrower or (iii) repay loans or advances from the Borrower or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by the Borrower or any Subsidiary of any of its obligations under any Loan Document.

6.20. Financial Covenants. The Borrower shall (or, in the case of Section 6.20.5, shall cause its Insurance Subsidiaries to):

6.20.1. Minimum Net Worth. At all times after the date hereof, maintain a minimum Net Worth at least equal to the sum of (a) $190,676,640, minus (b) an amount equal to the aggregate reduction in Net Worth attributable to the FSA Transfer, plus (c) an amount equal to 85% of the cash and non-cash proceeds of any equity securities issued by the Borrower after September 30, 1996.

6.20.2. Leverage Ratio. At all times after the date hereof, maintain a Leverage Ratio of not greater than 25%.

6.20.3. Fixed Charges Coverage Ratio. As of the end of each Fiscal Quarter maintain a Fixed Charges Coverage Ratio of not less than 1.5:1.0

6.20.4. Finance Assets Ratio. At any time Loans are outstanding and the sum of cash and Money Market Investments of the Borrower is less than the aggregate outstanding principal amount of Funded Indebtedness of the Borrower at such time, maintain a Finance Assets Ratio of not less than 2.5:1.0.

6.20.5. Statutory Surplus. At all times, maintain Statutory Surplus for each Insurance Subsidiary in an amount not less than an amount equal to (a) 85% of the Statutory Surplus of each such Insurance Subsidiary on September 30, 1996, plus (b) 85% of all subsequent capital contributions to each such Insurance Subsidiary, less (c) in the event such Insurance Subsidiary dividends or otherwise distributes to its parent all the capital stock of a Wholly-Owned Insurance Subsidiary, 100% of the book value (calculated in accordance with SAP) of such Wholly-Owned Insurance Subsidiary at the time of such dividend or distribution.

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

6.22. ERISA Compliance.

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

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code in excess of $100,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of $100,000, whether or not waived, or permit any Unfunded Liability to exceed $100,000;

(c) permit the occurrence of any Termination Event which could result in a liability to the Borrower or any other member of the Controlled Group in excess of $100,000;

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

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

ARTICLE VII

DEFAULTS

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

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

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

7.3. The breach by the Borrower of any of the terms or provisions of Section 6.2, Section 6.3(a) or Sections 6.10 through 6.16 or Sections 6.18 through 6.22.

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

7.5. The default by the Borrower or any of its Subsidiaries (or, at any time the Borrower is a Subsidiary of Parent, by Parent) in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of $2,000,000 ($10,000,000 in the case of Parent) was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of the Borrower, any of its Subsidiaries or Parent shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

7.6. The Borrower or any of its Significant Subsidiaries shall (a) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (b) make an assignment for the benefit of creditors, (c) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial portion of its Property, (d) institute any proceeding seeking an order for relief under the

Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (e) take any corporate action to authorize or effect any of the foregoing actions set forth in this Section 7.6, (f) fail to contest in good faith any appointment or proceeding described in Section 7.7 or (g) become unable to pay, not pay, or admit in writing its inability to pay, its debts generally as they become due.

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

7.8. The Borrower or any of its Subsidiaries shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $5,000,000), which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced.

7.9. Any Change in Control shall occur.

7.10. The occurrence of any "default", as defined in any Loan Document (other than this Agreement or the Notes) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement or the

Notes), which default or breach continues beyond any period of grace therein provided.

7.11. Any License of any Insurance Subsidiary (a) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced against such Insurance Subsidiary and shall not have been dismissed within thirty (30) days after the commencement thereof, (b) shall be suspended by such Governmental Authority for a period in excess of thirty (30) days or (c) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which, in any case, could reasonably be expected to have a Material Adverse Effect.

7.12. Any Insurance Subsidiary shall be the subject of a final non-appealable order imposing a fine by or at the request of any state insurance regulatory agency as a result of the violation by such Insurance Subsidiary of such state's applicable insurance laws or the regulations promulgated in connection therewith which could reasonably be expected to have a Material Adverse Effect.

7.13. Any Insurance Subsidiary shall become subject to any conservation, rehabilitation or liquidation order, directive or mandate issued by any Governmental Authority or any Insurance Subsidiary shall become subject to any other directive or mandate issued by any Governmental Authority in either case which could reasonably be expected to have a Material Adverse Effect and which is not stayed within thirty (30) days.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

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

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

8.2. Amendments. Subject to the provisions of this Article VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement shall, without the consent of each Lender:

(a) Extend the final maturity of any Loan or Note or reduce the principal amount thereof, or, subject to Section 2.11, reduce the rate or extend the time of payment of interest or fees thereon;

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

(c) Reduce the amount of or extend the date for the mandatory payments and commitment reductions required under Section 2.1(b) or 2.7, or increase the amount of the Commitment of any Lender hereunder;

(d) Extend the Facility Termination Date or reduce the amount or extend the time of any mandatory commitment reduction required by Section 2.7;

(e) Amend this Section 8.2;

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

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

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

ARTICLE IX

GENERAL PROVISIONS

9.1. Survival of Representations. All representations and warranties of the Borrower contained in this Agreement or of the Borrower or any Subsidiary contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

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

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

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

9.5. Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated September 5, 1996, in favor of First Chicago.

9.6. Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. Expenses; Indemnification. The Borrower shall reimburse the Agent for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection with the collection and enforcement of the Loan Documents. The Borrower further agrees to indemnify the Agent and each Lender, its

directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

9.8. Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. Nonliability of Lenders. The relationship between the Borrower and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to the Borrower by the Agent or the Lenders is for the protection of the Agent and the Lenders and neither the Borrower nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby or the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR

CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. Disclosure. The Borrower and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with the Borrower, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to the Borrower or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. Treatment of Certain Information: Confidentiality.

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

(b) Each Lender and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statue, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender as provided in clause (a) above, (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) agrees with the respective Lender to keep such information confidential on substantially the terms set forth in this Section 9.17(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of the Borrower or any of its Subsidiaries at any time during the continuance of a Default; provided that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by the Borrower.

ARTICLE X

THE AGENT

10.1. Appointment. First Chicago is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this Article X. The Agent shall not have a fiduciary relationship in respect of the Borrower or any Lender by reason of this Agreement.

10.2. Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower or any Lender for any action taken or omitted to be taken by it or them hereunder or under any

other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by Section 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents, and (c) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof or of any such other documents; provided, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan

Document as any Lender, including, without limitation, pursuant to Article XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. Lender Credit Decision. Each Lender acknowledges that it has,

independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. Successor Agent. The Agent may resign at any time by giving

written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $50,000,000 and with a Lending Installation in the United States of America. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this Article X shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. Setoff. In addition to, and without limitation of, any rights of

the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment

of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. Ratable Payments. If any Lender, whether by setoff or otherwise,

has payment made to it upon its Loans (other than payments received pursuant to Section 2.18, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal

process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender, other than Indebtedness evidenced by any of the Notes held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (a) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in compliance with Section 12.3. Notwithstanding clause (b) of the preceding sentence, any Lender may at any time, without the consent of the Borrower or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; provided, however, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with Section 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. Participations.

12.2.1. Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by

such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in clauses (a) through (f) of Section 8.2.

12.2.3. Benefit of Setoff. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents; provided, that each Lender shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender.

12.3. Assignments.

12.3.1. Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a Lender, such assignment shall be in a minimum amount (when added to the amount of the assignment of such Lender's obligations under the Valley Credit Agreement) of $5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of Exhibit C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Agent and, so long as no Default under Section 7.2, 7.6 or 7.7 is continuing, the Borrower, shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof. Such consent shall not be unreasonably withheld. Notwithstanding anything to the contrary contained herein, any assignment by a Lender of its rights and obligations under the Loan Documents shall be accompanied by an assignment to the same assignee of the same ratable share of the rights and obligations of such Lender under the Valley Credit Agreement in respect of its obligations thereunder.

12.3.2. Effect; Effective Date. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to Exhibit C hereto (a "Notice of Assignment"), together with any consents required by Section 12.3.1, and (b) payment of a $3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or action by the Borrower, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. Dissemination of Information. Subject to Section 9.17(b), the Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries.

12.5. Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 2.18.

ARTICLE XIII

NOTICES

13.1. Giving Notice. All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3) Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. Change of Address. The Borrower, the Agent and any Lender may

each change the address for service of notice upon it by a notice in writing to the other parties hereto.

[signature pages to follow]

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

WHITE MOUNTAINS HOLDINGS, INC.

By: ----------

Print Name: ----------

Title: ----------

Address: 80 South Main Street
Hanover, New Hampshire 03755
Attn: ----------

Fax No.: ----------

Tel. No.: ----------

Commitments
- -----------

Commitment $_____

THE FIRST NATIONAL BANK OF CHICAGO,
Individually and as Agent

By: ----------

Print Name: ----------

Title: ----------

Address: 153 West 51st Street
New York, NY 10019
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

$_____ [OTHER LENDERS]

_____

Aggregate Initial Commitment $
=========

Schedule 1
to Credit Agreement

Margins

"Applicable Eurodollar Margin" and "Applicable Facility Fee Margin" means, for any period, the applicable of the following percentages in effect with such period based on the Leverage Ratio and the Fixed Charges Coverage Ratio as follows:

	I	II	III	IV
Leverage Ratio is:	Less than 15%	Greater than or equal to 15%	Less than 15%	Greater than or equal to 15%

If Fixed Charges Coverage Ratio is:	Greater than 2:1	Greater than 2:1	Less than or equal to 2:1	Less than or equal to 2:1
The applicable margin will be:				
Applicable Facility Fee Margin	.150%	.175%	.175%	.200%
Applicable Eurodollar Margin	.350%	.450%	.450%	.550%

The Leverage Ratio and Fixed Charges Coverage Ratio shall be calculated by the Borrower as of the end of each of its Fiscal Quarters commencing December 31, 1996 and shall be reported to the Agent pursuant to a certificate executed by an authorized officer of the Borrower and delivered in accordance with Section 6.1(g) of the Agreement. The foregoing margins shall be adjusted, if necessary, quarterly as of the fifth day after the delivery of the certificate provided for above; provided that if such certificate, together with the financial statements to which such certificate relates, are not delivered by the fifth day after the due date therefor specified in Section 6.1(g), then until the fifth day after such delivery, each of the margins specified above shall be as set forth in Column IV above. Until adjusted as described above after December 31, 1996, the Applicable Eurodollar Margin and Applicable Facility Fee Margin, as the case may be, shall be as specified in Column II above.

==========

$15,000,000

CREDIT AGREEMENT

AMONG

VALLEY GROUP, INC.,

as Borrower,

WHITE MOUNTAINS HOLDINGS, INC.,

as Guarantor,

THE LENDERS NAMED HEREIN

and

THE FIRST NATIONAL BANK OF CHICAGO,

as Agent

DATED AS OF

November 26, 1996

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TABLE OF CONTENTS

EXHIBITS

SCHEDULES

CREDIT AGREEMENT

This Credit Agreement, dated as of November 26, 1996, is among VALLEY GROUP, INC., an Oregon corporation, WHITE MOUNTAINS HOLDINGS, INC., a New Hampshire corporation, the Lenders and THE FIRST NATIONAL BANK OF CHICAGO, individually and as Agent.

R E C I T A L S:

A. The Borrower has requested the Lenders to make financial accommodations to it in the aggregate principal amount of $15,000,000, the proceeds of which the Borrower will use for the working capital and general corporate needs of the Borrower and its Subsidiaries; and

B. The Lenders are willing to extend such financial accommodations on the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

As used in this Agreement:

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

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

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person

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

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

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders hereunder. The initial Aggregate Commitment is $15,000,000.

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

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

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

"Annual Statement" means the annual statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation, which statement shall be in the form required by such Insurance Subsidiary's jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing annual statutory financial statements and shall contain the type of information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

"Applicable Eurodollar Margin" has the meaning ascribed to it, and shall be determined in accordance with Schedule 1.

"Applicable Facility Fee Margin" has the meaning ascribed to it, and shall be determined in accordance with, Schedule 1.

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

"Asset Disposition" means any sale, transfer or other disposition (outside the ordinary course of business) of any material asset of the Borrower in a single transaction or in a series of related transactions (other than the sale of Margin Stock or the sale of a Money Market Investment the proceeds of which are utilized to pay dividends permitted by Section 6.10).

"Authorized Officer" means, with respect to either Loan Party, any of the chief executive officer, president, chief financial officer, treasurer or controller of such Loan Party, acting singly.

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

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

"Borrower" means Valley Group, Inc., an Oregon corporation, and its successors and assigns.

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

"Borrowing Notice" is defined in Section 2.8.

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

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

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

"Change" is defined in Section 3.2.

"Change in Control" means (a) the acquisition by any "person" or "group" (as such terms are used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) (other than Holdings, any Wholly-Owned Subsidiary of Holdings, John J. Byrne or any Plan or any Benefit Plan of Holdings, Parent, the Borrower or any of their Subsidiaries), including without limitation any acquisition effected by means of any transaction contemplated by Section 6.12, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 20% or more of the outstanding shares of voting stock of the Borrower; or (b) during any period of 12 consecutive calendar months, commencing on the date of the Agreement, the ceasing of those individuals (the "Continuing Directors") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower to constitute a majority of the board of directors of the Borrower; or (c) during any period of 12 consecutive calendar months, commencing on the date of this Agreement, the ceasing of individuals who hold an office possessing the title Senior Vice President

or such title that ranks senior to a Senior Vice President (collectively, "Senior Management") of the Borrower on the first day of each such period to constitute a majority of the Senior Management of the Borrower.

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

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

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

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

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

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

"Conversion/Continuation Notice" is defined in Section 2.9.

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

"Default" means an event described in Article VII.

"Environmental Laws" is defined in Section 5.19.

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

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

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

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

"Facility Fee" is defined in Section 2.4(a).

"Facility Termination Date" means November 26, 2001.

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

"Finance Assets" means each of the following: (a) investments in securities issued or fully guaranteed by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), (b) investments in equity securities traded on the New York Stock Exchange, the American Stock Exchange or NASDAQ and securities convertible in to such equity securities, (c) investments in Investment Grade Obligations, (d) investments in money market funds substantially all the assets of which are comprised of securities of the types described in clauses (a) through (c) above, (e) investments in Wholly-Owned Subsidiaries of either Loan Party, (f) investments in Main Street America Holdings, Inc., Folksamerica Holding Company Inc. and Financial Security Assurance Holdings Ltd. and (g) so long as put rights with respect thereto are available to either Loan Party, investments in US West Preferred Stock; provided, that Finance Assets shall not include any securities pledged to secure any obligations (contingent or otherwise).

"Finance Assets Ratio" means, at any time, the ratio of (a) Finance Assets of Parent at such time to (b) the excess of (i) Funded Indebtedness of Parent at such time over (ii) cash and Money Market Investments of Parent at such time. For purposes of this definition, Finance Assets shall be valued, without duplication, at fair market value to the extent there exists a readily ascertainable fair market value for such Finance Asset or, in the event there exists no such readily ascertainable fair market value for such Finance Assets,

at book value, as calculated in accordance with Agreement Accounting Principles.

"Financial Statements" is defined in Section 5.5.

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

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

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

"Fixed Charges Coverage Ratio" means, as of the end of any Fiscal Quarter, the ratio of (a) the sum, without duplication, of (i) cash and Money Market Investments of Parent and the Borrower as of the end of such Fiscal Quarter, plus (ii) cash dividends and interest payments received by Parent and the Borrower during the four Fiscal Quarters then ended from Persons which are not Wholly- Owned Subsidiaries of Parent or the Borrower at the time such payments were made, plus (iii) an amount equal to the maximum amount of dividends and intercompany fees available to be paid to Parent and the Borrower without approval of any Governmental Authority by each Wholly-Owned Subsidiary of Parent and the Borrower as of the end of such Fiscal Quarter in the case of a Wholly- Owned Subsidiary of Parent or the Borrower other than a Wholly-Owned Insurance Subsidiary and during the succeeding four Fiscal Quarters in the case of Wholly-Owned Insurance Subsidiaries of Parent or the Borrower to (b) Fixed Charges.

"Fixed Charges" means, with respect to Parent and the Borrower, as of the end of any Fiscal Quarter, the sum, without duplication, of (a) interest expenses payable on outstanding Indebtedness (determined by adjusting the principal amount of such Indebtedness for scheduled amortization payments as reflected in clauses (c), (d) and (e) below and assuming that the applicable interest rate in effect as of the date of determination would remain constant during the succeeding four Fiscal Quarter period), (b) dividends payable on preferred stock, (c) Indebtedness payable pursuant to the scheduled amortization of such Indebtedness, (d) Loans payable pursuant to Section 2.1(b) (determined by assuming that the principal amount of Loans as of the date of determination would remain constant during the succeeding four Fiscal Quarter period) as a result of reductions in the Aggregate Commitment occurring in any such period pursuant to Section 2.7(a) (other than on November 26, 2001), and (e) Loans (as defined in the White Mountains Credit Agreement) payable pursuant to Section 2.1(b) of the White Mountains Credit Agreement (determined by assuming that the outstanding principal amount of such Loans as of the date of determination would remain constant during the succeeding four Fiscal Quarter period) as a result of reductions in the Aggregate Commitment (as defined in the White Mountains Credit Agreement) occurring in any such period

pursuant to Section 2.7(a) of the White Mountains Credit Agreement (other than on November 26, 2001), in each case for the period of four Fiscal Quarters immediately following the date of determination.

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

"FSA Transfer" means the transfer by Parent to Holdings and/or Fund American Enterprises, Inc. of Parent's equity interest in Financial Security Assurance Holdings Ltd., provided that the aggregate dollar amount of the fair market value of the equity interests so transferred shall not exceed $25,000,000.

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

"Guaranty" means the Guaranty of Parent pursuant to Article XIV.

"Hazardous Materials" is defined in Section 5.19.

"Holdings" means Fund American Enterprises Holdings, Inc., a Delaware corporation.

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

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

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

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person to any other Person or any investment in, or purchase or other acquisition of, the stock, partnership interests, notes, debentures or other securities of any other Person made by such Person.

"Investment Grade Obligations" means, as of any date, investments having an NAIC investment rating of 1 or 2, or a Standard & Poor's rating within the range of ratings from AAA to BBB-, or a Moody's rating within the range of ratings from Aaa to Baa3.

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

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

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

"Leverage Ratio" means, at any time, the ratio of (a) the consolidated Funded Indebtedness of Parent and its Subsidiaries at such time to (b) the sum of the consolidated Funded Indebtedness of Parent and its Subsidiaries plus Parent's Net Worth at such time, in all cases determined in accordance with Agreement Accounting Principles.

"License" means any license, certificate of authority, permit or other authorization which is required to be obtained from any Governmental Authority in connection with the operation, ownership or transaction of insurance business.

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

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

"Loan Documents" means this Agreement, the Notes and the other

documents and agreements contemplated hereby and executed by either Loan Party in favor of the Agent or any Lender.

"Loan Party" means each and either of the Borrower or Parent.

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

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

"Money Market Investments" means (a) direct obligations of the United States of America, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States of America, or of any agency thereof, in either case maturing not more than one year from the date of acquisition thereof; (b) certificates of deposit issued by any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least $500,000,000, maturing not more than 90 days from the date of acquisition thereof; (c) commercial paper rated A-1 or better P-1 or better by Standard & Poor's Ratings Group or Moody's Investors Services, Inc., respectively, maturing not more than 90 days from the date of acquisition thereof; and (d) shares in an open-end management investment company with U.S. dollar denominated investments in fixed income obligations, including repurchase agreements, fixed time deposits and other obligations, with a dollar weighted average maturity of not more than one year, and for the calculation of this dollar weighted average maturity, certain instruments which have a variable rate of interest readjusted no less frequently than annually are deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

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

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

"Net Available Proceeds" means (a) with respect to any Asset Disposition, the sum of cash or readily marketable cash equivalents received (including by way of a cash generating sale or discounting of a note or account receivable) therefrom, whether at the time of such disposition or subsequent thereto, in excess in the case of any Asset Disposition of any amounts derived from such sale used (and permitted by this Agreement to be used) within five Business Days after such sale to make a Permitted Reinvestment, or (b) with respect to any sale or issuance of equity securities of the Borrower, cash or readily marketable cash equivalents received therefrom, whether at the time of such sale or issuance or subsequent thereto, net, in either case, of all legal, title and recording tax expenses, commissions and other fees and all costs and expenses incurred, including, without limitation, incremental income taxes resulting from such transaction.

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

"Non-Excluded Taxes" is defined in Section 2.18(a).

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

"Notice of Assignment" is defined in Section 12.3.2.

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

"Parent" means White Mountains Holdings, Inc., a New Hampshire

corporation.

"Participants" is defined in Section 12.2.1.

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

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

"Permitted Reinvestment" means an Investment in a Finance Asset or any other Investment approved by the Required Lenders.

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

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

"Proceeding" is defined in Section 5.19.

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

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

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

"Purchasers" is defined in Section 12.3.1.

"Quarterly Statement" means the quarterly statutory financial statement of any Insurance Subsidiary required to be filed with the insurance commissioner (or similar authority) of its jurisdiction of incorporation or, if no specific form is so required, in the form of financial statements permitted by such insurance commissioner (or such similar authority) to be used for filing quarterly statutory financial statements and shall contain the type of financial information permitted by such insurance commissioner (or such similar authority) to be disclosed therein, together with all exhibits or schedules filed therewith.

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

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

"Regulation G" means Regulation G of the Board of Governors of the Federal Reserve System as from time to time in effect and shall include any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by Persons other than banks, brokers and dealers for the purpose of purchasing or carrying margin stocks

applicable to such Persons.

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

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

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

"Release" is defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 39601 et seq.
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"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event; provided, that a failure to meet the minimum
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funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

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

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

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

"SAP" means, with respect to any Insurance Subsidiary, the statutory accounting practices prescribed or permitted by the insurance commissioner (or other similar authority) in the jurisdiction of such Person for the preparation of annual statements and other financial reports by insurance companies of the same type as such Person in effect from time to time; provided, however, that if
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any changes in statutory accounting practices from those in effect on the date of this Agreement are adopted which result in a material change in the method of calculation of any of the financial covenants, standards or terms in this Agreement, the parties agree to enter into negotiations to determine whether such provisions require amendment and, if so, the terms of such amendment so as to equitably reflect such changes. Until a resolution thereof is reached, all calculations made for the purposes of determining compliance with the terms of this Agreement shall be made by application of statutory accounting practices in effect on the date of this Agreement applied, to the extent applicable, on a basis consistent with that used in the preparation of the Financial Statements furnished to the Lenders pursuant to Section 5.5(h) and (i) hereof.

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

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

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

"Solvent" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with Agreement Accounting Principles and whether direct or indirect, fixed or contingent,

secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "Solvency" shall have a correlative meaning.

"Statutory Surplus" means, with respect to any Insurance Subsidiary at any time, the statutory capital and surplus of such Insurance Subsidiary at such time, as determined in accordance with SAP ("Liabilities, Surplus and Other Funds" statement, page 3, line 25 of the Annual Statement for the 1995 Fiscal Year entitled "Surplus as Regards Policyholders").

"Subsidiary" of a Person means (a) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (b) any partnership, association, joint venture, limited liability company or

similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled.

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

"Transferee" is defined in Section 12.4.

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

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

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

"US West Preferred Stock" means the US West Series B cumulative redeemable preferred stock $1.00 par value per share purchased by Holdings pursuant to and subject to the terms of the Securities Purchase Agreement dated April 10, 1994 among Holdings, US West, Inc., US West Capital Corporation and Financial Security Assurance Holdings Ltd (as such agreement may be amended from time to time).

"White Mountains Credit Agreement" means the Credit Agreement, dated as of November 26, 1996, among Parent, the financial institutions from time to time party thereto and First Chicago, as agent, as the same may be amended, supplemented or otherwise modified from time to time.

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

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. References herein to particular columns, lines or sections of any Person's Annual Statement shall be deemed, where appropriate, to be references to the corresponding column, line or section of such Person's Quarterly Statement, or if no such corresponding column, line or section exists or if any report form changes, then to the corresponding item referenced thereby. In the event that the columns, lines or sections of the Annual Statement referenced herein are changed or renumbered, all such references shall be deemed references to such column, line or section as so renumbered or changed. Each accounting term used herein which is not otherwise defined herein shall be defined in accordance with Agreement Accounting Principles or SAP, as applicable, unless otherwise specified.

ARTICLE II

THE CREDITS

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

(b) The Borrower hereby agrees that if at any time, as a result of reductions in the Aggregate Commitment pursuant to Section 2.7 or otherwise, the aggregate balance of the Loans exceeds the Aggregate Commitment, the Borrower shall repay immediately its then outstanding Loans in such amount as may be necessary to eliminate such excess.

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

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

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

2.3. Types of Advances. The Advances may be ABR Advances or Eurodollar Advances, or a combination thereof, selected by the Borrower in accordance with Sections 2.8 and 2.9.

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

(b) The Borrower may permanently reduce the Aggregate Commitment in whole, or in part ratably among the Lenders in a minimum aggregate amount of $1,000,000 upon at least three (3) Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction; provided, however, that the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances. Such reductions shall be in addition to reductions occurring pursuant to Section 2.7(b). Voluntary commitment reductions pursuant to this Section 2.4(b) shall be applied to the mandatory commitment reductions required to be made pursuant to Section 2.7(a) in direct order of maturity.

2.5. Minimum Amount of Each Advance. Each Advance shall be in the minimum amount of $1,000,000 (and in integral multiples of $500,000 if in excess thereof); provided, however, that (a) any ABR Advance may be in the amount of the unused Aggregate Commitment and (b) in no event shall more than six (6) Eurodollar Advances be permitted to be outstanding at any time.

2.6. Optional Principal Payments. The Borrower may from time to time pay, without penalty or premium, all outstanding ABR Advances, or, in a minimum aggregate amount of $1,000,000 any portion of the outstanding ABR Advances upon two Business Days' prior notice to the Agent. Subject to Section 3.4 and upon like notice, a Eurodollar Advance may be paid prior to the last day of the

applicable Interest Period in a minimum amount of $1,000,000 or an integral multiple of $500,000 in excess thereof.

2.7. Mandatory Commitment Reductions. (a) The Aggregate Commitment shall be automatically and permanently reduced by the following amounts (or such lesser amount as a result of reductions pursuant to Section 2.7(c)) on the following dates:

Date	Reduction Amount
December 31, 1998	$ 1,000,000
December 31, 1999	$ 2,000,000
December 31, 2000	$ 2,000,000
November 26, 2001	$ 10,000,000

(b) The Aggregate Commitment shall also be automatically and permanently reduced in the amounts and at the times set forth below:

(i) within 5 Business Days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 100% of the aggregate Net Available Proceeds in excess of $1,000,000 realized upon all Asset Dispositions in any Fiscal Year of the Borrower; and

(ii) within 5 Business Days after the receipt in the form of cash or cash equivalents thereof by the Borrower, 85% of the Net Available Proceeds realized upon the sale by the Borrower of any equity securities issued by it after the date of this Agreement in excess of an aggregate amount of $1,000,000 (other than a sale of common stock of the Borrower to Parent).

(c) Mandatory commitment reductions under Section 2.7(b) shall be cumulative and in addition to reductions occurring pursuant to Section 2.4(b). Any mandatory commitment reductions under Section 2.7(b) shall be applied to the mandatory commitment reductions required to be made pursuant to Section 2.7(a) in the inverse order of maturity.

(d) Any reduction in the Aggregate Commitment pursuant to this Section 2.7 or otherwise shall ratably reduce the Commitment of each Lender.

2.8. Method of Selecting Types and Interest Periods for New Advances. The Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance, the Interest Period applicable to each Advance from time to time; provided, however, that in the event Loans are incurred on the date of this Agreement, all Loans incurred on such date shall be ABR Advances. The Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m. (Chicago time) on the Borrowing Date of each ABR Advance and at least three (3) Business Days before the Borrowing Date for each Eurodollar Advance, specifying:

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

(b) the aggregate amount of such Advance;

(c) the Type of Advance selected;

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

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

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Loan or Loans, in funds immediately available in Chicago, to the Agent at its address specified pursuant to Article XIII. The Agent will make the funds so received from the Lenders available to

the Borrower at the Agent's aforesaid address or at such account at such other institution in the United States of America as the Borrower may indicate in the Borrowing Notice.

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

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

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

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

2.10. Changes in Interest Rate, etc. Each ABR Advance shall bear interest at the Alternate Base Rate from and including the date of such Advance or the date on which such Advance was converted into an ABR Advance to (but not including) the date on which such ABR Advance is paid or converted to a Eurodollar Advance. Changes in the rate of interest on that portion of any Advance maintained as an ABR Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance shall bear interest from and including the first day of the Interest Period applicable thereto to, but not including, the last day of such Interest Period at the Eurodollar Rate determined as applicable to such Eurodollar Advance plus the Applicable Eurodollar Margin. No Interest Period may end after the Facility Termination Date. The Borrower shall select Interest Periods so that it is not necessary to repay any portion of a Eurodollar Advance prior to the last day of the applicable Interest Period in order to make a mandatory repayment required pursuant to Section 2.7(a).

2.11. Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.8 or 2.9, no Advance may be made as, converted into or continued as a Eurodollar Advance (except with the consent of the Agent and the Required Lenders) when any Default or Unmatured Default has occurred and is continuing. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that each Eurodollar Advance and ABR Advance shall bear interest (for the remainder of the applicable Interest Period in the case of Eurodollar Advances) at a rate per annum equal to the rate otherwise applicable plus two percent (2%) per annum; provided, however, that such increased rate shall automatically and without action of any kind by the Lenders become and remain applicable until revoked by the Required Lenders in the event of a Default described in Section 7.6 or 7.7.

2.12. Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to Article XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower (at least two Business Days in advance) by

noon (Chicago time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to Article XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with the Agent for each payment of principal, interest and fees as it becomes due hereunder.

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

2.14. Interest Payment Dates; Interest and Fee Basis. Interest accrued on each ABR Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof, on any date on which an ABR Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any ABR Advance converted into a Eurodollar Advance on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Advance having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest and commitment fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to noon (Chicago time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall

be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.15. Notification of Advances, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Commitment reduction notice, Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

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

2.17. Non-Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (a) in the case of a Lender, the proceeds of a Loan, or (b) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If the Borrower has not in fact made such payment to the Agent, the Lenders shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to the Federal Funds Effective Rate for such day. If any Lender has not in fact made such payment to the Agent, such Lender or the Borrower shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (a) in the case of payment by a Lender, the Federal Funds Effective Rate for such day, or (b) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.18. Taxes. (a) Any payments made by either Loan Party under this

Agreement or any other Loan Document shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes or any other tax based upon any income imposed on the Agent or any Lender by the jurisdiction in which the Agent or such Lender is incorporated or has its principal place of business or maintains its Lending Installation. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder, the amounts so payable to the Agent or such Lender shall be

increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non- Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in or pursuant to this Agreement; provided, however, that no Loan Party shall be required to increase any such amounts payable to any Lender that is not organized under the laws of the U.S. or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this Section 2.18. Whenever any Non-Excluded Taxes are payable by either Loan Party, as promptly as practicable thereafter such Loan Party shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by such Loan Party showing payment thereof. If either Loan Party fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, each Loan Party shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by any Agent or any Lender as a result of any such failure. The agreements in this Section 2.18 shall survive the termination of this Agreement and the payment of all other amounts payable hereunder.

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

2.19. Agent's Fees. The Borrower shall pay to the Agent those fees, in addition to the Facility Fees referenced in Section 2.4(a), in the amounts and at the times separately agreed to between the Agent and the Borrower.

ARTICLE III

CHANGE IN CIRCUMSTANCES

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

(a) subjects any Lender or any applicable Lending Installation to any tax, duty, charge or withholding on or from payments due from the Borrower (excluding taxation of the overall net income of any Lender or

applicable Lending Installation imposed by the jurisdiction in which such Lender or Lending Installation is incorporated or has its principal place of business), or changes the basis of taxation of principal, interest or any other payments to any Lender or Lending Installation in respect of its Loans or other amounts due it hereunder, or

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

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

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

3.2. Changes in Capital Adequacy Regulations. If a Lender determines
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the amount of capital required or expected to be maintained by such Lender, any Lending Installation of such Lender or any corporation controlling such Lender is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender determines is attributable to this Agreement, its Loans or its obligation to make Loans hereunder (after taking into account such Lender's policies as to capital adequacy). "Change" means (a) any change after the date
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of this Agreement in the Risk-Based Capital Guidelines, or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender

or any Lending Installation or any corporation controlling any Lender. "Risk-Based Capital Guidelines" means (a) the risk-based capital guidelines in
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effect in the United States on the date of this Agreement and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices entitled "International Convergence of Capital Measurements and Capital Standards" and any amendments to such regulations adopted prior to the date of this Agreement.

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

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

3.5. Lender Statements; Survival of Indemnity. To the extent
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reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Advances to reduce any liability of the Borrower to such Lender under Sections 2.18, 3.1 and 3.2 or to avoid the
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unavailability of a Type of Advance under Section 3.3, so long as such
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designation is not disadvantageous to such Lender. Each Lender shall deliver a

written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under Section 3.1, 3.2 or 3.4. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Advance shall be calculated as though each Lender funded its Eurodollar Advances through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of the written statement. The obligations of the Borrower under Sections 3.1, 3.2 and 3.4 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1. Initial Loans. The Lenders shall not be required to make the initial Advance hereunder unless each Loan Party has furnished the following to the Agent with sufficient copies for the Lenders and the other conditions set forth below have been satisfied:

(a) Charter Documents; Good Standing Certificates. Copies of the certificate of incorporation of each Loan Party, together with all amendments thereto, both certified by the appropriate governmental officer in its jurisdiction of incorporation, together with a good standing certificate issued by the Secretary of State of the jurisdiction of its incorporation and such other jurisdictions as shall be reasonably requested by the Agent.

(b) By-Laws and Resolutions. Copies, certified by the Secretary or Assistant Secretary of the relevant Loan Party, of its by-laws and of its Board of Directors' resolutions authorizing the execution, delivery and performance of the Loan Documents to which it is a party.

(c) Secretary's Certificate. An incumbency certificate, executed by the Secretary or Assistant Secretary of the relevant Loan Party, which shall identify by name and title and bear the signature of the officers of such Loan Party authorized to sign the Loan Documents and, in the case of the Borrower, to make borrowings hereunder, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.

(d) Officer's Certificate. A certificate signed by an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent, to the effect that on the initial Borrowing Date (both before and after giving effect to the consummation of the transactions contemplated hereby and the making of the Loans hereunder): (i) no Default or Unmatured Default has occurred and is continuing; (ii) no injunction or temporary restraining order which would prohibit the making of the Loans or other litigation which could reasonably be expected to have a Material Adverse Effect is pending or, to the best of such Person's knowledge, threatened; (iii) all orders, consents, approvals, licenses, authorizations, or validations of, or filings, recordings or registrations with, or exemptions by, any Governmental Authority required in connection with the execution, delivery and performance of this Agreement have been or, prior to the time required, will have been, obtained, given, filed or taken and are or will be in full force and effect (or the relevant Loan Party has obtained effective judicial relief with respect to the application thereof) and all applicable waiting periods have expired; (iv) each of the representations and warranties set forth in Article V of this Agreement is true and correct on and as of the initial Borrowing Date; and (v) since December 31, 1995, no event or change has occurred that has caused or evidences a Material Adverse Effect.

(e) Legal Opinion. A written opinion of Brobeck, Phleger & Harrison LLP., counsel to each Loan Party, addressed to the Agent and the Lenders in form and substance acceptable to the Agent and its counsel.

(f) Notes. Notes payable to the order of each of the Lenders

duly executed by the Borrower.

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

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

(i) Solvency Certificate. A written solvency certificate from the chief financial officer of the relevant Loan Party in form and content satisfactory to the Agent with respect to the value, Solvency and other factual information, or relating to, as the case may be, of such Loan Party on a consolidated basis.

(j) Regulatory Matters. Receipt of any required regulatory approvals from any Governmental Authority.

(k) Investment Policy Guidelines. Certified copy of the investment policy guidelines adopted by the finance committee of the board of directors of Parent and the board of directors of the Borrower.

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

4.2. Each Future Advance. The Lenders shall not be required to make any Advance unless on the applicable Borrowing Date:

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

(b) The representations and warranties contained in Article V are true and correct as of such Borrowing Date;

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

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

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

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Each Loan Party represents and warrants to the Lenders that:

5.1. Corporate Existence and Standing. Each Loan Party and each of its Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and is duly qualified and in good standing as a foreign corporation and is duly authorized to conduct its business in each jurisdiction in which its business is conducted or proposed to be conducted, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

5.2. Authorization and Validity. Each Loan Party has all requisite power and authority (corporate and otherwise) and legal right to execute and deliver each of the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by each Loan Party of the Loan Documents to which it is a party and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings and the Loan Documents constitute legal, valid and binding obligations of such Loan Party enforceable against it in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws

affecting the enforcement of creditors' rights generally.

5.3. Compliance with Laws and Contracts. Each Loan Party and each of its Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, except where the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Neither the execution and delivery by either Loan Party of the Loan Documents to which it is party, the application of the proceeds of the Loans or the consummation of the transactions contemplated in the Loan Documents, nor compliance with the provisions of the Loan Documents will, or at the relevant time did, (a) violate any law, rule, regulation (including Regulations G, T, U and X), order, writ, judgment, injunction, decree or award binding on such Loan Party or any of its Subsidiaries or the charter, articles or certificate of incorporation or by-laws of such Loan Party or any of its Subsidiaries, (b) violate the provisions of or require the approval or consent of any party to any indenture, instrument or agreement to which such Loan Party or any of its Subsidiaries is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien (other than Liens permitted by, the Loan Documents) in, of or on the property of such Loan Party or any of its Subsidiaries pursuant to the terms of any such indenture, instrument or agreement, or (c) require any

consent of the stockholders of any Person, except for approvals or consents which will be obtained on or before the initial Advance and are disclosed on Schedule 5.3, except for any violation of, or failure to obtain an approval or consent required under, any such indenture, instrument or agreement that could not reasonably be expected to have a Material Adverse Effect.

5.4. Governmental Consents. No order, consent, approval, qualification, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of, any court, governmental or public body or authority, or any subdivision thereof, any securities exchange or other Person is or at the relevant time was required to authorize, or is or at the relevant time was required in connection with the execution, delivery, consummation or performance of, or the legality, validity, binding effect or enforceability of, any of the Loan Documents or the application of the proceeds of the Loans or any other transaction contemplated in the Loan Documents. No Loan Party nor any of its Subsidiaries is in default under or in violation of any foreign, federal, state or local law, rule, regulation, order, writ, judgment, injunction, decree or award binding upon or applicable to such Loan Party or such Subsidiary, in each case the consequences of which default or violation could reasonably be expected to have a Material Adverse Effect.

5.5. Financial Statements. The Borrower has heretofore furnished to each of the Lenders (a) the December 31, 1995 unaudited consolidated financial statements of Parent and its Subsidiaries, (b) the unaudited consolidated financial statements of Parent and its Subsidiaries through September 30, 1996, (c) the December 31, 1995 audited financial statements of Charter Group, Inc. and its Subsidiaries, (d) the December 31, 1995 audited financial statements of Valley Insurance Co., (e) the December 31, 1995 audited balance sheet of the Borrower and its Subsidiaries, (f) the September 30, 1996 unaudited balance sheets and income statements of Parent, the Borrower (excluding White Mountains Insurance Company related transactions), White Mountains Insurance Company (as if no business was reinsured through Valley Insurance Company), Financial Security Assurance Holdings Ltd., Folksamerica Holding Company, Inc. and Main Street America Holdings, Inc., (g) the December 31, 1995 unaudited consolidated financial statements of the Borrower and its Subsidiaries, (h) the December 31, 1995 Annual Statement of each Insurance Subsidiary and (i) the September 30, 1996 Quarterly Statement of each Insurance Subsidiary (collectively, the "Financial Statements"). Each of the Financial Statements (other than as described in clause (f)) was prepared in accordance with Agreement Accounting Principles or SAP, as applicable, and fairly presents the consolidated financial condition and operations of the Person which is the subject of such Financial Statements at such dates and the consolidated results of their operations for the respective periods then ended (except, in the case of such unaudited statements, for normal year-end audit adjustments).

5.6. Material Adverse Change. No material adverse change in the business, Property, condition (financial or otherwise), performance, prospects or results of operations of the Borrower and its Subsidiaries has occurred since December 31, 1995.

5.7. Taxes. Neither Loan Party nor any of its Subsidiaries is required to file United States federal, foreign, state or local tax returns. As of the

date hereof, the United States income tax returns of Holdings on a consolidated basis have been audited by the Internal Revenue Service

through its fiscal period ending October 23, 1985, and all tax periods beginning on or after October 24, 1985 are currently being audited. No tax liens have been filed and no claims are being asserted with respect to any taxes of Holdings which could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of Holdings in respect of any taxes or other governmental charges of Holdings are in accordance with Agreement Accounting Principles.

5.8. Litigation and Contingent Obligations. There is no litigation, arbitration, proceeding, inquiry or governmental investigation pending or, to the knowledge of any of their officers, threatened against or affecting either Loan Party or any of its Subsidiaries or any of their respective properties which could reasonably be expected to have a Material Adverse Effect or to prevent, enjoin or unduly delay the making of the Loans under this Agreement. No Loan Party nor any of its Subsidiaries has any material contingent obligations incurred outside of the ordinary course of its business except as set forth on Schedule 5.16 or disclosed in the financial statements required to be delivered under Section 6.1(a) and (b) and as permitted under this Agreement.

5.9. Capitalization. Schedule 5.9 hereto contains (a) an accurate description of each Loan Party's capitalization as of September 30, 1996 (after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date) and (b) an accurate list of all of the existing Subsidiaries of each Loan Party as of the date of this Agreement, setting forth their respective jurisdictions of incorporation and the percentage of their capital stock owned by such Loan Party or its other Subsidiaries. All of the issued and outstanding shares of capital stock of each Loan Party and of each Subsidiary of such Loan Party have been duly authorized and validly issued, are fully paid and non-assessable, and are free and clear of all Liens. No authorized but unissued or treasury shares of capital stock of each Loan Party or any of its Subsidiaries are subject to any option, warrant, right to call or commitment of any kind or character. Except as set forth on Schedule 5.9 or pursuant to management incentive plans implemented after the date of this Agreement, no Loan Party nor any of its Subsidiaries has any outstanding stock or securities convertible into or exchangeable for any shares of its capital stock, or any right issued to any Person (either preemptive or other) to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to any of its capital stock or any stock or securities convertible into or exchangeable for any of its capital stock other than as expressly set forth in the certificate or articles of incorporation of such Loan Party or such Subsidiary. No Loan Party nor any of its Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its capital stock or any convertible securities, rights or options of the type described in the preceding sentence except as otherwise set forth on Schedule 5.9 or pursuant to management incentive plans implemented after the date of this Agreement.

5.10. ERISA. Except as disclosed on Schedule 5.10, no Loan Party nor any other member of the Controlled Group maintains any Single Employer Plans, and no Single Employer Plan has any Unfunded Liability. No Loan Party nor any other member of the Controlled Group maintains, or is obligated to contribute to, any Multiemployer Plan or has incurred, or is reasonably expected to incur, any withdrawal liability to any Multiemployer Plan. Each Plan complies in all material respects with all applicable requirements of law and regulations other than any such failure

to comply which could not reasonably be expected to have a Material Adverse Effect. No Loan Party nor any member of the Controlled Group has, with respect to any Plan, failed to make any contribution or pay any amount required under Section 412 of the Code or Section 302 of ERISA or the terms of such Plan. There are no pending or, to the knowledge of either Loan Party, threatened claims, actions, investigations or lawsuits against any Plan, any fiduciary thereof, or either Loan Party or any member of the Controlled Group with respect to a Plan. No Loan Party nor any member of the Controlled Group has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan which would subject such Person to any material liability. Within the last five years no Loan Party nor any member of the Controlled Group has engaged in a transaction which resulted in a Single Employer Plan with an Unfunded Liability being transferred out of the Controlled Group which could reasonably be expected to have a Material Adverse Effect. No Termination Event has occurred or is reasonably expected to occur with respect to any Plan which is subject to Title IV of ERISA which could reasonably be

expected to have a Material Adverse Effect.

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

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

5.13. Investment Company. No Loan Party nor any of its Subsidiaries is, or after giving effect to any Advance will be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

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

5.15. Solvency. As of the date hereof, after giving effect to the consummation of the transactions contemplated by the Loan Documents and the payment of all fees, costs and expenses payable by each Loan Party or any of its Subsidiaries with respect to the transactions contemplated

by the Loan Documents and the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date, each Loan Party and each of its Subsidiaries is Solvent.

5.16. Indebtedness. Attached hereto as Schedule 5.16 is a complete and correct list of all Indebtedness of each Loan Party and each of its Subsidiaries outstanding on the date of this Agreement (other than Indebtedness in a principal amount not exceeding $100,000 for a single item of Indebtedness and $1,000,000 in the aggregate for all such Indebtedness listed, it being understood and agreed that any such Indebtedness shall be permitted to exist pursuant to Section 6.11(b) notwithstanding the absence thereof on Schedule 5.16), showing the aggregate principal amount which was outstanding on such date after giving effect to the application of the proceeds of Loans incurred by the Borrower on the initial Borrowing Date.

5.17. Insurance Licenses. Schedule 5.17 hereto lists all of the jurisdictions in which any Insurance Subsidiary holds a License and is authorized to and does transact insurance business as of the date of this Agreement. No such License, the loss of which could reasonably be expected to have a Material Adverse Effect, is the subject of a proceeding for suspension or revocation. To each Loan Party's knowledge, there is no sustainable basis for such suspension or revocation, and no such suspension or revocation has been threatened by any Governmental Authority.

5.18. Material Agreements. Except as set forth on Schedule 5.18 and except for agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, no Loan Party nor any of its Subsidiaries is a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect or which restricts or imposes conditions upon the ability of any Subsidiary of a Loan Party to (a) pay dividends or make other distributions on its capital stock (b) make loans or advances to either Loan Party, (c) repay loans or advances from either Loan Party or (d) grant Liens to the Agent to secure the Obligations. No Loan Party nor any of its Subsidiaries is in default in the performance, observance or fulfillment of any of the obligations, covenants or

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

5.19. Environmental Laws. There are no claims, investigations, litigation, administrative proceedings, notices, requests for information (each a "Proceeding"), whether pending or threatened, or judgments or orders asserting violations of applicable federal, state and local environmental, health and safety statutes, regulations, ordinances, codes, rules, orders, decrees, directives and standards ("Environmental Laws") or relating to any toxic or hazardous waste, substance or chemical or any pollutant, contaminant, chemical or other substance defined or regulated pursuant to any Environmental Law, including, without limitation, asbestos, petroleum, crude oil or any fraction thereof ("Hazardous Materials") asserted against either Loan Party or any of its Subsidiaries, other than in connection with an insurance policy issued in the ordinary course of business to any Person (other than Holdings or any Subsidiary of Holdings), which, in any case, could reasonably be expected to have a Material Adverse Effect. As of the date hereof, Parent and its Subsidiaries do not have liabilities exceeding $100,000 in the aggregate for all of them with respect to compliance with applicable Environmental Laws or related to the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials, and no facts or circumstances

exist which could give rise to such liabilities with respect to compliance with applicable Environmental Laws and the generation, treatment, storage, disposal, release, investigation or cleanup of Hazardous Materials.

5.20. Insurance. Each Loan Party and each of its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is consistent with sound business practice.

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

ARTICLE VI

COVENANTS

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

6.1. Financial Reporting. Parent will maintain, for itself and each of its Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and furnish to the Lenders:

(a) As soon as practicable and in any event within 100 days after the close of each of its Fiscal Years, an unqualified audit report certified by independent certified public accountants, acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, retained earnings and cash flows accompanied by a certificate of said accountants that, in the course of the examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

(b) As soon as practicable and in any event within 60 days after the close of each of the first three Fiscal Quarters of each of its Fiscal Years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating statements of income, retained earnings and cash flows

for the period from the beginning of such Fiscal Year to the end of such quarter, all certified by its chief financial officer.

(c) (i) Upon the earlier of (A) fifteen (15) days after the regulatory filing date or (B) seventy-five (75) days after the close of each fiscal year of each Insurance Subsidiary of the Parent, copies of the unaudited Annual Statement of such Insurance Subsidiary, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP and (ii) no later than each June 15, copies of financial statements prepared in accordance with SAP, or generally accepted accounting principles with a reconciliation to SAP, and certified by independent certified public accountants of recognized national standing.

(d) Upon the earlier of (i) ten (10) days after the regulatory filing date or (ii) sixty (60) days after the close of each of the first three (3) fiscal quarters of each fiscal year of each Insurance Subsidiary of the Parent, copies of the unaudited Quarterly Statement of each of the Insurance Subsidiaries of the Parent, certified by the chief financial officer or the treasurer of such Insurance Subsidiary, all such statements to be prepared in accordance with SAP.

(e) Promptly and in any event within ten (10) days after (i) learning thereof, notification of any changes after the date of this Agreement in the rating given by A.M. Best & Co. in respect of any Insurance Subsidiary of the Parent and (ii) receipt thereof, copies of any ratings analysis by A.M. Best & Co. relating to any Insurance Subsidiary of the Parent.

(f) Copies of any outside actuarial reports prepared with respect to any valuation or appraisal of any Insurance Subsidiary of the Parent, promptly after the receipt thereof.

(g) Together with the financial statements required by clauses (a) and (b) above, a compliance certificate in substantially the form of Exhibit B hereto signed by the Borrower's chief financial officer showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

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

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

(j) As soon as possible and in any event within 10 days after receipt by such Loan Party, a copy of (i) any notice, claim, complaint or order to the effect that such Loan

Party or any of its Subsidiaries is or may be liable to any Person as a result of the release by such Loan Party or any of its Subsidiaries of any Hazardous Materials into the environment or requiring that action be taken to respond to or clean up a Release of Hazardous Materials into any violation of any Environmental Law or Environmental Permit by such Loan Party or any of its Subsidiaries. Within ten days of such Loan Party or any of its Subsidiaries having knowledge of the enactment or promulgation of any Environmental Law which could reasonably be expected to have a Material Adverse Effect, such Loan Party shall provide the Agent with written notice thereof.

(k) Promptly upon the furnishing thereof to the shareholders of such Loan Party, copies of all financial statements, reports and proxy statements so furnished.

(l) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which such Loan Party or any of its Subsidiaries files with the Securities and Exchange Commission, the National Association of Securities Dealers, any securities exchange, the NAIC or any insurance commission or department or analogous Governmental Authority (including any filing made by such Loan Party or any of its Subsidiaries pursuant to any insurance holding company act or related rules or regulations), but excluding routine or non-material filings with the NAIC, any insurance commissioner or department or analogous Governmental Authority.

(m) Promptly and in any event within ten (10) days after

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

(n) Promptly after available, any management letter prepared by the accountants conducting the audit of the financial statements delivered pursuant to Section 6.1(a).

(o) Promptly after reviewed by the relevant board of directors, a copy of the Borrower's and Parent's investment policy compliance report.

(p) Such other information (including, without limitation, the annual Best's Advance Report Service report prepared with respect to each Insurance Subsidiary of the Parent rated by A.M. Best & Co. and non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. Use of Proceeds. The Borrower will, and will cause each of its Subsidiaries to, use the proceeds of the Advances to meet the working capital and general corporate needs of the Borrower and its Subsidiaries, including but not limited to the purchase of Finance Assets. The

Borrower will not, nor will it permit any of its Subsidiaries to, use any of the proceeds of the Advances in any manner which would violate, or result in the violation of, Regulation G, Regulation T, Regulation U or Regulation X or to finance the Purchase of any Person which has not been approved and recommended by the board of directors (or functional equivalent thereof) of such Person.

6.3. Notice of Default. The Borrower will give prompt notice in writing to the Lenders of the occurrence of (a) any Default or Unmatured Default, (b) of any other event or development, financial or other, relating specifically to either Loan Party or any of its Subsidiaries (and not of a general economic or political nature) which could reasonably be expected to have a Material Adverse Effect, (c) receipt by either Loan Party or any of its Subsidiaries of any notice from any Governmental Authority of the expiration without renewal, revocation or suspension of, or the institution of any proceedings to revoke or suspend, any License now or hereafter held by any Insurance Subsidiary of the Parent which is required to conduct insurance business in compliance with all applicable laws and regulations and the expiration, revocation or suspension of which could reasonably be expected to have a Material Adverse Effect, (d) receipt by either Loan Party or any of its Subsidiaries of any notice from any Governmental Authority of the institution of any disciplinary proceedings against or in respect of any Insurance Subsidiary of the Parent, or the issuance of any order, the taking of any action or any request for an extraordinary audit for cause by any Governmental Authority which, if adversely determined, could reasonably be expected to have a Material Adverse Effect, (e) any material judicial or administrative order of which either Loan Party or any of its Subsidiaries is aware limiting or controlling the insurance business of any Insurance Subsidiary (and not the insurance industry generally) which has been issued or adopted or (f) the commencement of any litigation of which either Loan Party or any of its Subsidiaries is aware which could reasonably be expected to create a Material Adverse Effect.

6.4. Conduct of Business. Each Loan Party will, and will cause each of its Subsidiaries to, (a) carry on and conduct its business in substantially the same manner as it is presently conducted, (b) not conduct any significant business except for financial services, (c) do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except where the failure to maintain such authority could not reasonably be expected to have a Material Adverse Effect and (d) do all things necessary to renew, extend and continue in effect all Licenses which may at any time and from time to time be necessary for any Insurance Subsidiary of the Parent to operate its insurance business in compliance with all applicable laws and regulations except for any License the loss of which could not reasonably be expected to have a Material Adverse Effect; provided, that any Insurance Subsidiary of the Parent may withdraw from one or more states (other than its state of domicile) as an admitted insurer if such withdrawal is determined by such Loan Party's Board of Directors to be in the best interest of such Loan Party and could not reasonably be expected to have a Material Adverse Effect.

6.5. Taxes. At any time on and after the date Parent or any of its

Subsidiaries is required to do so, each Loan Party will, and will cause each of its Subsidiaries to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by

applicable law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with generally accepted accounting principles or SAP, as applicable.

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

6.7. Compliance with Laws. Each Loan Party will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, the failure to comply with which could reasonably be expected to have a Material Adverse Effect.

6.8. Maintenance of Properties. Each Loan Party will, and will cause each of its Subsidiaries to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. Inspection. Each Loan Party will, and will cause each of its Subsidiaries to, at reasonable times during normal business hours and upon reasonable notice, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, corporate books and financial records of such Loan Party and such Subsidiary, to examine and make copies of the books of accounts and other financial records of such Loan Party and such Subsidiary, and to discuss the affairs, finances and accounts of such Loan Party and such Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Lenders may designate. Each Loan Party will keep or cause to be kept, and cause each of its Subsidiaries to keep or cause to be kept, appropriate records and books of account in which complete entries are to be made reflecting its and their business and financial transactions, such entries to be made in accordance with Agreement Accounting Principles or SAP, as applicable.

6.10. Dividends. The Borrower may declare and pay dividends or make distributions to Parent.

6.11. Indebtedness. No Loan Party will, nor will it permit any of its Subsidiaries to, create, incur or suffer to exist any Indebtedness, except:

(a) the Loans;

(b) Indebtedness existing on the date hereof and described in Schedule 5.16 hereto and any renewals, extensions, refundings or refinancings of such Indebtedness; provided that the amount thereof is not increased and the maturity of principal thereof is not shortened (unless to a maturity occurring after the Facility Termination Date);

(c) Indebtedness owing by (x) either Loan Party to any Wholly-Owned Subsidiary of a Loan Party and (y) any Wholly-Owned Subsidiary to a Wholly-Owned Subsidiary of a Loan Party or either Loan Party;

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

(e) Indebtedness secured by Liens permitted pursuant to Section 6.15(f); and

(f) other Indebtedness of either Loan Party or any of its Subsidiaries to the extent not otherwise included in subparagraphs (a) through (e) of this Section 6.11, or in Section 6.14, in an aggregate amount outstanding at any one time not to exceed $5,000,000.

6.12. Merger. No Loan Party will, nor will it permit any Significant Subsidiary to, merge or consolidate with or into any other Person, except that:

(a) a Wholly-Owned Subsidiary may merge with (i) either Loan Party, (ii) any Wholly-Owned Subsidiary of either Loan Party or (iii) any other Person so long as no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and the surviving entity of such merger is a Wholly-Owned Subsidiary of either Loan Party;

(b) a Significant Subsidiary (other than the Borrower) may merge or consolidate with any Person so long as neither Parent, the Borrower, nor any of their Subsidiaries shall hold any capital stock of such Significant Subsidiary after giving effect to such merger or consolidation; and

(c) either Loan Party may merge into any Person so long as (i) such Loan Party is the surviving entity of such merger, (ii) no Default or Unmatured Default shall have occurred or be continuing before and after giving effect to such merger and (iii) the covenants contained in Section 6.20 shall be complied with on a pro forma basis on the date of, and after giving effect to, such merger.

6.13. Investments and Purchases. No Loan Party will, and will not permit any of its Subsidiaries to, make or suffer to exist any Investments (including, without limitation, loans and advances to, and other Investments in, Subsidiaries of either Loan Party), or commitments therefor, or create any Subsidiary or become or remain a partner in any partnership or joint venture, or make any Purchases, except:

(a) Investments in existence on the date hereof;

(b) loans and advances to employees in the ordinary course of business and consistent with past practices;

(c) Investments made in Subsidiaries and in Main Street America Holdings, Inc., Folksamerica Holding Company Inc. and Financial Security Assurance Holdings Ltd.;

(d) Purchases of businesses or entities engaged in the insurance and/or insurance services business which do not constitute hostile takeovers; and

(e) other Investments, so long as any such Investment is materially consistent with such Loan Party's investment policy guidelines as approved from time to time by the finance committee of the board of directors of Parent and the board of directors of the Borrower (a copy of the current version of such guidelines having been delivered to each Lender); provided that any change from the guidelines previously submitted to the Lenders shall not materially adversely affect the Lenders.

6.14. Contingent Obligations. No Loan Party will, nor will it permit any of its Subsidiaries to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary of either Loan Party), except (a) the issuance of financial guarantees in the ordinary course of business, (b) by endorsement of instruments for deposit or collection in the ordinary course of business, (c) for insurance policies issued in the ordinary course of business and (d) the issuance of intercompany guarantees so long as the primary obligation is permitted under this Agreement.

6.15. Liens. No Loan Party will, nor will it permit any of its Subsidiaries to, create, incur, or suffer to exist any Lien in, of or on the Property (other than Margin Stock) of such Loan Party or any of its Subsidiaries, except:

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

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure the payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books;

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

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

(e) Liens existing on the date hereof and described in Schedule 6.15 hereto;

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

(g) Liens not otherwise permitted by the foregoing clauses (a) through (f) securing any Indebtedness of either Loan Party, provided that the aggregate principal amount of Indebtedness secured by Liens permitted by this clause (g) shall not exceed $3,000,000 at any time.

6.16. Affiliates. No Loan Party will, and will not permit any of its Subsidiaries to, enter into any material transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliates (other than a Wholly-Owned Subsidiary of either Loan Party), except in the ordinary course of business and pursuant to the reasonable requirements of such Loan Party's or such Subsidiary's business and upon fair and reasonable terms no less favorable to such Loan Party or such Subsidiary than such Loan Party or such Subsidiary would obtain in a comparable arms-length transactions and except for the FSA Transfer.

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

6.18. Change in Corporate Structure; Fiscal Year. No Loan Party shall, nor shall it permit any of its Subsidiaries to, (a) permit any amendment or modification to be made to its certificate or articles of incorporation or by-laws which is materially adverse to the interests of the Lenders or (b) change its Fiscal Year to end on any date other than December 31 of each year.

6.19. Inconsistent Agreements. No Loan Party shall, nor shall it permit any of its Subsidiaries to, enter into any indenture, agreement, instrument or other arrangement which by its terms (a) other than pursuant to the White Mountains Credit Agreement (as in effect on the date of this Agreement) or pursuant to agreements or arrangements with regulatory agencies with regard to Insurance Subsidiaries, directly or indirectly contractually prohibits or restrains, or has the effect of contractually prohibiting or restraining, or contractually imposes materially adverse conditions upon,

the incurrence of the Obligations, the granting of Liens to secure the Obligations, the amending of the Loan Documents or the ability of any Subsidiary to (i) pay dividends or make other distributions on its capital stock, (ii) make loans or advances to such Loan Party or (iii) repay loans or advances from such Loan Party or (b) contains any provision which would be violated or breached by the making of Advances or by the performance by such Loan Party or any of its

Subsidiaries of any of its obligations under any Loan Document.

6.20. Financial Covenants. Parent shall (or, in the case of Section 6.20.5, shall cause its Insurance Subsidiaries to):

6.20.1. Minimum Net Worth. At all times after the date hereof, maintain a minimum Net Worth at least equal to the sum of (a) $190,676,640, minus (b) an amount equal to the aggregate reduction in Net Worth attributable to the FSA Transfer, plus (c) an amount equal to 85% of the cash and non-cash proceeds of any equity securities issued by Parent after September 30, 1996.

6.20.2. Leverage Ratio. At all times after the date hereof, maintain a Leverage Ratio of not greater than 25%.

6.20.3. Charges Coverage Ratio. As of the end of each Fiscal Quarter maintain a Fixed Charges Coverage Ratio of not less than 1.5:1.0

6.20.4 Finance Assets Ratio. At any time Loans are outstanding and the sum of cash and Money Market Investments of Parent is less than the aggregate outstanding principal amount of Funded Indebtedness of Parent at such time, maintain a Finance Assets Ratio of not less than 2.5:1.0.

6.20.5 Statutory Surplus. At all times, maintain Statutory Surplus for each Insurance Subsidiary of Parent in an amount not less than an amount equal to (a) 85% of the Statutory Surplus of each such Insurance Subsidiary on September 30, 1996, plus (b) 85% of all subsequent capital contributions to each such Insurance Subsidiary, less (c) in the event such Insurance Subsidiary dividends or otherwise distributes to its parent all the capital stock of a Wholly-Owned Insurance Subsidiary, 100% of the book value (calculated in accordance with SAP) of such Wholly-Owned Insurance Subsidiary at the time of such dividend or distribution.

6.21. Tax Consolidation. No Loan Party will and will not permit any of its Subsidiaries to (a) file or consent to the filing of any consolidated, combined or unitary income tax return with any Person other than Holdings and its Subsidiaries or (b) amend, terminate or fail to enforce any existing tax sharing agreement or similar arrangement if such action would cause a Material Adverse Effect.

6.22. ERISA Compliance.

With respect to any Plan, no Loan Party nor any of its Subsidiaries shall:

(a) engage in any "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) for which a civil penalty pursuant to Section 502(i)

of ERISA or a tax pursuant to Section 4975 of the Code in excess of $100,000 could be imposed;

(b) incur any "accumulated funding deficiency" (as such term is defined in Section 302 of ERISA) in excess of $100,000, whether or not waived, or permit any Unfunded Liability to exceed $100,000;

(c) permit the occurrence of any Termination Event which could result in a liability to either Loan Party or any other member of the Controlled Group in excess of $100,000;

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

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

ARTICLE VII

DEFAULTS

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

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

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

7.3. The breach by either Loan Party of any of the terms or provisions of Section 6.2, Section 6.3(a) or Sections 6.10 through 6.16 or Section 6.18 through 6.22.

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

7.5. The default by either Loan Party or any of its Subsidiaries (or, at any time Parent is a Subsidiary of Holdings, by Holdings) in the performance of any term, provision or condition contained in any agreement or agreements under which any Funded Indebtedness aggregating in excess of $2,000,000 ($10,000,000 in the case of Holdings) was created or is governed, or the occurrence of any other event or existence of any other condition, the effect of any of which is to cause, or to permit the holder or holders of such Funded Indebtedness to cause, such Funded Indebtedness to become due prior to its stated maturity; or any such Funded Indebtedness of either Loan Party or any of its Subsidiaries or Holdings shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof.

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

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

7.8. Either Loan Party or any of its Subsidiaries shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $5,000,000), which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced.

7.9. Any Change in Control shall occur.

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

7.11. Any License of any Insurance Subsidiary of Parent (a) shall be revoked by the Governmental Authority which issued such License, or any action (administrative or judicial) to revoke such License shall have been commenced

against such Insurance Subsidiary and shall not have been dismissed within thirty (30) days after the commencement thereof, (b) shall be suspended by such Governmental Authority for a period in excess of thirty (30) days or (c) shall not be reissued or renewed by such Governmental Authority upon the expiration thereof following application for such reissuance or renewal of such Insurance Subsidiary, which in any case, could reasonably be expected to have a Material Adverse Effect.

7.12. Any Insurance Subsidiary of Parent shall be the subject of a final non-appealable order imposing a fine by or at the request of any state insurance regulatory agency as a result of the violation by such Insurance Subsidiary of such state's applicable insurance laws or the regulations promulgated in connection therewith which could reasonably be expected to have a Material Adverse Effect.

7.13. Any Insurance Subsidiary of Parent shall become subject to any conservation, rehabilitation or liquidation order, directive or mandate issued by any Governmental Authority or any Insurance Subsidiary shall become subject to any other directive or mandate issued by any Governmental Authority in either case which could reasonably be expected to have a Material Adverse Effect and which is not stayed within thirty (30) days.

7.14. The Guaranty shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Guaranty, or Parent shall fail to comply with any of the terms or provisions of the Guaranty, or shall deny, or give notice to such effect, that it has any further liability under the Guaranty.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

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

If, within ten Business Days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans hereunder as a result of any Default (other than any Default as described in Section 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered,

the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2. Amendments. Subject to the provisions of this Article VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Loan Parties may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or either Loan Party hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement shall, without the consent of each Lender:

(a) Extend the final maturity of any Loan or Note or reduce the principal amount thereof, or, subject to Section 2.11, reduce the rate or extend the time of payment of interest or fees thereon;

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

(c) Reduce the amount of or extend the date for the mandatory payments and commitment reductions required under Section 2.1(b) or 2.7, or increase the amount of the Commitment of any Lender hereunder;

(d) Extend the Facility Termination Date or reduce the amount or extend the time of any mandatory commitment reduction required by Section 2.7;

(e) Amend this Section 8.2;

(f) Release Parent from the Guaranty; or

(g) Permit any assignment by either Loan Party of its Obligations or its rights hereunder.

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

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

ARTICLE IX

GENERAL PROVISIONS

9.1. Survival of Representations. All representations and warranties of each Loan Party contained in this Agreement or either Loan Party or any of its Subsidiaries contained in any Loan Document shall survive delivery of the Notes and the making of the Loans herein contemplated.

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

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

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

9.5. Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Loan Parties, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent and the Lenders relating to the subject matter thereof other than the fee letter, dated September 5, 1996, in favor of First Chicago.

9.6. Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns.

9.7. Expenses; Indemnification. Each Loan Party agrees to reimburse the Agent for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. Each Loan Party also agrees to reimburse the Agent and the Lenders for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent and the Lenders, which attorneys may be employees of the Agent or the Lenders) paid or incurred by the Agent or any Lender in connection

with the collection and enforcement of the Loan Documents. Each Loan Party further agrees to indemnify the Agent and each Lender, its directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement,

the other Loan Documents, the transactions contemplated hereby or thereby or the direct or indirect application or proposed application of the proceeds of any Loan hereunder arising from claims or assertions by third parties except to the extent that they arise out of the gross negligence or willful misconduct of the party seeking indemnification. The obligations of each Loan Party under this Section shall survive the termination of this Agreement.

9.8. Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.9. Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.10. Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.11. Nonliability of Lenders. The relationship between the Borrower and the Lenders and the Agent shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to either Loan Party. Neither the Agent nor any Lender undertakes any responsibility to either Loan Party to review or inform either Loan Party of any matter in connection with any phase of either Loan Party's business or operations. Each Loan Party shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to either Loan Party by the Agent or the Lenders is for the protection of the Agent and the Lenders and no Loan Party nor any other Person is entitled to rely thereon. Whether or not such damages are related to a claim that is subject to the waiver effected above and whether or not such waiver is effective, neither the Agent nor any Lender shall have any liability with respect to, and each Loan Party hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by either Loan Party in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby or the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith.

9.12. CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9.13. CONSENT TO JURISDICTION. EACH LOAN PARTY HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO IN ANY ACTION

OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND EACH LOAN PARTY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST EITHER LOAN PARTY IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY EITHER LOAN PARTY AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS; PROVIDED, THAT SUCH PROCEEDINGS MAY BE BROUGHT IN OTHER COURTS IF JURISDICTION MAY NOT BE OBTAINED IN A COURT IN CHICAGO, ILLINOIS.

9.14. WAIVER OF JURY TRIAL. EACH LOAN PARTY, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

9.15. Disclosure. Each Loan Party and each Lender hereby (a) acknowledge and agree that First Chicago and/or its Affiliates from time to time may hold other investments in, make other loans to or have other relationships with either Loan Party, including, without limitation, in connection with any interest rate hedging instruments or agreements or swap transactions, and (b) waive any liability of First Chicago or such Affiliate to either Loan Party or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of First Chicago or its Affiliates to the extent that such liability would not have arisen but for First Chicago's status as Agent hereunder.

9.16. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by each Loan Party, the Agent and the Lenders and each party has notified the Agent that it has taken such action.

9.17. Treatment of Certain Information: Confidentiality.

(a) Each Loan Party acknowledges that (i) services may be offered or provided to it (in connection with this Agreement or otherwise) by each Lender or by one or more Subsidiaries or Affiliates of such Lender and (ii) information delivered to each Lender by such Loan Party and its Subsidiaries may be provided to each such Subsidiary and Affiliate, it being

understood that any such Subsidiary or Affiliate receiving such information shall be bound by the provisions of clause (b) below as if it were a Lender hereunder.

(b) Each Lender and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices, any non-public information supplied to it by either Loan Party pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statue, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to First Chicago Capital Markets, Inc.), (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party, (vi) to a subsidiary or affiliate of such Lender as provided in clause (a) above, (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) agrees with the respective Lender to keep such information confidential on substantially the terms set forth in this Section 9.17(b), (viii) to any other Person as may be reasonably required in the course of the enforcement of any Lender's rights or remedies hereunder or under any of such Lender's Note, or (ix) to any other creditor of either Loan Party or any of its Subsidiaries at any time during the continuance of a Default; provided that in no event shall any Lender or the Agent be obligated or required to return any materials furnished by either Loan Party.

ARTICLE X

THE AGENT

10.1. Appointment. First Chicago is hereby appointed Agent hereunder and under each other Loan Document, and each of the Lenders authorizes the Agent to act as the agent of such Lender. The Agent agrees to act as such upon the express conditions contained in this Article X. The Agent shall not have a fiduciary relationship in respect of either Loan Party or any Lender by reason of this Agreement.

10.2. Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder, except any action specifically provided

by the Loan Documents to be taken by the Agent.

10.3. General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to either Loan Party or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except for its or their own gross negligence or willful misconduct.

10.4. No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or

verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder, (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered to the Agent and not waived at closing, or (d) the validity, effectiveness, sufficiency, enforceability or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by either Loan Party to the Agent at such time, but is voluntarily furnished by either Loan Party to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, to the extent required by Section 8.2, all Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders and on all holders of Notes. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning all matters pertaining to the agency hereby created and its duties hereunder and under any other Loan Document.

10.7. Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (a) for any amounts not reimbursed by either Loan Party for which the Agent is entitled to reimbursement by such Loan Party under the Loan Documents, (b) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents, and (c) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby, or the enforcement of any of the terms thereof

or of any such other documents; provided, that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document as any Lender, including, without limitation, pursuant to Article XII hereof, and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with either Loan Party or any of its Subsidiaries in which such Loan Party or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements prepared by the Loan Parties and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. Upon any such resignation, the Required Lenders shall have the right to appoint, on behalf of the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent, which successor Agent, so long as no Default is continuing, shall be reasonably acceptable to the Borrower. If the Agent has resigned and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having

capital and retained earnings of at least $50,000,000 and with a Lending Installation in the United States of America. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning Agent. Upon the effectiveness of the resignation of the Agent, the resigning Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation of an Agent, the provisions of this Article X shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1. Setoff. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default or Unmatured Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part hereof, shall then be due.

11.2. Ratable Payments. If any Lender, whether by setoff or otherwise,

has payment made to it upon its Loans (other than payments received pursuant to Section 2.18, 3.1, 3.2 or 3.4) in a greater proportion than its pro-rata share of such Loans, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made. If an amount to be setoff is to be applied to Indebtedness of the Borrower to a Lender, other than Indebtedness evidenced by any of the Notes held by such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by such Notes.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of each Loan Party and the Lenders and their respective successors and assigns, except that (a) no Loan Party shall have the right to assign its rights or obligations under the Loan Documents, and (b) any assignment by any Lender must be made in

compliance with Section 12.3. Notwithstanding clause (b) of the preceding sentence, any Lender may at any time, without the consent of either Loan Party or the Agent, assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank; provided, however, that no such assignment to a Federal Reserve Bank shall release the transferor Lender from its obligations hereunder. The Agent may treat the payee of any Note as the owner thereof for all purposes hereof unless and until such payee complies with Section 12.3 in the case of an assignment thereof or, in the case of any other transfer, a written notice of the transfer is filed with the Agent. Any assignee or transferee of a Note agrees by acceptance thereof to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the holder of any Note, shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

12.2. Participations.

12.2.1. Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of any such Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and each Loan Party and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2. Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which effects any of the modifications referenced in clauses (a) through (f) of Section 8.2.

12.2.3. Benefit of Setoff. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents; provided, that each Lender shall retain the right of setoff provided in Section 11.1 with respect to

the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender.

12.3. Assignments.

12.3.1. Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents; provided, however, that in the case of an assignment to an entity which is not a Lender or an Affiliate of a Lender, such assignment shall be in a minimum amount (when added to the amount of the assignment of such Lender's obligations under the White Mountains Credit Agreement) of $5,000,000 (or, if less, the entire amount of such Lender's Commitment). Such assignment shall be substantially in the form of Exhibit C hereto or in such other form as may be agreed to by the parties thereto. The consent of the Agent and, so long as no Default under Section 7.2, 7.6 or 7.7 is continuing, the Borrower, shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof. Such consent shall not be unreasonably withheld. Notwithstanding anything to the contrary contained herein, any assignment by a Lender of its rights and obligations under the Loan Documents shall be accompanied by an assignment to the same assignee of the same ratable share of the rights and obligations of such Lender under the White Mountains Credit Agreement in respect of its obligations thereunder.

12.3.2. Effect; Effective Date. Upon (a) delivery to the Agent of a notice of assignment, substantially in the form attached as Exhibit I to Exhibit C hereto (a "Notice of Assignment"), together with any consents required by Section 12.3.1, and (b) payment of a $3,000 fee to the Agent for processing such assignment, such assignment shall become effective on the effective date specified in such Notice of Assignment. On and after the effective date of such assignment, (a) such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and (b) the transferor Lender shall be released with respect to the percentage of the Aggregate Commitment and Loans assigned to such Purchaser without any further consent or action by the Borrower, the Lenders or the Agent. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrower shall make appropriate arrangements so that replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their Commitment, as adjusted pursuant to such assignment.

12.4. Dissemination of Information. Subject to Section 9.18(b), each Loan Party authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of such Loan Party and its Subsidiaries.

12.5. Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 2.18.

ARTICLE XIII

NOTICES

13.1. Giving Notice. All notices and other communications provided to

any party hereto under this Agreement or any other Loan Document shall be in writing, by facsimile, first class U.S. mail or overnight courier and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with first class postage prepaid, return receipt requested, shall be deemed given three (3) Business Days after deposit in the U.S. mail; any notice, if transmitted by facsimile, shall be deemed given when transmitted; and any notice given by overnight courier shall be deemed given when received by the addressee.

13.2. Change of Address. Either Loan Party, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XIV

GUARANTY

14.1. Parent hereby absolutely, irrevocably and unconditionally guarantees prompt, full and complete payment when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter, of (a) the principal of and interest on the Advances made by the Lenders to, and the Notes held by the Lenders of, the Borrower and (b) all other amounts from time to time owing to the Lenders by the Borrower under this Agreement, the Notes and the other Loan Documents, including without limitation all Obligations of the Borrower (solely for purposes of this Article XIV, collectively referred to as the "Guaranteed Debt"). This is a guaranty of payment, not a guaranty of collection.

14.2. Parent waives notice of the acceptance of this Article XIV (solely for purposes of this Article XIV, referred to as the "Guaranty") and of the extension or incurrence of the Guaranteed Debt or any part thereof. Parent further waives all setoffs and counterclaims and presentment, protest, notice, filing of claims with a court in the event of receivership, bankruptcy or reorganization of the Borrower, demand or action on delinquency in respect of the Guaranteed Debt or any part thereof, including any right to require the Agent or any Lender to sue the Borrower, or any other person obligated with respect to the Guaranteed Debt or any part thereof, or otherwise to enforce payment thereof against any collateral securing the Guaranteed Debt or any part thereof.

14.3. Parent hereby agrees that, to the fullest extent permitted by law, its obligations hereunder shall be continuing, absolute and unconditional under any and all circumstances and not subject to any reduction, limitation, impairment, termination, defense (other than indefeasible payment in full), setoff, counterclaim or recoupment whatsoever (all of which are hereby expressly waived by it to the fullest extent permitted by law), whether by reason of any claim of any character whatsoever, including, without limitation, any claim of waiver, release, surrender, alteration or

compromise. The validity and enforceability of this Guaranty shall not be impaired or affected by any of the following: (a) any extension, modification or renewal of, or indulgence with respect to, or substitution for, the Guaranteed Debt or any part thereof or any agreement relating thereto at any time; (b) any failure or omission to perfect or maintain any lien on, or preserve rights to, any security or collateral or to enforce any right, power or remedy with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto, or any collateral securing the Guaranteed Debt or any part thereof; (c) any waiver of any right, power or remedy or of any default with respect to the Guaranteed Debt or any part thereof or any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (d) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral securing the Guaranteed Debt or any part thereof, any other guaranties with respect to the Guaranteed Debt or any part thereof, or any other obligations of any person or entity with respect to the Guaranteed Debt or any part thereof; (e) the enforceability or validity of the Guaranteed Debt or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Debt or any part thereof; (f) the application of payments received from any source to the payment of indebtedness other than the Guaranteed Debt, any part thereof or amounts which are not covered by this Guaranty even though the Agent or any Lender might lawfully have elected to apply such payments to any part or all of the Guaranteed Debt or to amounts which are not covered by this Guaranty; (g) any change of ownership of the Borrower or the insolvency, bankruptcy or any other change in the legal status of the Borrower; (h) any change in, or the imposition of, any law, decree, regulation or other governmental act which does or might impair, delay or in any way affect the validity, enforceability or the payment when due of the Guaranteed Debt; (i) the failure of the Borrower to maintain in full force, validity or effect or to obtain or renew when required all

governmental and other approvals, licenses or consents required in connection with the Guaranteed Debt or this Guaranty, or to take any other action required in connection with the performance of all obligations pursuant to the Guaranteed Debt or this Guaranty; (j) the existence of any claim, setoff or other rights which Parent may have at any time against the Borrower in connection herewith or with any unrelated transaction; (k) the Agent's or any Lender's election, in any case or proceeding instituted under chapter 11 of the Bankruptcy Code, of the application of section 1111(b)(2) of the Bankruptcy Code; (l) any borrowing, use of cash collateral, or grant of a security interest by the Borrower, as debtor in possession, under section 363 or 364 of the United States Bankruptcy Code; (m) the disallowance of all or any portion of the Lender's claims for repayment of the Guaranteed Debt under section 502 or 506 of the United States Bankruptcy Code; or (n) any other fact or circumstance which might otherwise constitute grounds at law or equity for the discharge or release of Parent from its obligations hereunder, all whether or not Parent shall have had notice or knowledge of any act or omission referred to in the foregoing clauses (a) through (n) of this paragraph. It is agreed that Parent's liability hereunder is independent of any other guaranties or other obligations at any time in effect with respect to the Guaranteed Debt or any part thereof and that Parent's liability hereunder may be enforced regardless of the existence, validity, enforcement or non-enforcement of any such other guaranties or other obligations or any provision of any applicable law or regulation purporting to prohibit payment by the Borrower of the Guaranteed Debt in the manner agreed upon between the Agent, the Lenders and the Borrower.

14.4. Credit may be granted or continued from time to time by the Agent and/or any Lender to the Borrower without notice to or authorization from Parent regardless of the Borrower's financial or other condition at the time of any such grant or continuation. Neither the Agent nor any Lender shall have any obligation to disclose or discuss with Parent its assessment of the financial condition of the Borrower.

14.5. Until the irrevocable payment in full of the Obligations and termination of all commitments which could give rise to any Obligation, Parent shall have no right of subrogation with respect to the Guaranteed Debt and hereby waives any right to enforce any remedy which the Agent and/or the Lenders now has or may hereafter have against the Borrower, any endorser or any other guarantor of all or any part of the Guaranteed Debt, and Parent hereby waives any benefit of, and any right to participate in, any security or collateral given to the Agent and/or the Lenders to secure payment of the Guaranteed Debt or any part thereof or any other liability of the Borrower to the Agent and/or the Lenders.

14.6. Parent authorizes the Agent and the Lenders to take any action or exercise any remedy with respect to any collateral from time to time securing the Guaranteed Debt, which the Agent and the Lenders in their sole discretion (but subject, as applicable, to the terms of this Agreement and of any documentation pursuant to which a Lien in such collateral is granted) shall determine, without notice to Parent. Notwithstanding any reference herein to any collateral securing any of the Guaranteed Debt, it is acknowledged that, on the date hereof, neither Parent nor any of its Subsidiaries has granted, or has any obligation to grant, any security interest in or other lien on any of its property as security for the Guaranteed Debt.

14.7. In the event the Agent and the Lenders in their sole discretion elect to give notice of any action with respect to any collateral securing the Guaranteed Debt or any part thereof, ten (10) days' written notice mailed to Parent by ordinary mail at the address shown hereon shall be deemed reasonable notice of any matters contained in such notice. Parent consents and agrees that neither the Agent nor any Lender shall be under any obligation to marshall any assets in favor of Parent or against or in payment of any or all of the Guaranteed Debt.

14.8. In the event that acceleration of the time for payment of any of the Guaranteed Debt is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, or otherwise, all such amounts shall nonetheless be payable by Parent forthwith upon demand by the Agent. Parent further agrees that, to the extent that the Borrower makes a payment or payments to the Agent or any Lender on the Guaranteed Debt, or the Agent or any Lender receives any proceeds of collateral securing the Guaranteed Debt, which payment or receipt of proceeds or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be returned or repaid to the Borrower, its estate, trustee, receiver, debtor in possession or any other party, including, without limitation, Parent, under any insolvency or bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment, return or repayment, the obligation or part thereof which has been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date when such initial payment, reduction or satisfaction occurred.

14.9. No delay on the part of the Agent or any Lender in the exercise

of any right, power or remedy shall operate as a waiver thereof, and no single or partial exercise by the Agent or any Lender of any right, power or remedy shall preclude any further exercise thereof; nor shall any amendment, supplement, modification or waiver of any of the terms or provisions of this Guaranty be binding upon the Agent or any Lender, except as expressly set forth in a writing duly signed and delivered by the Agent and the Lenders. The failure by the Agent or any Lender at any time or times hereafter to require strict performance by the Borrower or Parent of any of the provisions, warranties, terms and conditions contained in any promissory note, security agreement, agreement, guaranty, instrument or document now or at any time or times hereafter executed pursuant to the terms of, or in connection with, this Agreement by the Borrower or Parent and delivered to the Agent or any Lender shall not waive, affect or diminish any right of the Agent or any Lender at any time or times hereafter to demand strict performance thereof, and such right shall not be deemed to have been waived by any act or knowledge of the Agent or any Lender, its agents, officers or employees, unless such waiver is contained in an instrument in writing duly signed and delivered by the Agent or such Lender. No waiver by the Agent or any Lender of any default shall operate as a waiver of any other default or the same default on a future occasion, and no action by the Agent or any Lender permitted hereunder shall in any way affect or impair the Agent's or such Lender's rights or powers, or the obligations of Parent under this Guaranty. Any determination by a court of competent jurisdiction of the amount of any Guaranteed Debt owing by the Borrower to the Agent and the Lender shall be conclusive and binding on Parent irrespective of whether Parent was a party to the suit or action in which such determination was made.

14.10. Subject to the provisions of Section 14.8, this guaranty shall
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continue in effect until this Agreement has terminated, the Guaranteed Debt has been paid in full and the other conditions of this guaranty have been satisfied.

[signature pages to follow]

IN WITNESS WHEREOF, each Loan Party, the Lenders and the Agent have executed this Agreement as of the date first above written.

VALLEY GROUP, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire 03755
Attn:

Fax No.: _____

Tel. No.: _____

WHITE MOUNTAINS HOLDINGS, INC.

By: _____

Print Name: _____

Title: _____

Address: 80 South Main Street
Hanover, New Hampshire 03755
Attn:

Fax No.: _____

Tel. No.: _____

Commitments
- ------------

Commitment $ _____

THE FIRST NATIONAL BANK OF CHICAGO,
Individually and as Agent

By: _____

Print Name: _____

Title:

Address: 153 West 51st Street
New York, NY 10019
Attn: Samuel W. Bridges
First Vice President

Fax No.: (212) 373-1393
Tel. No.: (212) 373-1142

$ [OTHER LENDERS]

Aggregate Initial Commitment $

Schedule 1
To Credit Agreement

Margins

"Applicable Eurodollar Margin" and "Applicable Facility Fee Margin" means, for any period, the applicable of the following percentages in effect with such period based on the Leverage Ratio and the Fixed Charges Coverage Ratio as follows:

	I	II	III	IV
Leverage Ratio is:	Less than 15%	Greater than 15% or equal to	Less than 15%	Greater than 15% or equal to
If Fixed Charges Coverage Ratio is:	Greater than 2:1	Greater than 2:1	Less than 2:1 or equal to	Less than 2:1 or equal to
The applicable margin will be:				
Applicable Facility Fee Margin	.150%	.175%	.175%	.200%
Applicable Eurodollar Margin	.350%	.450%	.450%	.550%

The Leverage Ratio and Fixed Charges Coverage Ratio shall be calculated by Parent as of the end of each of its Fiscal Quarters commencing December 31, 1996 and shall be reported to the Agent pursuant to a certificate executed by an authorized officer of Parent and delivered in accordance with Section 6.1(g) of the Agreement. The foregoing margins shall be adjusted, if necessary, quarterly as of the fifth day after the delivery of the certificate provided for above; provided that if such certificate, together with the financial statements to which such certificate relates, are not delivered by the fifth day after the due date therefor specified in Section 6.1(g), then until the fifth day after such delivery, each of the margins specified above shall be as set forth in Column IV above. Until adjusted as described above after December 31, 1996, the Applicable Eurodollar Margin and Applicable Facility Fee Margin, as the case may be, shall be as specified in Column II above.

FUND AMERICAN

VOLUNTARY DEFERRED COMPENSATION PLAN

(As Adopted April 9, 1992)
(Revised November 15, 1996)

FUND AMERICAN

VOLUNTARY DEFERRED COMPENSATION PLAN

(Adopted April 9, 1992)
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INDEX

(Adopted April 9, 1992)
(Revised November 15, 1996)

ARTICLE I

PURPOSE OF PLAN

1.1 The purpose of this Plan is to provide eligible Directors, Officers and Key Employees of Fund American with the opportunity to defer compensation. The Plan is also intended to establish a method of attracting and retaining persons whose abilities, experience and judgement can contribute to the long-term strategic objectives of Fund American.

1.2 The Committee intends that the Plan be an unfunded non-qualified deferred compensation plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees of Fund American, and that contributions to the Plan shall be deductible by Fund American pursuant to Section 404 (a)(5) of the Internal Revenue Code of 1986, as amended (the "IRC").

ARTICLE II

DEFINITIONS

As used in this Plan, the following terms shall have the meanings hereinafter set forth:

2.1 "Base Salary" means the annual salary paid to Fund American Officers and Key Employees which is paid bi-weekly (or other regular interval) during the calendar year.

2.2 "Beneficiary" means any person(s) or legal entity(ies) designated by the Participant or otherwise determined in accordance with ARTICLE V.

2.3 "Board of Directors" means the Board of Directors of the Company.

2.4 "Committee" means the Compensation Committee, a subcommittee of the Human Resources Committee as initially appointed by the Board of Directors and as appointed from time to time by written action of the Board of Directors.

2.5 "Company" means Fund American Enterprises Holdings, Inc. (formerly The Fund American Companies, Inc.), a Delaware corporation, and its successors and assigns.

2.6 "Compensation" means, by type, Base Salary, cash bonuses, performance units, stock appreciation rights, performance shares, restricted stock, Director's Fees, warrants, stock options and other qualifying remuneration paid or otherwise payable by Fund American, as determined by the Committee.

2.7 "Deferral Period" means the Plan Year(s) in which the Participant would otherwise receive Compensation but for the election made to defer such Compensation pursuant to ARTICLE IV.

2.8 "Deferred Compensation" means Compensation deferred pursuant to this Plan.

2.9 "Deferred Compensation Account" means the individual account maintained under the Plan for a Participant.

2.10 "Deferred Compensation Election Form" means the standardized election form that each Participant must execute in accordance with ARTICLE IV in order to participate in the Plan, an example of which is attached hereto as EXHIBIT # 1.

2.11 "Director" means a director of the Company who is not an employee of Fund American.

2.12 "Director's Fees" means any annual retainer amount plus all fees for meetings attended of the Company.

2.13 "Eligible Participant" means Directors, Officers and Key Employees of Fund American designated by the Committee as eligible to participate in the Plan.

2.14 "FFC Share(s)" means a share(s) of Fund American Enterprises Holdings, Inc., common stock ($1.00 par value) as listed on the New York Stock Exchange (symbol FFC).

2.15 "Fund American" means the Company and certain of its wholly-owned affiliates as designated by the Committee or the Board of Directors from time to time.

2.16 "Investment Option" means an option made available to Participants under ARTICLE VI.

2.17 "Investment Option Election" means a Participant election made under ARTICLE VI.

2.18 "Key Employee" means any executive employee or other overtime-exempt employee of Fund American that the Committee in its sole discretion decides is important to the ongoing business objectives of Fund American.

2.19 "Market Price of FFC Share(s)" means the closing price per share of FFC listed on the NYSE composite tape or, if the NYSE is closed for a particular day, the closing NYSE price of FFC on the previous day.

2.20 "Officer" means an officer of Fund American as defined in the Corporate By-Laws.

2.21 "Participant" for any Plan Year means an Eligible Participant who elects to participate in the Plan in accordance with the procedures set forth in ARTICLE IV.

2.22 "Plan" means the Fund American Voluntary Deferred Compensation Plan as embodied herein and as amended from time to time.

2.23 "Plan Year" means the twelve (12) month calendar year beginning January 1 and ending December 31, or shorter period as the case may be in the year the Plan is adopted or terminated.

2.24 "Valuation Date" means the last business day of either a calendar year or calendar quarter, as the Committee will determine from time to time.

2.25 Construction. The masculine pronoun shall be deemed to include the feminine, and the singular number shall be deemed to include the plural unless a different meaning is plainly required by the context.

ARTICLE III

ELIGIBILITY

Each Director who receives Director's Fees, and each Officer and Key Employee who receives Compensation as an employee of Fund American, shall be eligible to participate in the Plan if selected by the Committee. The Committee has total discretion to determine who is eligible to defer Compensation on a Plan Year by Plan Year basis.

ARTICLE IV

PARTICIPATION

4.1 Election To Participate. Subject to Sections 4.2, in order to participate in the Plan for a particular Plan Year, an eligible Director, Officer, or Key Employee must make a valid election by executing and filing with the Committee, before the commencement of such Plan Year, a Deferred Compensation Election Form, an example of which is attached hereto as EXHIBIT # 1.

4.2 (i) New Participant. Notwithstanding Section 4.1, but subject to section 4.2(ii), a newly appointed Director, or newly hired Officer or Key Employee, who becomes an Eligible Participant after the first day of the Plan Year, may elect to participate in the Plan for such Plan Year with respect to future Compensation by filing a Deferred Compensation Election Form within fifteen (15) days after his initial date of appointment or employment.

(ii) 365 Day Existing Option Timing Election. Notwithstanding Section 4.1, and solely for purposes of the transition rule for converting Existing Options (see Section 6.9 herein), an election to convert Existing Options must be made on a Deferred Compensation Election Form at least 365 calendar days prior to the date (the "Trigger Date") on which such Existing Option(s) either:

1) becomes no longer subject to a risk of forfeiture (e.g. restricted stock);

2) lapses or is no longer exercisable (e.g. options, warrants, SARs); or

3) is deemed earned and payable by the Board of Directors (e.g.

performance shares/units).

4.3 Election Not Revocable. Except as provided in Section 8.5, a Deferred Compensation Election Form, once executed and filed with the Committee, cannot be revoked for such Compensation elected to be deferred pursuant to such form.

4.4 Vesting. A Participant will be vested in his entire Deferred Compensation Account balance at all times and will not be subject to forfeiture for any reason.

4.5 New Elections Permitted for Each Year. A Participant is not required to defer future Compensation by reason of making an election to defer Compensation for current or prior Plan Years. Future

Compensation can only be deferred by filing a Deferred Compensation Election Form for the appropriate Plan Year.

4.6 Minimum Amounts. The minimum amount of Compensation which may be deferred by an Eligible Participant for any Plan Year is $5,000 for each particular type of Compensation. The maximum amount of Compensation which may be deferred for any Plan Year is 100% of an Eligible Participant's Compensation for such Plan Year.

4.7 Rounding. Subject to the minimum deferral requirement (Section 4.6), if a Participant elects to defer less than 100% of a particular type of Compensation for such Plan Year, such deferral will be limited to even dollar amounts rounded to the closest $5,000 increment. In situations where the dollar amount of such particular type of Compensation is not yet fixed or determinable, Participants can elect to defer a stated percentage (%) of such Compensation in 10% increments, subject to rounding to the closest $5,000 increment.

ARTICLE V

GENERAL PROVISIONS

5.1 No Right to Payment Except as Provided in Plan. No Participant, or other Eligible Participant or Beneficiary, shall have any right to any payment or benefit hereunder except to the extent provided in the Plan.

5.2 Employment Rights. The employment rights of any Participant or other Eligible Participant shall not be enlarged, guaranteed or affected by reason of the provisions of the Plan.

5.3 Recipient Under a Disability. If the Committee determines that any person to whom a payment is due hereunder is a minor, or is adjudicated incompetent by reason of physical or mental disability, the Committee shall have the power to cause the payments becoming due to such person to be made to the legal guardian for the benefit of the minor or incompetent, without responsibility of Fund American or the Committee to see to the application of such payment, unless prior to such payment claim is made therefor by a duly appointed legal representative. Payments made pursuant to such power shall operate as a complete discharge of Fund American and the Committee.

5.4 Designation of Beneficiary. Each Participant may designate any person(s) or legal entity(ies), including his estate, as his Beneficiary under the Plan in writing to the Committee. A Participant may at any time revoke or change his designation of Beneficiary by writing to the Committee. If no person or legal entity shall be designated by a Participant as his Beneficiary, or if no designated Beneficiary survives him, his estate shall be his Beneficiary.

5.5 Elections. Any election made or notice given by a Participant pursuant to the Plan shall be in writing to the Committee, or to such representative as may be designated by the Committee for such purpose. Notice shall be deemed to have been made or given on the date received by the Committee or its designated representative.

5.6 Effect on Other Plans. No amount of Compensation withheld under the terms of this Plan shall be included as compensation under any tax-qualified

plan sponsored by Fund American.

5.7 Controlling Law. The validity of the Plan or any of its provisions shall be determined under, and it shall be construed and administered according to, the laws of the State of Vermont.

ARTICLE VI

DEFERRED COMPENSATION ACCOUNTS

6.1 Accounts. Amounts invested in any Investment Option may be transferred annually among any available Investment Option (including a transfer to/from the Phantom Share Investment Option) in accordance with procedures established by the Committee. Such transfer election may be made only within the 10-business day period commencing on the third business day following release of the Company's third quarter financial information.

An Investment Option election shall remain in effect for future Deferred Compensation (including amounts deferred in subsequent Plan Years) unless and until a new Investment Option Election is filed with the Committee.

6.2 Adjustments To Accounts. The balance in a Participant's Deferred Compensation Account at any time will be calculated on a daily basis by: i) aggregating all current or prior Plan Years Deferred

Compensation elected pursuant to ARTICLE IV; ii) adding (subtracting) thereto the cumulative interest equivalent, whether positive or negative, earned on such Deferred Compensation computed in accordance with the rules of Sections 6.3, 6.4 and 6.5.; and iii) from such total obtained, subtracting the aggregate payments made to the Participant in current or prior Plan Years in accordance with ARTICLE VIII and ARTICLE X.

6.3 Investment of Deferred Compensation. Deferred Compensation shall be "theoretically invested" under any Investment Options described below as elected by the Participant.

6.4 Prime Rate Investment Option. Interest equivalents, equal to the product of: i) Daily Prime Rate; multiplied by ii) the Deferred Compensation balance existing as of the end of the previous day in the Prime Rate Investment Option, shall be credited each day to a Participant's Deferred Compensation Account.

6.4(a) Daily Prime Rate. Expressed as a percentage, the "Daily Prime Rate" as described in Section 6.4 will be calculated by dividing the "base rate" of interest announced publicly by Citibank, N.A. in New York, N.Y. (or prime or base rate of another large commercial bank selected by the Committee), as in effect on the last business day of each month, by 360.

6.5 Phantom Share Investment Option. Interest equivalents shall be credited to (subtracted from) amounts in the Phantom Share Investment Option on a daily basis. Such daily interest equivalents shall be calculated as follows: i) take the aggregate number of Phantom Shares in a Participant's Phantom Share Investment Option at the close of business on the preceding calendar day; multiplied by ii) the difference between the FFC Share closing Market Price on the current calendar day, plus dividends paid or payable, as defined in Section 6.5(c), with respect to a single FFC Share, and the FFC Share closing Market Price on the preceding calendar day. For purposes of comparability, the above calculation shall be adjusted for any stock splits or stock dividends occurring during the current calendar day which affects the number of Phantom Shares a Participant held on the preceding calendar day.

6.5(a) Phantom Shares Granted to Participant. Unless the transition rule for exchanging existing stock rights applies (pursuant to Section 6.9), and subject to the Phantom Share Cumulative Dollar Limitation

contained at Section 6.10(b), the number of Phantom Shares granted to a Participant will be determined by dividing the dollar amount of Deferred Compensation allocated to the Phantom Share Investment Option by the Conversion Price. Such total amount of Phantom Shares determined will

then be rounded to the next one-tenth (1/10) Phantom Share.

6.5(b) Conversion Price. Other than Compensation being deferred pursuant to Section 6.9, the Conversion Price of FFC Shares used to calculate the number of Phantom Shares to be added to a Participant's Deferred Compensation Account will be the closing Market Price of FFC Shares at the end of the business day within the Plan Year where such Deferred Compensation would otherwise have been paid to the Participant if he had not elected to participate in the Plan.

6.5(c) Dividends Reinvested in Phantom Share Investment Option. For purposes of Section 6.5, dividends "paid or payable" shall mean either in cash or property, but shall exclude stock dividends or stock splits, as the case may be. Further, dividends paid or declared payable on the preceding day will be treated as automatically reinvested in FFC Shares as of the end of such day at the closing Market Price of FFC Shares; provided the Participant's account held Phantom Shares on the last day the Company declares as the date stockholders of record are entitled to receive such dividend on FFC Shares (i.e. the "ex-dividend" date).

6.5(d) Other Dilutive and Anti-dilutive Transactions Affecting Phantom Shares. In addition to Section 6.5(c), and subject to other provisions in the Plan, the Committee has the discretion to make appropriate adjustments to a Participant's account invested in the Phantom Share Investment Option where a "capital transaction" or "corporate reorganization" has the affect of changing the economic equivalent number of Phantom Shares that a Participant has been credited under this Plan. The Committee shall make an adjustment to each Participant's account so affected (if any), either positive or negative as the case may be, to ensure that neither unintended economic benefits nor detriments are conferred on a Participant solely by reason of such capital transaction or corporate reorganization.

6.5(e) Capital Transaction or Corporate Reorganization. Solely for purposes of Section 6.5(d), a "capital transaction" or "corporate reorganization" shall not be limited to its ordinary meaning if in fact a Participant would be conferred an economic benefit or detriment by some other corporate transaction which is not literally considered a capital transaction or corporate reorganization under common business usage of said terms.

6.6 Equity Fund Investment Option. Interest equivalents, equal to the product of: i) the daily published total return for the Oakmark Fund; multiplied by ii) the Deferred Compensation balance existing as of the end of the previous day in the Equity Fund Investment Option, shall be credited each day to a Participant's Deferred Compensation Account.

6.7 Fixed-Income Fund Investment Option. Interest equivalents, equal to the product of: i) the daily published total return for the PIMCo Total Return Fund; multiplied by ii) the Deferred Compensation balance existing as of the end of the previous day in the Fixed-Income Fund Investment Option, shall be credited each day to a Participant's Deferred Compensation Account.

6.8 Other Investment Options. The Committee may make other Investment Options available under the Plan from time to time. Earnings (loss) shall be credited to (subtracted from) amounts invested in such other Investment Options on a daily basis as determined by the Committee.

6.9 Transition Rule for Converting Existing Rights (or Derivative Rights) to FFC Shares. For purposes of establishing a Participant's Deferred Compensation Account, a transition rule shall apply for Participants electing to exchange and convert stock options, SARs, warrants and other rights to FFC Shares (or derivative rights) granted pursuant to the Fund American Long-Term Incentive Plan or other contractual agreement between Fund American and the Participant (collectively "Existing Options").

6.9(a) Election to Exchange and Convert Existing Options. Eligible Participants can, upon written election, choose to exchange and convert their Existing Options either for Phantom Shares granted pursuant to this Plan and calculated as set forth in the "Phantom Share Conversion Formula" contained in Section 6.9(c) or alternatively, or in combination with the Phantom Share Conversion Option, elect to exchange and convert Existing Options into the Prime Rate Investment Option, calculated as set forth in the

"Prime Rate Dollar Equivalent Conversion Formula" contained in Section 6.9(d). Such conversion privilege is still subject to all other provisions of this Plan, including the minimum deferral rules of Article IV and Article VIII, the 365 day advance notice requirement in Section 4.2(ii) and the Phantom Share Cumulative Dollar Limitation in Section 6.10(b).

6.9(b) Conversion Price for Exchanging Existing Options. Solely for purposes of Section 6.9, and in addition to the irrevocable election to exchange and convert Existing Options pursuant to Section 6.9(a), the Conversion Price of FFC Shares used to calculate the number of Phantom Shares to be added to a Participant's Deferred Compensation Account will be the closing Market Price of FFC Shares at the end of the business day elected by the Participant and stated in the Deferred Compensation Election Form filed with the Committee. Each Participant must select one of two allowable dates to calculate the amount of Compensation being converted into this Plan:

1) the same date the election to irrevocably convert Existing Options is made pursuant to Section 6.9(a); or

2) Depending on the type of Compensation being converted, the appropriate "Trigger Date" as the term is defined in Section 4.2(ii).

6.9(c) Phantom Share Conversion Formula.

$$([\$A - \$B] / \$A) \times C = D$$

Where A = Conversion Price of FFC Shares as defined in Section 6.5(b) or 6.9(b)

Where B = Weighted average exercise price for FFC Shares under Existing Options

Where C = Total FFC Shares Participant could have purchased using Existing Options

Where D = Total Dollar Equivalent credited to Prime Rate Investment Option

6.9(d) Prime rate Dollar Equivalent Conversion Formula.

$$[\$A - \$B] \times C = D$$

Where A = Conversion Price of FFC Shares as defined in Section 6.5(b) or 6.9(b)

Where B = Weighted average exercise price for FFC Shares under Existing Options

6.9(e) Legal Rights after Exchanging Existing Options. Notwithstanding anything to the contrary, a Participant who makes an irrevocable election to convert Existing Options pursuant to Section 6.9 herein understands that they are forfeiting all legal rights to such Existing Options that they held immediately prior to making the election to convert such Existing Options into this Plan.

6.10 Investment Option Election. Amounts invested in any Investment Option may be transferred annually among any available Investment Option (including a transfer to/from the Phantom Share Investment Option) in accordance with procedures established by the Committee. Such transfer election may be made only within the 10-business day period commencing on the third business day following release of the Company's third quarter financial information. An Investment Option election shall remain in effect for future Deferred Compensation (including amounts deferred in subsequent Plan Years) unless and until a new Investment Option Election is filed with the Committee.

6.10(a) Investment Option Allocation. Subject to the Phantom Share Cumulative Dollar Limitation contained at Section 6.10(b), each Participant can elect to allocate each type of Deferred Compensation for a particular Plan Year among the available Investment Options as described in Sections 6.4, 6.5, 6.6, 6.7 and 6.8. However, if more than one Investment Option is selected for a type of Deferred Compensation such allocation cannot be less than $5,000 with respect to any one Investment Option so elected.

6.10(b) Phantom Share Cumulative Dollar Limitation. Notwithstanding a Participant's ability to allocate Deferred Compensation among the available Investment Options, a Participant's election to invest Deferred Compensation in the Phantom Share Investment Option may be limited (either in whole or in part) as described herein:

(i) Without requiring authorization from the Board of Directors, but subject to all other provisions in this Plan, a Participant may continue to invest Deferred Compensation in the Phantom Share Investment Option to the extent the portion of a Participant's Deferred Compensation Account

balance invested in the Phantom Share Investment Option does not have a fair market value which exceeds twenty million dollars ($20 million).

(ii) Unless authorized by the Board of Directors, a Participant is precluded from investing additional Deferred Compensation in the Phantom Share Investment Option if the portion of a Participant's Deferred Compensation Account balance previously invested in the Phantom Share Investment Option has a fair market value which exceeds twenty million dollars ($20 million).

6.11 Deletion of Investment Options. Except as provided in Section 15.2, the Committee cannot delete or alter the terms of an available Investment Option without the written permission of those Participants affected by such proposed amendment whose Deferred Compensation is invested in such Investment Option.

6.12 Effect On Other Plans. If, because of a Participant's deferral of Compensation under this Plan, a Participant's benefits in any other Fund American plan (either qualified or nonqualified) are reduced, Fund American shall provide a supplemental credit. Such supplemental credit however, shall not be provided through this Plan but through some other plan, agreement or other mechanism as the Committee deems appropriate.

ARTICLE VII

PARTICIPANTS' RIGHTS UNSECURED

7.1 Unsecured Creditors. Amounts credited to Deferred Compensation Accounts shall be dealt with in all respects as working capital of Fund American, therefore the right of a Participant to receive any distribution hereunder shall be an unsecured claim against the general assets of Fund American.

7.2 No Actual Investment Required. Subject to ARTICLE XVI, no assets of Fund American shall in any way be held in trust for, or be subject to, any prior claim by a Director, an Officer, or a Key Employee, or his Beneficiary under the Plan. Further, neither Fund American nor the Committee shall have any

duty whatsoever to invest any amounts credited to any Deferred Compensation Accounts established under the Plan.

ARTICLE VIII

PAYMENT OF DEFERRED COMPENSATION

8.1 Commencement of Benefits. Subject to Section 8.1(a), when, and at the same time, an Eligible Participant elects to defer Compensation for any particular Plan Year, he shall also elect on the "Deferred Compensation Election Form" to have the portion of his Deferred Compensation Account balance attributable to such current Plan Year deferral commence to be paid on the first day of the Plan Year following the Plan Year in which the earlier event occurs:

(i) upon separation from service due to either termination, normal retirement, death or disability; or

(ii) upon the date such Participant attains a selected age.

8.1(a) 365 Day Minimum Deferral Period. Notwithstanding the time elected for the commencement of benefits pursuant to Section 8.1, commencement of

benefits will not occur prior to the expiration of a 365 day period beginning the day after the date on which an election to defer compensation became effective as provided in this Plan.

8.2 Payment Method Election. At the time the deferral election is filed pursuant to ARTICLE IV, Participants must also elect the method of receiving payment of their Deferred Compensation Account balance upon the first day of the Plan Year following the expiration of the elected deferral period. Each Participant shall elect to receive payment of their account either in:

(i) one lump sum on the benefit commencement date;

(ii) annual installments, with interest, over a specified period (determined in accordance with Section 8.3), beginning on the commencement date; or

(iii) an annual installment/lump-sum combination where 25%, 50% or 75% of the Deferred Compensation Account balance is paid in annual installments over a specified period (determined in accordance with Section 8.3), beginning on the commencement date, and the

remaining balance paid in lump-sum, with accrued interest, at the end of the elected payment period.

8.2(a) Installment Payout Formula. If a Participant selects payment option (ii) or (iii) of Section 8.2, the annual installment amount for a particular Plan Year will be computed as follows:

$$W = (X / [Y - Z])$$

Where W = Installment amount received by Participant in a particular Plan Year.

Where X = Participant's Deferred Compensation Account balance at end of prior Plan Year.

Where Y = Number of years originally elected by Participant for the payment period.

Where Z = Number of years in the elected payment period already elapsed.

8.2(b) Deferral Election Override. Notwithstanding anything contained herein to the contrary, with respect to any deferral election effective for Compensation earned after 1996, in the event that any amounts payable to a Participant hereunder (when aggregated with any other remuneration) would not be deductible by Fund American as a result of Code Section 162(m), such amounts shall not be paid until the first Plan Year in which the amount would be deductible under Code Section 162(m).

8.3 Payment Period Election. At the time an Eligible Participant elects to be a Participant for any Plan Year, he shall concurrently elect the number of years, up to a maximum of fifteen (15), over which his Deferred Compensation Account shall be paid out upon the expiration of the Deferral Period.

8.3(a) Automatic Payment Period Override. Notwithstanding the Participant's payment period election pursuant to Section 8.3, in the case of termination for cause (Section 8.6) or death of Participant (ARTICLE X), such payment period election will be automatically changed to the lump-sum option contained at Section 8.2(i).

8.4 Payment Denomination. All payments made to Participants shall be paid solely in cash.

8.5 Change of Prior Elections. Subject to the consent of the Committee, an Eligible Participant may file a request to change his prior election with respect to the timing of commencement of benefits (Section 8.1), payment method (Section 8.2) and/or payment period (Section 8.3). Such new election

must be filed with the Committee at least 365 days prior to the date on which payment of benefits would commence under either the original or the revised election. Only one such request will be approved with respect to any Participant.

8.6 Termination for Cause. Notwithstanding the payment period election made under Section 8.3, if a Participant is terminated for cause as determined by the Committee, payment of the entire amount remaining in his Deferred Compensation Account for all Plan Years shall be made in one lump sum on the first day after the end of the Plan Year in which termination occurred. Termination for cause shall include gross negligence, willful misconduct and fraud against the Company or any of its subsidiaries.

8.7 Hardship Withdrawal. Upon application of any Participant and approval thereof by the Committee, the Participant may withdraw, by reason of hardship, part or all of his Deferred Compensation Account. "Hardship" shall mean an unanticipated emergency situation in the Participant's financial affairs beyond the Participant's control, including illness or an accident involving the Participant, his dependents or other members of his family, or other significant financial emergency, as determined by the Committee in its sole discretion.

8.8 Accrued Interest Period. For purposes of determining the benefits to be paid to Participants under ARTICLES VIII and X, interest on such Deferred Compensation Account balance will continue to accrue through the end of November in the Plan Year prior to the Plan Year in which payment of benefits will be made. Interest for the month of December in the Plan Year prior to the Plan Year in which payment of benefits will be made is calculated by using the following formula:

[$X x Y%] x 30 = $Z

Where X = Participant's Deferred Compensation Account balance at November 30th

Where Y = Daily Prime Rate (see Section 6.4(a)) in effect on November 30th

Where Z = Additional accrued interest due Participant for the month of December

ARTICLE IX

VALUATION DATE

9.1 Valuation. As of each Valuation Date, the Deferred Compensation Account of each Participant shall be valued by the Committee. The current value, and the change in value from the prior valuation (whether positive or negative), shall be communicated in writing to each Participant within forty-five (45) days after such Valuation Date.

9.2 Valuation Dates. A Valuation Date shall, at a minimum, be four times during a Plan Year ending on each of the quarterly periods March 31, June 30, September 30 and December 31.

ARTICLE X

DEATH OF PARTICIPANT

Notwithstanding the payment period election made under Section 8.3, a Participant's estate or designated Beneficiary shall be paid the value of his Deferred Compensation Account in one lump sum as of the first day after the end of the Plan Year in which his death occurred. Interest on such balance shall be determined in accordance with the rules contained in Section 8.8.

ARTICLE XI

ALIENATION

Anticipation, alienation, sale, transfer, assignment, pledge or other encumbrance of any payments or benefits under the Plan shall not be permitted or recognized, and to the extent permitted by law, no such payments or benefits shall be subject to legal process or attachment for the payment of any claim of any person entitled to receive the same.

ARTICLE XII

TAX WITHHOLDING

12.1 Withholding. Subject to Sections 12.2 and 12.3, Fund American shall

deduct from all payments under this Plan the Participant's share of any taxes required to be withheld by any Federal, state or local government. The Participants and their Beneficiaries, distributees and personal representatives

will bear any and all Federal, foreign, state, local income taxes or any other taxes imposed on Participants on amounts under this Plan.

12.2 FICA Taxes. Pursuant to IRC Section 3121(v), Compensation deferred pursuant to this Plan is subject to FICA at the time of deferral rather than at the time of distribution to the Participant. Accordingly, all Participants who have not yet reached the maximum compensation levels subject to FICA at the time Compensation is deferred herein will be required to pay (by payroll deduction or check) to Fund American the Participant's share of FICA taxes due and payable.

12.3 Taxes Due at Deferral Date Other than FICA Taxes. If any of the taxes referred to in Section 12.1 are due at the time of deferral, instead of at the time of payout, the Participant will be required to pay (by payroll deduction or check) to Fund American the Participant's share of any such taxes due and payable.

ARTICLE XIII

CONSENT

By electing to become a Participant, each Director, Officer and Key Employee shall be deemed conclusively to have accepted and consented to all terms of the Plan and all actions or decisions made by the Company, the Board or the Committee with regard to the Plan. Such terms and consent shall also apply to, and be binding upon, the Beneficiaries, distributees and personal representatives and other successors in interest of each Participant.

ARTICLE XIV

SEVERABILITY

In the event any provision of this Plan would serve to invalidate the Plan, that provision shall be deemed to be null and void, and the Plan shall be construed as if it did not contain the particular provision that would make it invalid.

ARTICLE XV

AMENDMENT AND TERMINATION

15.1 Board May Amend or Terminate. Subject to Sections 15.2 and 15.3, the Board of Directors, may at any time modify or amend any or all of the provisions of the Plan or may at any time terminate the Plan.

15.2 (i) Investment Options. Notwithstanding Section 15.1, the Board of Directors cannot delete or alter the terms of the Investment Options, contained herein at Sections 6.4, 6.5, 6.6 and 6.7, without the written permission of those Participants, whose Deferred Compensation Account is invested in such Investment Option(s), who would be affected by such proposed amendment. However, nothing contained herein shall prevent the Board of Directors from substituting a new investment option for the Phantom Share Investment Option if the common stock of the Company (currently FFC Shares) is no longer publicly traded on a nationally recognized stock exchange. In the event of such an occurrence, the Board of Directors shall have the sole authority to substitute a new Investment Option and allow only those Participants affected to transfer their Phantom Share account balance to an existing Investment Option if the substituted Investment Option is not acceptable to the particular Participant.

(ii) Fiduciary Guidelines. Notwithstanding Section 15.1 and Section 15.2(i), the Board of Directors will not make amendments or terminate the Plan if such amendments or termination would reduce a Participant's balance in his Deferred Compensation Account. Further, the Board of Directors will not make amendments which would in any way eliminate the express requirement in Section 16.1 requiring the establishment of a Rabbi Trust in the event of a Change of Control if one has not previously been established.

15.3 Termination. In the event of termination of the Plan, the Committee

shall give written notice to each Participant that the entire balance in his Deferred Compensation Account will be distributed in the manner initially elected by each Participant pursuant to ARTICLE VIII. Further, pursuant to the responsibility vested with the Committee as stated in Section 17.1, the Committee will evaluate the

advisability of establishing a Rabbi Trust--if one does not already exist--in light of the circumstances that caused the Board of Directors to terminate the Plan.

ARTICLE XVI

CHANGE OF CONTROL

16.1 Funding of Trust. Notwithstanding ARTICLE VII, upon a "Change of Control" as defined in Section 16.2, the Board of Directors is required to cause the immediate contribution of funds to a trust--if not previously established--(i.e. "Rabbi Trust" established in accordance with Rev. Proc. 92-64 (or any successor) or other funding mechanism approved by the Internal Revenue Service which would not result in Plan Participants being in constructive receipt of income) for the benefit of each Plan Participant, as beneficiary. The assets of such trust shall at all times be subject to the claims of general creditors of Fund American. Such contribution will be equal to the balance in each Participant's Deferred Compensation Account as of the Change of Control date. Further, if the Plan is not terminated upon such Change of Control, Fund American will continue to contribute to the trust, on a monthly basis, the amount of Compensation being deferred by each Participant after the Change of Control.

16.2 Change of Control. For purposes of this Plan, a "Change of Control" shall occur if:

i) any person or group (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934), other than American Express Company or the Company, becomes the beneficial owner (within the meaning of Rule 13d-3 under such Exchange Act) of thirty-five percent (35%) or more of the Company's then outstanding FFC Shares;

ii) As defined in Section 16.3, the "Incumbent Board of Directors", cease to constitute a majority of the Board of Directors of the Company; or

iii) the business of the Company for which the Participant's services are principally performed is disposed of by the Company pursuant to a sale or other disposition of all or substantially all

of the business or business related assets of the Company (including stock of a subsidiary of the Company).

16.3 Incumbent Board of Directors. Incumbent Board of Directors shall mean those individuals who, as of April 9, 1992, constituted the Board of Directors or, alternatively, those members elected or nominated after April 9, 1992 who were approved for such election or nomination by a vote of at least a majority of the directors then comprising the Incumbent Board of Directors. Further, individuals shall be excluded whose initial assumption of office is or was in connection with an actual or threatened election contest relating to the election of the directors of the Company (as used in rule 14a-11 under the Securities Exchange Act of 1934).

ARTICLE XVII

PLAN ADMINISTRATION

17.1 Committee. The general administration of the Plan, the decision to establish a trust and the responsibility for carrying out its provisions shall be placed in the Committee.

17.2 Determinations of the Committee. Subject to the limitations of the Plan, the Committee shall from time to time establish rules for the administration and interpretation of the Plan and the transaction of its business. The determination of the Committee as to any disputed question shall be conclusive.

17.3 Majority Vote. Any act which the Plan authorizes or requires the

Committee to do may be done by a majority (expressed from time to time by a vote at a meeting or in writing without a meeting) and shall constitute the action of the Committee, and shall have the same effect for all purposes as if assented to by all members of the Committee.

17.4 Authorization of Committee Members. The members of the Committee may authorize one or more of their number to execute or deliver any instrument, make any payment, or perform any other act which the Plan authorizes or requires the Committee to do.

17.5 Agents. The Committee may employ or retain agents to perform such clerical, accounting, and other services as they may require in carrying out the provisions of the Plan.

17.6 Costs. Any and all such costs in administering this Plan will be paid and incurred by Fund American.

17.7 Notices. All written notices or elections as required herein shall be sent either by U.S. mail, overnight carrier service or personal delivery to the address below:

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover NH 03755
Attention: Michael S. Paquette

FUND AMERICAN

DEFERRED BENEFIT PLAN

(As Adopted December 31, 1992)
(Revised November 15, 1996)

FUND AMERICAN
DEFERRED BENEFIT PLAN
(Adopted December 31, 1992)
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INDEX

FUND AMERICAN
DEFERRED BENEFIT PLAN
(December 31, 1992)
(Revised November 15, 1996)

ARTICLE I

PURPOSE OF PLAN

1.1 The purpose of this Plan is to provide eligible Officers and Key Employees of Fund American with deferred retirement benefits. The Plan is also intended to establish a method of attracting and retaining persons whose abilities, experience and judgement can contribute to the long-term strategic objectives of Fund American.

1.2 The Committee intends that the Plan be an unfunded non-qualified deferred compensation plan maintained primarily for the purpose of providing deferred retirement benefits for a select group of management or highly compensated employees of Fund American, and that contributions to the Plan shall be deductible by Fund American pursuant to Section 404(a)(5) of the Internal Revenue Code of 1986, as amended (the "IRC").

ARTICLE II

DEFINITIONS

As used in this Plan, the following terms shall have the meanings hereinafter set forth:

2.1 "Base Salary" means the annual salary paid to Fund American Officers and Key Employees which is paid bi-weekly (or other regular interval) during the calendar year.

2.2 "Beneficiary" means any person(s) or legal entity(ies) designated by the Participant or otherwise determined in accordance with ARTICLE V.

2.3 "Board of Directors" means the Board of Directors of the Company.

2.4 "Cash Incentive Bonus" means the Participant's portion (if any) of Fund American's annual cash bonus pool normally awarded by the Board of Directors to Fund American employees shortly after the close of the calendar year, which is the relevant time frame used to judge such performance.

2.5 "Committee" means the Compensation Committee, a subcommittee of the Human Resources Committee as initially appointed by the Board of Directors and as appointed from time to time by written action of the Board of Directors.

2.6 "Company" means Fund American Enterprises Holdings, Inc. (formerly The Fund American Companies, Inc.), a Delaware corporation, and its successors and assigns.

2.7 "Compensation" has the same meaning, with one exception, as the definition contained in The Fund American Companies, Inc. Retirement Plan (terminated 10/31/92), e.g. Base Salary and Cash Incentive Bonuses (also overtime pay and military pay if applicable). Compensation specifically excludes performance units, stock appreciation rights, performance shares, restricted stock, warrants, stock options and other qualifying remuneration paid or otherwise payable by Fund American. The one difference in the definition of Compensation for this Plan is that all annual cash bonuses will be includible in Compensation in the year earned rather than paid.

2.8 "Deferral Period" means the total aggregate period of time, expressed in Plan Years, for which Deferred Retirement Benefits awarded for a particular Plan Year are to be invested in the Plan and not yet deemed payable to the Participant or his Beneficiary.

2.9 "Deferred Retirement Benefit" means the retirement benefit, expressed in U.S. dollars, deferred pursuant to ARTICLE VI of this Plan.

2.10 "Deferred Benefit Account" means the individual account maintained under the Plan for a Participant as determined under ARTICLE VI.

2.11 "Deferred Benefit Election Form" means the standardized election form that each Participant must execute in accordance with ARTICLE IV, a copy which is attached hereto as EXHIBIT # 1.

2.12 "Director" means a director of the Company who is not an employee of Fund American.

2.13 "FFC Share(s)" means a share(s) of Fund American Enterprises Holdings, Inc. Common Stock ($1.00 par value) as listed on the New York Stock Exchange (symbol FFC).

2.14 "Final Average Pay" has the same meaning as the definition contained in The Fund American Companies, Inc. Retirement Plan (terminated 10/31/92), i.e. the highest average Compensation of an

employee for any five (5) consecutive years falling within the ten (10) year period ending on the employee's service separation date, but subject to an overall maximum cap of 135% of the average Base Salary for the same applicable five year averaging period.

2.15 "Fund American" means the Company and certain of its wholly-owned affiliates as designated by the Committee or the Board of Directors from time to time.

2.16 "Investment Option" means an option made available to Participants pursuant to ARTICLE VI.

2.17 "Investment Option Election" means a Participant election made pursuant to ARTICLE VI.

2.18 "Key Employee" means any executive employee or other overtime-exempt employee of Fund American that the Committee in its sole discretion decides is important to the ongoing business objectives of Fund American.

2.19 "Market Price of FFC Share(s)" means the closing price per share of FFC listed on the NYSE composite tape or, if the NYSE is closed for a particular day, the closing NYSE price of FFC on the previous day.

2.20 "Officer" means an officer of Fund American as defined in the Corporate Bylaws.

2.21 "Participant" for any Plan Year means an Officer or Key Employee of Fund American designated by the Committee as eligible to participate in the Plan.

2.22 "Plan" means the Fund American Deferred Benefit Plan as embodied herein

and as amended from time to time.

2.23 "Plan Year" means the twelve (12) month calendar year beginning January 1 and ending December 31, or shorter period as the case may be in the year the Plan is adopted or terminated.

2.24 "Valuation Date" means the last business day of either a calendar year or calendar quarter, as the Committee will determine from time to time.

2.25 Construction. The masculine pronoun shall be deemed to include the feminine, and the singular number shall be deemed to include the plural unless a different meaning is plainly required by the context.

ARTICLE III

ELIGIBILITY

Each Officer and Key Employee of Fund American shall be eligible to participate in the Plan if selected by the Committee. The Committee has total discretion to determine who is eligible to participate on a Plan Year by Plan Year basis.

ARTICLE IV

PARTICIPATION

4.1 Election Form. Subject to Sections 4.2 and 4.3, an eligible Officer or Key Employee should make a valid election by executing and filing with the Committee, before the commencement of such Plan Year, a Deferred Benefit Election Form, a copy of which is attached hereto as EXHIBIT # 1.

4.2 New Employees. Notwithstanding Section 4.1, a newly hired Officer or Key Employee who becomes a Participant after the first day of the current Plan Year, may file a Deferred Benefit Election Form within fifteen (15) days after his initial date of employment with respect to the Deferred Retirement Benefit calculated on Compensation not yet earned for the remaining portion of the Plan Year.

4.3 Default Elections. If a Participant fails to file a timely Deferred Benefit Election Form in accordance with either Section 4.1 or 4.2, such Participant will forego all opportunity to make an Investment Option Election (Section 6.11), a Payment Method Election (Section 8.2) and a Payment Period Election (Section 8.3). Accordingly, failure to file a timely Deferred Benefit Election Form for a particular Plan Year will result in default elections being automatically triggered, which provide that:

(i) the current Plan Year's calculated Deferred Retirement Benefit will be invested solely in the Prime Rate Investment Option.

(ii) commencement of benefits will occur upon the first day of the Plan Year following the Plan Year in which termination of employment (for any reason) occurs.

(iii) the sole method of benefit payment to Participant will be a lump sum.

4.4 Election Not Revocable. Except as provided in Section 8.5, a Deferred Benefit Election Form, once executed and filed with the Committee, cannot be revoked for such current Plan Year's calculated Deferred Retirement Benefit.

4.5 Vesting. A Participant will be vested in his entire Deferred Benefit Account balance at all times and will not be subject to forfeiture for any reason.

4.6 Participation in Deferred Compensation Plan Not Required. A Participant need not also participate in the Fund American Voluntary Deferred Compensation Plan in order to participate in this Plan for a particular Plan Year.

4.7 New Elections Permitted for each year. All elections made on a Deferred

Benefit Election Form for a particular Plan Year have no effect on, nor are affected by, elections made for future or past Plan Years. Each Plan Year elections stand on their own.

ARTICLE V

GENERAL PROVISIONS

5.1 No Right To Payment Except as Provided in Plan. No Participant or Beneficiary shall have any right to any payment or benefit hereunder except to the extent provided in the Plan.

5.2 Employment Rights. The employment rights of any Participant shall not be enlarged, guaranteed or affected by reason of the provisions of the Plan.

5.3 Initial Participating Companies. Initially, no subsidiary other than Fund American Enterprises, Inc. is currently permitted to participate in the Plan. However, the Committee can decide at a future date to allow inclusion of a new or previously excluded subsidiary(ies).

5.4 Recipient Under a Disability. If the Committee determines that any person to whom a payment is due hereunder is a minor, or is adjudicated incompetent by reason of physical or mental disability, the Committee shall have the power to cause the payments becoming due to such person to be made to the legal guardian for the benefit of the minor or incompetent, without responsibility of Fund American or the Committee to see to the application of such payment, unless prior to such payment claim is made

therefor by a duly appointed legal representative. Payments made pursuant to such power shall operate as a complete discharge of Fund American and the Committee.

5.5 Designation of Beneficiary. Each Participant may designate any person(s) or legal entity(ies), including his estate, as his Beneficiary under the Plan in writing to the Committee. A Participant may at any time revoke or change his designation of Beneficiary by writing to the Committee. If no person or legal entity shall be designated by a Participant as his Beneficiary, or if no designated Beneficiary survives him, his estate shall be his Beneficiary.

5.6 Elections. Any election made or notice given by a Participant pursuant to the Plan shall be in writing to the Committee, or to such representative as may be designated by the Committee for such purpose. Notice shall be deemed to have been made or given on the date received by the Committee or its designated representative.

5.7 Controlling Law. The validity of the Plan or any of its provisions shall be determined under, and it shall be construed and administered according to, the laws of the State of Vermont.

ARTICLE VI

DEFERRED BENEFIT ACCOUNTS

6.1 Accounts. Upon receipt of a Participant's valid Deferred Benefit Election Form, the Committee shall establish, as a bookkeeping entry only, a Deferred Benefit Account for such Participant. The Committee shall thereafter record to each Participant's Deferred Benefit Account, as of the last day of the previous Plan Year, the Deferred Retirement Benefit amount calculated pursuant to Section 6.3.

6.2 Adjustments To Accounts. The balance in a Participant's Deferred Benefit Account at any time will be calculated on a daily basis by: i) aggregating all current or prior Plan Year Deferred Retirement Benefit amounts calculated pursuant to Section 6.3; ii) adding (subtracting) thereto the cumulative interest equivalent, whether positive or negative, earned on such Deferred Retirement Benefit amounts computed in accordance with the rules of Sections 6.4, 6.5 and 6.6, 6.7 and 6.8; and iii) from such total

obtained, subtracting the aggregate payments made to the Participant in current or prior Plan Years in accordance with ARTICLE VIII and ARTICLE X.

6.3 Deferred Retirement Benefit. A Participant's total Deferred Retirement

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Benefit amount for the current Plan Year shall be the sum of the following components, each of which is considered a separate Deferred Retirement Benefit solely for purposes of a Participant making an Investment Option Election pursuant to Section 6.11:

(i) for Plan Years through 1996 only, five percent (5%) of a Participant's Base Salary determined as of the beginning of a Plan Year, subject to an inflation adjusted, maximum annual dollar amount ($9,240 for 1995) as published by the Internal Revenue Service for a tax qualified plan commonly referred to as a 401(k) plan; and,

(ii) the excess of: a) the lump sum present value equivalent of the normal retirement benefit (i.e. a monthly annuity starting at age 65) computed as of the end of the current Plan Year, over b) the lump sum present value
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equivalent of the normal retirement benefit computed as of the end of the prior Plan Year.

Solely for purposes of this Section 6.3(ii), the calculation of each Plan Year's normal retirement benefit shall employ recognized actuarial principles and such other reasonable assumptions deemed necessary by the Committee to achieve the stated objective of providing each Participant with a retirement benefit which approximates the benefit that a Participant would have been entitled under The Fund American Companies, Inc. Retirement Plan, but assuming that the mandatory "Top Heavy" rules and maximum compensation limits imposed on all qualified plans did not exist. Further, the removal of compensation limits does not change the definition of Compensation as it is used in calculating Final Average Pay as such term is defined in The Fund American Companies, Inc. Retirement Plan except that the limitation of 135% of Base Salary shall be eliminated. Notwithstanding any provision to the contrary, for the purpose of determining any benefit under this Plan the bonus for 1990 for John J. Byrne shall be limited to 135% of Mr. Byrne's 1990 Base Salary.

6.3(a) Prospective Catch-up Adjustment. In recognition of the fact that the
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calculation of the Deferred Retirement Benefit for a particular Plan Year is based on estimates made as of the beginning of a Plan Year as to what a Participant's Compensation will be for an entire Plan Year, a prospective catch-up adjustment, either positive or negative, shall be made if a Participant's actual Compensation differs from estimated Compensation. Accordingly, such difference will be considered an additional Deferred Retirement Benefit or Detriment, as the case may be, but will be taken into account solely in determining the Deferred Retirement Benefit amount for the Plan Year following the Plan Year to which the adjustment relates.

6.4 Investment of Deferred Retirement Benefits. Deferred Retirement Benefit
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amounts shall be "theoretically invested" under any of the Investment Options described below, as elected by the Participant.

6.5 Prime Rate Investment Option. Interest equivalents, equal to the product
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of: i) Daily Prime Rate; multiplied by ii) the portion of the Deferred Benefit Account balance existing as of the end of the previous day in the Prime Rate Investment Option, shall be credited each day to a Participant's Deferred Benefit Account.

6.5(a) Daily Prime Rate. Expressed as a percentage, the "Daily Prime Rate" as
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described in Section 6.5 will be calculated by dividing the "base rate" of interest announced publicly by Citibank, N.A. in New York, N.Y. (or prime or base rate of another large commercial bank selected by the Committee), as in effect on the last business day of each month, by 360.

6.6 Phantom Share Investment Option. Interest equivalents shall be credited
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to (subtracted from) amounts in the Phantom Share Investment Option on a daily basis. Such daily interest equivalents shall be calculated as follows: i) take the aggregate number of Phantom Shares in a Participant's Phantom Share Investment Option at the close of business on the preceding calendar day; multiplied by ii) the difference between the
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FFC Share closing Market Price on the current calendar day, plus
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dividends paid or payable, as defined in Section 6.6(c), with respect to a single FFC Share, and the FFC Share closing Market Price on the preceding calendar day. For purposes of comparability, the above
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calculation shall

be adjusted for any stock splits or stock dividends occurring during the current calendar day which affects the number of Phantom Shares a Participant held on the preceding calendar day.

6.6(a) Phantom Shares Granted to Participant. Subject to the Phantom Share Cumulative Dollar Limitation contained at Section 6.11(b), the number of Phantom Shares granted to a Participant will be determined by dividing the dollar amount of Deferred Retirement Benefit allocated to the Phantom Share Investment Option by the Conversion Price. Such total amount of Phantom Shares determined will then be rounded to the next one-tenth (1/10) Phantom Share.

6.6(b) Conversion Price. The Conversion Price of FFC Shares used to calculate the number of Phantom Shares to be added to a Participant's Deferred Benefit Account as of the beginning of a Plan Year will be the closing Market Price of FFC Shares at the end of the last business day of the immediately preceding Plan Year.

6.6(c) Dividends Reinvested in Phantom Share Investment Option. For purposes of Section 6.6, dividends "paid or payable" shall mean either in cash or property, but shall exclude stock dividends or stock splits, as the case may be. Further, dividends paid or declared payable on the preceding day will be treated as automatically reinvested in FFC Shares as of the end of such day at the closing Market Price of FFC Shares; provided the Participant's account held Phantom Shares on the last day the Company declares as the date stockholders of record are entitled to receive such dividend on FFC Shares (i.e. the "ex-dividend" date).

6.6(d) Other Dilutive and Anti-dilutive Transactions Affecting Phantom Shares. In addition to Section 6.6(c), and subject to other provisions in the Plan, the Committee has the discretion to make appropriate adjustments to a Participant's account invested in the Phantom Share Investment Option where a "capital transaction" or "corporate reorganization" has the affect of changing the economic equivalent number of Phantom Shares that a Participant has been credited under this Plan. The Committee shall make an adjustment to the portion of each Participant's Deferred Benefit Account invested in the Phantom Share Investment Option so affected (if any), either positive or negative as the case may be,

to ensure that neither unintended economic benefits nor detriments are conferred on a Participant solely by reason of such capital transaction or corporate reorganization.

6.6(e) Capital Transaction or Corporate Reorganization. Solely for purposes of Section 6.6(d), a "capital transaction" or "corporate reorganization" shall not be limited to its ordinary meaning if in fact a Participant would be conferred an economic benefit or detriment by some other corporate transaction which is not literally considered a capital transaction or corporate reorganization under common business usage of said terms.

6.7 Equity Fund Investment Option. Interest equivalents, equal to the product of: i) the daily published total return for the Oakmark Fund; multiplied by ii) the Deferred Compensation balance existing as of the end of the previous day in the Equity Fund Investment Option, shall be credited each day to a Participant's Deferred Compensation Account.

6.8 Fixed-Income Fund Investment Option. Interest equivalents, equal to the product of: i) the daily published total return for the PIMCo ; multiplied by ii) the Deferred Compensation balance existing as of the end of the previous day in the Fixed-Income Fund Investment Option, shall be credited each day to a Participant's Deferred Compensation Account.

6.9 Other Investment Options. The Committee may make other Investment Options available under the Plan from time to time. Earnings (loss) shall be credited to (subtracted from) amounts invested in such other Investment Options on a daily basis as determined by the Committee.

6.10 Converting Accrued & Vested Benefits From Other Fund American Non-Qualified Plans. For purposes of establishing a Participant's Deferred Benefit Account, benefits accrued as of December 31, 1992 on behalf of Plan Participants who were also participating in one or more of the terminated Fund American non-qualified plans (i.e. The Fund American Companies, Inc. Retiree Medical Plan, Supplemental Pension Plan and

Survivor Benefit Plan), shall be transferred as of January 1, 1993 to this Plan and invested in accordance with Section 6.11 and the elections made by such Participants as indicated on the Deferred Benefit Election Form. Such transferred balances shall be considered an

additional Deferred Retirement Benefit amount for the 1993 Plan Year in addition to the Deferred Retirement Benefit calculated pursuant to Section 6.3.

6.11 Investment Option Election. Amounts invested in any Investment Option may be transferred annually among any available Investment Options (including a transfer to/from the Phantom Share Investment Option) in accordance with procedures established by the Committee. Such transfer election may be made only within the 10-business day period commencing on the third business day following release of the Company's third quarter financial information.

An Investment Option election shall remain in effect for future Deferred Compensation (including amounts deferred in subsequent Plan Years) unless and until a new Investment Option Election is filed with the Committee.

6.11(a) Investment Option Allocation. Subject to the Phantom Share Cumulative Dollar Limitation contained at Section 6.11(b), each Participant can elect to allocate each component of a Plan Year's total Deferred Retirement Benefit among the available Investment Options as described in Sections 6.5, 6.6, 6.7, 6.8 and 6.9.

6.11(b) Phantom Share Cumulative Dollar Limitation. Notwithstanding a Participant's ability to allocate Deferred Retirement Benefits for a Plan Year among the available Investment Options, a Participant's election to invest Deferred Retirement Benefits in the Phantom Share Investment Option may be limited (either in whole or in part) as described herein: (i) Without requiring authorization from the Board of Directors, but subject to all other provisions in this Plan, a Participant may continue to invest Deferred Retirement Benefits in the Phantom Share Investment Option to the extent the portion of a Participant's Deferred Benefit Account balance invested in the Phantom Share Investment Option does not have a fair market value which exceeds twenty million dollars ($20 million). (ii) Unless authorized by the Board of Directors, a Participant is precluded from investing additional Deferred Retirement Benefits in the Phantom Share Investment Option if the portion of a Participant's Deferred Benefit Account balance previously invested in the Phantom Share Investment Option has a fair market value which exceeds twenty million dollars ($20 million).

6.12 Deletion of Investment Options. Except as provided in Section 15.2, the Committee cannot delete or alter the terms of an existing Investment Option without the written permission of those Participants affected by such proposed amendment whose Deferred Retirement Benefits is invested in such Investment Option.

ARTICLE VII

PARTICIPANTS' RIGHTS UNSECURED

7.1 Unsecured Creditors. Amounts credited to Deferred Benefit Accounts shall be dealt with in all respects as working capital of Fund American, therefore the right of a Participant to receive any distribution hereunder shall be an unsecured claim against the general assets of Fund American.

7.2 No Actual Investment Required. Subject to ARTICLE XVI, no assets of Fund American shall in any way be held in trust for, or be subject to, any prior claim by an Officer or a Key Employee or his Beneficiary under the Plan. Further, neither Fund American nor the Committee shall have any duty whatsoever to invest any amounts credited to any Deferred Benefit Accounts established under the Plan.

ARTICLE VIII

PAYMENT OF DEFERRED RETIREMENT BENEFITS

8.1 Commencement of Benefits. Subject to Sections 4.3 and 8.1(a), when, and at the same time, an eligible Participant elects to invest Deferred Retirement Benefits for any particular Plan Year, he shall also elect on

the Deferred Retirement Benefits Election Form to have the portion of his Deferred Benefit Account balance attributable to such current Plan Year commence to be paid on the first day of the Plan Year following the Plan Year in which the earlier event occurs:

(i) upon separation from service due to either termination, normal retirement, death or disability; or

(ii) upon the date such Participant attains a selected age.

8.1(a) 365 Day Minimum Deferral Period. Notwithstanding the time for the commencement of benefits pursuant to Section 8.1, commencement of benefits will not occur prior to the expiration of a 365

day period beginning the day after the date on which a Deferred Retirement Benefit is awarded as provided in this Plan.

8.2 Payment Method Election. At the time the Deferred Benefit Election Form is filed pursuant to ARTICLE IV, Participants must also elect the method of receiving payment of their Deferred Benefit Account balance upon the first day of the Plan Year following the expiration of the elected Deferral Period. Each Participant shall elect to receive payment of his account either in:

(i) one lump sum on the benefit commencement date;

(ii) annual installments, with interest, over a specified period (determined in accordance with Section 8.3), beginning on the commencement date; or

(iii) an annual installment/lump-sum combination where 25%, 50% or 75% of the Deferred Benefit Account balance is paid in annual installments over a specified period (determined in accordance with Section 8.3), beginning on the commencement date, and the remaining balance paid in lump-sum, with accrued interest, at the end of the elected payment period.

8.2(a) Installment Payout Formula. If a Participant selects payment option (ii) or (iii) of Section 8.2, the annual installment amount for a particular Plan Year will be computed as follows:

$$W = (X / [Y - Z])$$

Where W = Installment amount received by Participant in a particular Plan Year.

Where X = Participant's Deferred Benefit Account balance at end of the prior Plan Year.

Where Y = Number of years originally elected by Participant for the payment period.

Where Z = Number of years in the elected payment period already elapsed.

8.2(b) Deferral Election Override. Notwithstanding anything contained herein to the contrary, with respect to any deferral election effective for Compensation earned after 1996, in the event that any amounts payable to a Participant hereunder (when aggregated with any other remuneration) would not be

deductible by Fund American as a result of Code Section 162(m), such amounts shall not be paid until the first Plan Year in which the amount would be deductible under Code Section 162(m).

8.3 Payment Period Election. At the time an Eligible Participant elects to be a Participant for any Plan Year, he shall concurrently elect on the Deferred Benefit Election Form the number of years, up to a maximum of fifteen (15), over which his Deferred Benefit Account shall be paid out upon the expiration of the Deferral Period.

8.3(a) Automatic Payment Period Override. Notwithstanding the Participant's payment period election pursuant to Section 8.3, in the case of termination for cause (Section 8.6) or death of the Participant (ARTICLE X), such payment period election will be automatically changed to the lump-sum option contained at Section 8.2(i).

8.4 Payment Denomination. All payments made to Participants shall be paid solely in cash.

8.5 Change of Prior Elections. Subject to the consent of the Committee, a Participant may file a request to change his prior election with respect to the timing of commencement of benefits (Section 8.1), payment method (Section 8.2) and/or payment period (Section 8.3). Such new election must be filed with the Committee at least 365 days prior to the date on which payment of benefits would commence under either the original or the revised election. Only one such request will be approved with respect to any Participant.

8.6 Termination for Cause. Notwithstanding the payment period election made under Section 8.3, if a Participant is terminated for cause as determined by the Committee, payment of the entire amount remaining in his Deferred Benefit Account for all Plan Years shall be made in one lump sum on the first day after the end of the Plan Year in which termination occurred. Termination for cause shall include gross negligence, willful misconduct and fraud against the Company or any of its subsidiaries.

8.7 Hardship Withdrawal. Upon application of any Participant and approval thereof by the Committee, the Participant may withdraw, by reason of hardship, part or all of his Deferred Benefit Account. "Hardship" shall mean an unanticipated emergency situation in the Participant's financial affairs

beyond the Participant's control, including illness or an accident involving the Participant, his dependents or other members of his family, or other significant financial emergency, as determined by the Committee in its sole discretion.

8.8 Accrued Interest Period. For purposes of determining the benefits to be paid to Participants under ARTICLES VIII and X, interest on such Deferred Benefit Account balance will continue to accrue through the end of November in the Plan Year prior to the Plan Year in which payment of benefits will be made. Interest for the month of December in the Plan Year prior to the Plan Year in which payment of benefits will be made is calculated by using the following formula:

[$X x Y%] x 30 = $Z

Where X = Participant's Deferred Benefit Account balance at November 30th

Where Y = Daily Prime Rate (see Section 6.5(a)) in effect on November 30th

Where Z = Additional accrued interest due Participant for the month of December

ARTICLE IX

VALUATION DATE

9.1 Valuation. Valuation Date, the Deferred Benefit Account balance of each Participant shall be valued by the Committee. The current value, and the change in value from the prior Valuation Date (whether positive or negative), shall be communicated in writing to each Participant within forty-five (45) days after such Valuation Date.

9.2 Valuation Dates. A Valuation Date, shall, at a minimum, be four times during a Plan Year ending on each of the quarterly periods March 31, June 30, September 30 and December 31.

ARTICLE X

DEATH OF PARTICIPANT

Notwithstanding the payment period election made under Section 8.3, a Participant's estate or designated Beneficiary shall be paid the value of his Deferred Benefit Account in one lump sum on

the first day after the end of the Plan Year in which his death occurred. Interest on such balance shall be determined in accordance with the rules contained in Section 8.8.

ARTICLE XI

ALIENATION

Other than as provided in ARTICLE X, anticipation, alienation, sale, transfer, assignment, pledge or other encumbrance of any payments or benefits under the Plan shall not be permitted or recognized, and to the extent permitted by law, no such payments or benefits shall be subject to legal process or attachment for the payment of any claim of any person entitled to receive the same.

ARTICLE XII

TAX WITHHOLDING

12.1 Withholding. Subject to Sections 12.2 and 12.3, Fund American shall deduct from all payments under this Plan each Participant's share of any taxes required to be withheld by any Federal, state or local government. The Participants and their Beneficiaries, distributees and personal representatives will bear any and all Federal, foreign, state, local income taxes or any other taxes imposed on Participants on amounts under this Plan.

12.2 FICA Taxes. Pursuant to IRC Section 3121(v), Compensation deferred pursuant to this Plan is subject to FICA at the time of deferral rather than at the time of distribution to the Participant. Accordingly, each Participant who has not yet reached the maximum compensation levels subject to FICA at the time Compensation is deferred herein will be required to pay (by payroll deduction or check) to Fund American his share of FICA taxes due and payable.

12.3 Taxes Due at Deferral Date Other than FICA Taxes. If any of the taxes referred to in Section 12.1 are due at the time of deferral, instead of at the time of payout, the Participant will be required to pay (by payroll deduction or check) to Fund American the Participant's share of any such taxes due and payable.

ARTICLE XIII

CONSENT

By electing to become a Participant, each Officer and Key Employee shall be deemed conclusively to have accepted and consented to all terms of the Plan and all actions or decisions made by the Company, the Board or the Committee with regard to the Plan. Such terms and consent shall also apply to, and be binding upon, the Beneficiaries, distributees and personal representatives and other successors in interest of each Participant.

ARTICLE XIV

SEVERABILITY

In the event any provision of this Plan would serve to invalidate the Plan, that provision shall be deemed to be null and void, and the Plan shall be construed as if it did not contain the particular provision that would make it invalid.

ARTICLE XV

AMENDMENT AND TERMINATION

15.1 Board May Amend or Terminate. Subject to Sections 15.2 and 15.3, the Board of Directors, may at any time modify or amend any or all of the provisions of the Plan or may at any time terminate the Plan.

15.2 (i) Investment Options. Notwithstanding Section 15.1, the Board of Directors cannot delete or alter the terms of the Investment Options, contained herein at Sections 6.5 and 6.6, without the written permission of those Participants, whose Deferred Benefit Account is invested in such Investment Option(s), who would be affected by such proposed amendment. However, nothing contained herein shall prevent the Board of Directors from substituting a new investment option for the Phantom Share Investment Option if the common stock of the Company (currently FFC Shares) is no longer publicly traded on a nationally recognized stock exchange. In the event of such an occurrence, the Board of Directors shall have the sole authority to substitute a new Investment Option and allow

only those Participants affected to transfer their Phantom Share account balance to an existing Investment Option if the substituted Investment Option is not acceptable to the particular Participant. (ii) Fiduciary Guidelines. Notwithstanding Section 15.1 and Section 15.2(i), the Board of Directors will not make amendments or terminate the Plan if such amendments or termination would reduce a Participant's balance in his Deferred Benefit Account. Further, the Board of Directors will not make amendments which would in any way eliminate the express requirement in Section 16.1 requiring the establishment of a Rabbi Trust in the event of a Change of Control if one has not previously been established.

15.3 Termination. In the event of termination of the Plan, the Committee shall give written notice to each Participant that the entire balance in his Deferred Benefit Account will be distributed in the manner initially elected by each Participant pursuant to ARTICLE VIII. Further, pursuant to the responsibility vested with the Committee as stated in Section 17.1, the Committee will evaluate the advisability of establishing a Rabbi Trust--if one does not already exist--in light of the circumstances that caused the Board of Directors to terminate the Plan.

ARTICLE XVI

CHANGE OF CONTROL

16.1 Funding of Trust. Notwithstanding ARTICLE VII, upon a "Change of Control" as defined in Section 16.2, the Board of Directors is required to cause the immediate contribution of funds to a trust--if not previously established--(i.e. "Rabbi Trust" established in accordance with Rev. Proc. 92-64 (or any successor) or other funding mechanism approved by the Internal Revenue Service which would not result in Plan Participants being in constructive receipt of income) for the benefit of each Plan Participant, as beneficiary. The assets of such trust shall at all times be subject to the claims of general creditors of Fund American. Such contribution will be equal to the balance in each Participant's Deferred Benefit Account as of the Change of Control date. Further, if the Plan is not terminated upon such Change of Control, Fund American will continue to contribute to the trust, on

an annual basis, an amount of cash equal to the Deferred Retirement Benefit awarded to each Participant after the Change of Control.

16.2 Change of Control. For purposes of this Plan, a "Change of Control" shall occur if:

i) any person or group (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934), other than American Express Company or the Company, becomes the beneficial owner (within the meaning of Rule 13d-3 under such Exchange Act) of thirty-five percent (35%) or more of the Company's then outstanding FFC Shares;

ii) as defined in Section 16.3, the "Incumbent Board of Directors", cease to constitute a majority of the Board of Directors of the Company; or

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

16.3 Incumbent Board of Directors. Incumbent Board of Directors shall mean those individuals who, as of April 9, 1992, constituted the Board of Directors or, alternatively, those members elected or nominated after April 9, 1992 who were approved for such election or nomination by a vote of at least a majority of the directors then comprising the Incumbent Board of Directors. Further, individuals shall be excluded whose initial assumption of office is or was in connection with an actual or threatened election contest relating to the election of the directors of the Company (as used in rule 14a-11 under the Securities Exchange Act of 1934).

ARTICLE XVII

PLAN ADMINISTRATION

17.1 Committee. The general administration of the Plan, the decision to establish a trust and the responsibility for carrying out its provisions shall be placed in the Committee.

17.2 Determinations of the Committee. Subject to the limitations of the Plan, the Committee shall from time to time establish rules for the administration and interpretation of the Plan and the transaction of its business. The determination of the Committee as to any disputed question shall be conclusive.

17.3 Majority Vote. Any act which the Plan authorizes or requires the Committee to do may be done by a majority (expressed from time to time by a vote at a meeting or in writing without a meeting) and shall constitute the action of the Committee, and shall have the same effect for all purposes as if assented to by all members of the Committee.

17.4 Authorization of Committee Members. The members of the Committee may authorize one or more of their number to execute or deliver any instrument, make any payment, or perform any other act which the Plan authorizes or requires the Committee to do.

17.5 Agents. The Committee may employ or retain agents to perform such clerical, accounting, and other services as it may require in carrying out the provisions of the Plan.

17.6 Any and all such costs in administering this Plan will be paid and incurred by Fund American.

17.7 Notices. All written notices or elections as required herein shall be sent either by U.S. mail, overnight carrier service or personal delivery to the address below:

Fund American Enterprises Holdings, Inc.
80 South Main Street
Hanover, NH 03755
Attention: Mr. Michael S. Paquette

AGREEMENT

This Agreement ("Agreement") is between Source One Mortgage Services Corporation (the "Company") and Robert W. Richards (the "Employee"). The parties voluntarily agree as follows:

1. Employee hereby resigns from all his positions as a director, board or other committee member or officer of the Company or any of its affiliates effective on June 1, 1996 ("Termination Date"). In consideration of Employee's resignation, and in consideration of the promises and representations made in Paragraphs 2 through 7 below, the Company agrees to make supplemental payments (subject to applicable taxes and withholding) to Employee and his spouse, if she survives him, equal to the excess of (i) the benefit that would have been payable to him and his spouse, if she survives him, under the Source One Mortgage Services Corporation Retirement Plan ("Retirement Plan") and the related Source One Mortgage Services Corporation Supplemental Retirement Plan ("Supplemental Plan") commencing on the Termination Date had he attained age 58 on the Termination Date, had he been credited with benefit service until he attained age 58 (instead of his actual benefit service) and had he elected to have his benefits commence on the Termination Date over (ii) the amounts actually payable from the Retirement Plan and Supplemental Plan beginning as of the Termination Date. Payment of such benefits beyond the Employee's 55th birthday is contingent upon the Employee electing under Article IV, Section 4(a), of the Retirement Plan, within 90 days before he attains age 55 (if he is then living) to commence to receive his monthly benefit under the Retirement Plan on the first day of the month following his 55th birthday. Such benefits shall be paid in the same manner and form as benefits under the Retirement Plan are paid. Such benefits shall be paid from the general funds of the Company. Execution of this Agreement by Employee represents acknowledgment that the additional benefit described in this paragraph 1 represents valuable consideration and not benefits or compensation otherwise owed Employee by the Company.

2. By execution of this Agreement and in consideration of the additional benefit described in Paragraph 1, Employee agrees as follows:

a. Employee's resignation will be effective on the Termination Date. Employee acknowledges that effective as of such date, any right or authority on Employee's part to act as an agent or employee of the Company, in any manner whatsoever, shall be terminated.

b. Employee agrees to release and discharge the Company, Fund American Enterprises Holdings, Inc. and any related company, and their respective agents, employees directors and officers ("Fund American Group") from any and all actions, causes of action, claims, awards, damages, demands or suits, at law or in equity, or liabilities of any kind or nature whatsoever, which Employee now has or hereafter may have against the Fund American Group at any time in the past

and at any time through the Termination Date, excepting, however, any amounts payable to the Employee under paragraph 1 above and any amounts payable or benefits provided as described in the letter dated June 5, 1996 to you from John J. Byrne on behalf of the Company. This release and discharge is specifically understood to apply to, but is not limited to, claims of wrongful discharge, claims of discriminatory treatment based upon any one or combination of the factors of sex, race, religion, sexual orientation, handicap, national origin and any and all other claims arising under federal, state or local law, whether such claims arise due to common law (whether arising in tort or contract) or by constitution, statute or ordinance. This release and discharge also includes a waiver of any rights or claims which Employee may have under the Age Discrimination in Employment Act, as amended, arising on or prior to the date of execution of this Agreement but does not include any such rights or

claims arising after the date of this Agreement.

c. Employee agrees that he will hold in a fiduciary capacity for the benefit of the Fund American Group all Confidential Information as defined below and shall not communicate or divulge any Confidential Information to, or use any Confidential Information for the benefit of, any person (including the Employee) or entity other than an entity in the Fund American Group. "Confidential Information" shall mean (i) information, not generally known, about the Fund American Group's clients, processes, services and products, whether written or not, including information relating to research, accounting, marketing, merchandising, selling and the identity of current and prospective customers and other client information and (ii) any confidential information entrusted to the Fund American Group by a client or customer thereof which to the Fund American Group is obligated to keep confidential. Employee agrees that he will return to the Company as soon as practicable after the Termination Date any documents or other written, recorded or graphic matter containing, relating or referring to any Confidential Information (and all copies thereof) in Employee's possession or control.

d. Employee agrees that he will not make any statement to any third party disparaging or criticizing, or otherwise take action to cast aspersions on, the management, business, affairs or property of any of the Fund American Group.

3. Employee acknowledges that he is entering into this Agreement voluntarily and of his own free will. Employee also agrees that this Agreement contains the parties' complete understanding and that there are no other agreements, oral or written, pertaining to the subject matter of this Agreement.

4. The parties hereto agree that this Agreement shall be governed by and construed in accordance with the laws of the State of Michigan. The parties further agree that should any part or provision of this Agreement be held unenforceable or in conflict with controlling law, the validity of the remaining parts and provisions shall be unaffected.

5. The parties expressly agree that this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, successors and assigns.

6. Employee agrees that the terms of this Agreement shall be kept confidential and shall not be divulged by Employee to anyone including but not limited to any current or future employee of the Company.

7. Employee acknowledges that he was provided a copy of this Agreement on June 5, 1996 and that he has until June 26, 1996, to sign and return it to the Company. Employee shall have seven days from the date this Agreement is executed by the Employee to revoke this Agreement. It is agreed that this Agreement shall become effective and enforceable at end of the seven-day revocation period unless the Employee exercises his right to revoke this Agreement within such period. Employee is advised to consult with an attorney prior to executing this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year written below.

ROBERT W. RICHARDS	SOURCE ONE MORTGAGE SERVICES CORPORATION
By: _____	By: _____
_____ (Date)	_____ (Date)

GUARANTY

THIS GUARANTY (the "Guaranty") is made and entered into as of the 28th day of February, 1997 (the "Effective Date") by Fund American Enterprises Holdings, Inc. (the "Guarantor"), to and for the benefit of Chemical Mortgage Company, an Ohio corporation, its stockholders, officers, directors, employees, agents successors and assigns (collectively, the "Purchaser").

WITNESSETH:

WHEREAS, Source One Mortgage Services Corporation (the "Seller") owns the servicing rights to certain residential mortgage loans with an aggregate outstanding principal balance of approximately 18 Billion Dollars as of August 31, 1996 (individually, a "Mortgage Loan" or collectively the "Mortgage Loans") which Mortgage Loans are owned by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association, and

WHEREAS, Seller and Purchaser have entered into a certain FNMA/FHLMC/GNMA Mortgage Servicing Purchase and Sale Agreement dated as of February 28th, 1997 (the "Sale Agreement") pursuant to which Purchaser agreed to purchase from Seller all of Seller's right, title and interest in and to the servicing of the Mortgage Loans, and Seller has agreed to subservice the Mortgage Loans for a period of time, all as more particularly described in the Sale Agreement (the "Servicing"); and

WHEREAS, Purchaser has advised Guarantor and Seller that it will not purchase the Servicing unless, among other matters, Guarantor guarantees to the Purchaser the performance and satisfaction of the obligations of Seller as described in the Sale Agreement, as hereinafter provided, because Guarantor will derive substantial benefits from the purchase of the Servicing by Purchaser.

NOW, THEREFORE, in order to induce Purchaser to complete the transaction contemplated by the aforesaid Sale Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees as follows:

Section 1. Incorporation of Recitals and Definition of Purchase Documents. The foregoing recitals are hereby acknowledged and agreed to be true and are hereby incorporated into the body of this Guaranty by reference to the same extent as if herewith set forth in full. The Sale Agreement and all other documents, instruments and certifications related to the purchase of the Servicing are sometimes herein collectively referred to as the "Purchase Documents."

Section 2. Guaranty.

(a) Guarantor hereby guarantees to Purchaser, and shall stand as surety for, the full and complete payment and performance of the obligations of Seller pursuant to the Sale Agreement, including but not limited to the obligations of Seller to act as subservicer pursuant to the terms of an interim subservicing agreement and a subservicing agreement which are a part of the Sale Agreement. This is a guaranty of payment and performance and not of collection only. Guarantor shall not be discharged or released hereunder by reason of a discharge of Seller in bankruptcy, receivership or other proceeding, a disaffirmation or rejection of the Sale Agreement by a trustee, custodian, or other representative with respect to a bankruptcy or receivership, a stay or other enforcement restriction, or any other reduction, modification, impairment or limitation of the liability of Seller or any remedy of Purchaser. Except in accordance with Section 7, Guarantor shall not be discharged or released hereunder by reason of the full or partial transfer or assignment of Seller's obligations under the Sale Agreement (or the Mortgage Loan Subservicing Agreement or the Mortgage Loan Interim Subservicing Agreement which are incorporated into and are a part of the Sale Agreement).

(b) The right of recovery against the Guarantor under this Guaranty is, however, limited, in the aggregate, to an amount calculated as set forth herein below (the "Guaranty Amount"):

> The Guaranty Amount shall equal, as of the date of the presentation by Purchaser to Guarantor of any claim for payment hereunder, Twenty Million Dollars ($20,000,000) times a fraction, the numerator of which is the aggregate outstanding principal balance of the mortgage loans which are the subject of the Sale Agreement as of the date of presentation of such claim, and the denominator of which is the aggregate outstanding principal balance of the mortgage loans which are the subject of the Sale Agreement as of the Effective Date.

Notwithstanding anything to the contrary contained herein, the Guaranty Amount shall never be greater than Twenty Million Dollars ($20,000,000) nor less than Fifteen Million Dollars ($15,000,000). The Guaranty Amount applies to the liability of Guarantor under this Guaranty with respect to the obligations guaranteed under this Section 2, and not with respect to the par value of any mortgage loan which may be the subject of a claim hereunder.

Section 3. Benefit. This Guaranty may be assigned or transferred in whole or in part by Purchaser to any assignee of all of its rights and interest permitted under the Sale Agreement, and the benefit of this Guaranty shall pass with a transfer or assignment of the Servicing (or the Servicing related thereto) to any subsequent transferee or assignee. All references to "Purchaser" herein shall be deemed to include any successor or assignee of Purchaser or any subsequent owner of the Servicing.

Section 4. Actions by Purchaser. Except as set forth in the Purchase Documents, no action which Purchaser may take or omit to take in connection with the Purchase Documents or the Servicing, nor any course of dealing with Seller or any other person shall release Guarantor's obligations hereunder, affect this Guaranty in any way, or afford Guarantor any recourse against Purchaser. By way of example, but not in limitation of the foregoing, Guarantor hereby expressly agrees that Purchaser may, from time to time, and without notice to or consent of Guarantor (but with notice to or consent of Seller to the extent notice or consent is required under the Purchase Documents): (a) amend, change or modify, in whole or in part, any of the Purchase Documents; (b) waive any terms, conditions or covenants of the Purchase Documents, or grant any extension of time or forbearance for performance of the same; (c) compromise or settle any amount due or owing, or claimed to be due or owing, under the Purchase Documents; or (d) release, substitute or add a guarantor or guarantors of the obligations of Seller to Purchaser guaranteed hereby. The provisions of this Guaranty shall extend and be applicable to all amendments and modifications of the Purchase Documents, and all references to any of the Purchase Documents shall be deemed to include any amendment or modification thereof.

Section 5. Waiver of Notice. Guarantor expressly waives notice of: (i) acceptance of this Guaranty, (ii) collecting sums due under the Purchase Documents, (iii) enforcing of any of the terms thereof, or (iv) the taking of any action with reference thereto or any liability under this Guaranty.

Section 6. Dependent Obligation. The obligations of Guarantor hereunder shall be, conditioned solely upon a default by Seller under the Purchase Documents. Purchaser may proceed directly against the Guarantor to enforce its rights under this Guaranty without proceeding against or joining the Seller. Guarantor hereby waives any rights it may have to compel Purchaser to proceed against Seller.

Neither the exercise of any remedies against Seller, nor the sale, enforcement or realization of any of the Servicing shall (except to the extent that such actions cause the obligations guaranteed by Guarantor to be satisfied) in any way affect Guarantor's obligations hereunder, even though any rights which Guarantor may have against Seller or others may be extinguished, diminished or otherwise affected by such action.

Section 7. Delegation/Termination. Except as otherwise set forth in this Section 7, Guarantor's obligations hereunder shall not, without the prior written consent of Purchaser, which consent shall not be unreasonably withheld, be assigned, assumed or delegated. Guarantor's obligations hereunder may be assigned, assumed or delegated to any of the five entities named in a separate letter dated and delivered of even date herewith by Purchaser to Guarantor, provided that such entity assumes all of Guarantor's obligations hereunder, and provided that there has not been a material adverse change in the operations or financial condition of such entity as of the date of any such assumption. Guarantor's obligations hereunder shall automatically terminate on a date (the "Termination Date") which is the earlier of (i) ten (10) years from the Effective Date; or (ii) the date on which all of the Seller's obligations under the Purchase Documents have been irrevocably paid and discharged in full. However, Purchaser may recover under this Guaranty beyond the Termination Date in accordance with the terms of Section 11.6 of the Sale Agreement, provided that notice shall have been given to Guarantor prior to the Termination Date.

Section 8. No Oral Change. This Guaranty may not be changed or amended, except by a writing signed by the party against whom enforcement of such change or amendment is sought, and no obligation of Guarantor shall be released or waived by Purchaser or any subsequent owner of the Servicing, except by a writing signed thereby.

Section 9. Cost of Enforcement. In connection with any litigation or court proceeding arising out of the enforcement of this Guaranty, the prevailing party shall be entitled to recover from the non-prevailing party all cost incurred, including attorneys' fees incurred for services rendered before suit is brought, prior to trial, at trial, or appeal, or in federal bankruptcy proceedings.

Section 10. Financial Statements. Guarantor hereby warrants and represents that as of the Effective Date, there has been no material adverse change in its financial condition from that reflected in the financial statements previously submitted to Purchaser, except as may result from the transactions effected under the Sale Agreement, and that since the date of such statements, the business, property and assets of Guarantor have not been adversely affected in any material way. During the term of this Guaranty, Guarantor shall, within one hundred (100) days after the end of each calendar year, provide financial statements to Purchaser for such calendar year certified by Guarantor as true and correct.

Section 11. Governing Law. This Guaranty shall be governed by and construed in accordance with the laws of the State of Ohio.

Section 12. Subrogation. Guarantor hereby unconditionally and irrevocably agrees that, until the Termination Date (i) Guarantor will not at any time assert against Seller (or Seller's estate in the event Seller becomes bankrupt or becomes the subject of any case or proceeding under the bankruptcy laws of the United States of America) any right or claim to indemnification, reimbursement, contribution or payment for or with respect to any and all amounts Guarantor may pay or be obligated to pay Purchaser, including, without limitation, the indebtedness and any and all obligations which Guarantor may perform, satisfy or discharge, under or with respect to this Guaranty; (ii) Guarantor shall have no right of subrogation, and Guarantor shall have no right to enforce any remedy which Guarantor now has or may hereafter have against Seller; and (iii) Guarantor waives any benefit of, and any right to participate in, any security now held by Purchaser. Guarantor waives any defense based upon an election of remedies by Purchaser which destroys or otherwise impairs any subrogation rights of Guarantor or the right of Guarantor to proceed against Seller for reimbursement. Prior to the Termination Date, Guarantor may take such steps as may be reasonably necessary to protect its ability to assert its rights after the Termination Date. If any

amount shall be paid to or received by Guarantor, prior to the Termination Date, on account of such subrogation rights or in connection with action taken to protect such subrogation rights, such amount shall be held in trust by Guarantor for the benefit of Purchaser and shall be paid to Purchaser to be credited and applied against the obligations of Guarantor hereunder. Guarantor further hereby unconditionally and irrevocably agrees that, subject to the limitation set forth in Section 2 of this Guaranty, its guaranty extends to the full and prompt payment to Purchaser of any of the indebtedness or other sums paid to Purchaser pursuant to the Purchase Documents which Purchaser is subsequently ordered or required to pay or disgorge on the grounds that such payments constituted an avoidable preference or a fraudulent transfer under applicable bankruptcy, insolvency or fraudulent transfer laws; and Guarantor shall fully and promptly indemnify Purchaser in defense of such claims of avoidable preference or fraudulent transfer.

Section 13. Guarantor's Representations and Warranties. Guarantor hereby represents and warrants to Purchaser as follows:

(a) Guarantor has all requisite power and capacity to enter into this Guaranty and to perform its obligations hereunder. Guarantor's execution and delivery of this Guaranty and any related agreements or instruments and the consummation of the transactions contemplated hereby and thereby has been duly authorized by all requisite action and no further action or approval is required in order to constitute this Agreement as a binding and enforceable obligation of the Guarantor;

(b) Guarantor's execution and delivery of this Guaranty does not violate any provision of law or regulation, any order of any court or other agency or instrumentality of government (including but not limited to, a supervisory agreement, memorandum of understanding, cease and desist order, capital directive, supervisory directive or consent decree); and

(c) The execution, delivery and performance of this Guaranty, and any related agreements or instruments by Guarantor, its compliance with the terms hereof and thereof, and consummation of the transactions contemplated hereby and thereby, will not violate, conflict with, result in a breach of, constitute a default under, be prohibited by, or require any additional approval under its by-laws, or any instrument or agreement to which it is a party or by which it is bound or which affects the Servicing.

Section 14. Invalidity of Particular Provisions. If any term or provision of this Guaranty shall be determined to be illegal or unenforceable, all other terms and provisions hereof shall nevertheless remain effective and shall be enforced to the fullest extent permitted by law.

Section 15. Headings. The heading used herein are for purposes of convenience only and shall not be used in construing the provisions hereof.

Section 16. Notice of Special Events. If Guarantor shall become bankrupt or insolvent, or any application shall be made to have Guarantor declared bankrupt or insolvent, or a conservator, receiver or trustee shall be appointed for Guarantor or for all or a substantial part of the property of Guarantor, or Guarantor shall make an assignment for the benefit of its creditors, or Guarantor shall enter into a proceeding for its dissolution, notice of such occurrence shall be promptly furnished to Purchaser by Guarantor.

Section 17. Notices. Any notices, demands and requests required under this Guaranty shall be in writing and shall be deemed to have been given or made if served personally, or sent by United States registered or certified mail (effective 48 hours after deposit thereof at any main or branch United States Post Office), first class postage prepaid, return receipt requested, or by telecopier, addressed as set forth below or to such other addresses as any party may hereafter designate by like notice:

PURCHASER: Chemical Mortgage Company
200 Old Wilson Bridge Road
Worthington, Ohio 43085-8500
Attn: Gary Roos, Servicing Portfolio Manager

With a copy to: Molly Sheehan, General Counsel
343 Thornall
Edison New Jersey 08837

GUARANTOR: Fund American Enterprises Holdings, Inc.
80 S. Main Street
Hanover, New Hampshire 03755
Attn: Chief Financial Officer

Section 18. Termination of Guaranty. All provisions hereof shall remain in full force and effect regardless of any investigation made by Purchaser or its representatives, any cancellation of the Sale Agreement or any applicable statute of limitations which hereby is expressly waived until the Termination Date.

Section 19. Heirs, Successors and Assigns. The obligations of the Guarantor herein shall be binding upon the Guarantor and the Guarantor's heirs, successors, assigns, executors and administrators, jointly and severally, for the performance of the obligations of the Guarantor herein.

Section 20. Independent Guaranty. Nothing in this Agreement shall affect or limit any rights or remedies which Purchaser may have against the Guarantor under any other Guaranty from the Guarantor to the Purchaser.

Section 21. Waiver of Jury Trial. The undersigned hereby (i) covenants and agrees not to elect a trial by jury of any issue triable of right by a jury, and (ii) waives any right to trial by jury fully to the extent that any such right shall now or hereafter exist. This waiver of right to trial by jury is separately given, knowingly and voluntarily hereunder, and this waiver is intended to encompass individually each instance and each issue as to which the right to a jury trial would otherwise accrue. Purchaser is hereby authorized and requested to submit this Guaranty to any court having jurisdiction over the subject matter and the parties hereto, so as to serve as conclusive evidence of the undersigned's herein contained waiver of the right to jury trial. Further, the undersigned hereby certifies that no representative or agent of the Purchaser (including the Purchaser's counsel) has represented, expressly or otherwise, to any of the undersigned that the Purchaser will not seek to enforce this waiver of right to jury trial provision.

Section 22. Relationship of the Parties. The relationship between Purchaser and the Guarantor is limited to that of purchaser, on the one hand, and guarantor, on the other hand. The provisions herein for compliance with financial covenants and delivery of financial statements, are intended solely for the benefit of Purchaser to protect its interests as Purchaser in assuring

performance of the obligations hereunder, and nothing contained in this Guaranty shall be construed as permitting or obligating Purchaser to act as a financial or business advisor or consultant to Guarantor, as permitting or obligating the Purchaser

to control Guarantor or to conduct Guarantor's operations, as creating any fiduciary obligation on the part of Purchaser to Guarantor, or as creating any joint venture, agency, or other relationship between the parties other that as explicitly and specifically stated in this Guaranty. The Guarantor acknowledges that it has had the opportunity to obtain the advice of experienced counsel of its own choosing in connection with the negotiation and execution of this Guaranty and to obtain the advice of such counsel with respect to all matters contained herein, including, without limitation, the provision in Section 21 above for waiver of trial by jury. The Guarantor further acknowledges that it is experienced with respect to financial and credit matters and has made its own independent decision to execute and deliver this Guaranty.

Section 23. Counterparts. This Guaranty may be executed in one or more counterparts, each of which shall have the force and effect of an original, and all of which shall constitute but one document.

Section 24. Defined Terms. All capitalized terms not defined herein shall having the meaning given them in the Sale Agreement.

IN WITNESS WHEREOF, this Guaranty has been executed under seal as of the day and year first above written.

"Guarantor"

Fund American Enterprises Holdings, Inc.

By: _____

Its: _____

"Purchaser"

Chemical Mortgage Company

By: _____

Its: _____

EXHIBIT 11

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

	Year Ended December 31,		
	1996	1995	1994
Primary earnings per share:			
Per share numerator (in millions):			
After tax earnings	$ 4.9	$ 18.5	$ 21.1
Dividends on preferred stock	-	(3.8)	(9.9)
After tax earnings applicable to common stock	4.9	14.7	11.2
Tax benefit from sale of discontinued operations	-	66.0	-
Loss on early extinguishment of debt, after tax 4)	-	(.4)	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax	-	-	(44.3)
Net income (loss) for per share computation	$ 4.9	$ 80.3	$ (33.1)
Per share denominator (in thousands):			
Average common shares outstanding	7,429	7,794	8,874
Dilutive options, warrants and performance shares	681	788	531
Shares for per share computation	8,110	8,582	9,405
Per share earnings (in dollars):			
After tax earnings	$ .60	$ 1.71	$ 1.20
Tax benefit from sale of discontinued operations	-	7.69	-
Loss on early extinguishment of debt, after tax	-	(.04)	-
Cumulative effect of accounting change - purchased mortgage servicing, after tax	-	-	(4.71)
Net income (loss)	$ .60	$ 9.36	$ (3.51)
Fully Diluted earnings per share:			
Per share numerator (in millions):			
After tax earnings	$ 4.9	$ 18.5	$ 21.1
Dividends on preferred stock	-	-	(9.9)
After tax			
earnings applicable to common stock	4.9	18.5	11.2
Tax benefit from sale of discontinued operations		-	66.0 -
Loss on early extinguishment of debt, after tax		-	(.4) -
Cumulative effect of accounting change - purchased mortgage servicing, after tax		-	- (44.3)
Net income (loss) for per share computation		$ 4.9	$ 84.1 $ (33.1)
Per share denominator (in thousands):			
Average common shares outstanding		7,429	7,794 8,874
Dilutive options, warrants and performance shares		681	788 534
Dilutive preferred stock		-	607 -
Shares for per share computation		8,110	9,189 9,408
Per share earnings (in dollars):			
After tax earnings		$ .60	$ 2.02 $ 1.20
Tax benefit from sale of discontinued operations		-	7.18 -
Loss on early extinguishment of debt, after tax		-	(.04) -
Cumulative effect of accounting change - purchased mortgage servicing, after tax		-	- (4.71)
Net income (loss)		$ .60	$ 9.16 $ (3.51)

</TABLE>

EXHIBIT 16(a)

March 27, 1997

Securities and Exchange Commission
450 5th Street, NW
Washington, D.C. 20549

Gentlemen:

We have read Item 9 of Form 10-K dated March 27, 1997, of Fund American Enterprises Holdings, Inc., and are in agreement with the statement contained in the second paragraph of Item 9. We have no basis to agree or disagree with other statements of the registrant contained therein.

Very truly yours,

ERNST & YOUNG LLP

EXHIBIT 16(b)

March 27, 1997

Securities and Exchange Commission
450 5th Street, NW
Washington, D.C. 20549

Gentlemen:

We have read Item 9 of Form 10-K dated March 27, 1997, of Fund American Enterprises Holdings, Inc., and are in agreement with the statements contained therein insofar as they relate to us. We have no basis to agree or disagree with other statements of the registrant contained therein.

Very truly yours,

COOPERS & LYBRAND L.L.P.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 1996

FULL NAME OF SUBSIDIARY	PLACE OF INCORPORATION
CHARTER INDEMNITY COMPANY	TEXAS, USA
FUND AMERICAN CASUALTY REINSURANCE, LTD.	ISLANDS OF BERMUDA
FUND AMERICAN ENTERPRISES, INC.	DELAWARE, USA
SOURCE ONE MORTGAGE SERVICES CORPORATION and subsidiaries	DELAWARE, USA
VALLEY INSURANCE COMPANY	CALIFORNIA, USA
WHITE MOUNTAINS HOLDINGS, INC.	NEW HAMPSHIRE, USA
WHITE MOUNTAINS INSURANCE COMPANY	NEW HAMPSHIRE, USA

EXHIBIT 23(a)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements, as amended, pertaining to the Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006) and Common Stock Warrants (Form S-3, No. 33-54749) of Fund American Enterprises Holdings, Inc. and to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(K) Plan (Form S-8, No. 333-13027) of our report dated March 11, 1997, with respect to the consolidated financial statements and schedules of Fund American Enterprises Holdings, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

New York, New York
March 27, 1997

EXHIBIT 23(b)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements, as amended, pertaining to the Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006) and Common Stock Warrants (Form S-3, No. 33-54749) of Fund American Enterprises Holdings, Inc. and to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(K) Plan (Form S-8, No. 333-13027) of our report dated February 14, 1997, with respect to the consolidated financial statements of Valley Group, Inc. and Subsidiaries for the year ended December 31, 1996.

Coopers & Lybrand L.L.P.

Portland, Oregon
March 27, 1997

EXHIBIT 23(c)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements, as amended, pertaining to the Long-Term Incentive Plan (Form S-8, No. 33-5297), Medium-Term Notes Series A (Form S-3, No. 33-54006) and Common Stock Warrants (Form S-3, No. 33-54749) of Fund American Enterprises Holdings, Inc. and to the Source One Mortgage Services Corporation Employee Stock Ownership and 401(K) Plan (Form S-8, No. 333-13027) of our report dated January 24, 1997, with respect to the consolidated financial statements of Financial Security Assurance Holdings, Ltd. and Subsidiaries for the year ended December 31, 1996.

Coopers & Lybrand L.L.P.

New York, New York
March 27, 1997

FUND AMERICAN ENTERPRISES HOLDINGS, INC.

POWER OF ATTORNEY

KNOW ALL MEN by these presents, that John J. Byrne does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ John J. Byrne

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Howard L. Clark does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Howard L. Clark

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Howard L. Clark, Jr. does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Howard L. Clark, Jr.

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Robert P. Cochran does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Robert P. Cochran

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that George J. Gillespie III does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ George J. Gillespie III

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Gordon S. Macklin does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Gordon S. Macklin

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Frank A. Olson does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Frank A. Olson

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Michael S. Paquette does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Michael S. Paquette

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Allan L. Waters does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th

day of January, 1997.

/s/ Allan L. Waters

FUND AMERICAN ENTERPRISES HOLDINGS, INC.
POWER OF ATTORNEY

KNOW ALL MEN by these presents, that Arthur Zankel does hereby make, constitute and appoint K. Thomas Kemp the true and lawful attorney-in-fact of the undersigned, with full power of substitution and revocation, for and in the name, place and stead of the undersigned, to execute and deliver the Annual Report on Form 10-K, and any and all amendments thereto; such Form 10-K and each such amendment to be in such form and to contain such terms and provisions as said attorney or substitute shall deem necessary or desirable; giving and granting unto said attorney, or to such person or persons as in any case may be appointed pursuant to the power of substitution herein given, full power and authority to do and perform any and every act and thing whatsoever requisite, necessary or, in the opinion of said attorney or substitute, able to be done in and about the premises as fully and to all intents and purposes as the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorney or such substitute shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has duly executed these presents this 24th day of January, 1997.

/s/ Arthur Zankel

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<TOTAL-LIABILITY-AND-EQUITY>	1,961	1,872
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<TOTAL-REVENUES>	332	222
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<TOTAL-COSTS>	297	180
<OTHER-EXPENSES>	(39)	(39)
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<INTEREST-EXPENSE>	50	46
<INCOME-PRETAX>	(15)	35
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<INCOME-CONTINUING>	5	18
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<EPS-DILUTED>	.60	9.16

</TABLE>

EXHIBIT 99(a)

Board of Directors and Shareholder
Valley Group, Inc.

We have audited the consolidated balance sheet of Valley Group, Inc. and Subsidiaries (a wholly owned subsidiary of Fund American Enterprises Holdings, Inc.) as of December 31, 1996, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (not presented separately herein) present fairly, in all material respects, the consolidated financial position of Valley Group, Inc. and Subsidiaries at December 31, 1996, and the consolidated results of its operations and its cash flows for the year ended December 31, 1996, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Portland, Oregon
February 14, 1997

EXHIBIT 99(b)

To The Shareholders and Board of Directors
of Financial Security Assurance Holdings Ltd.:

We have audited the consolidated balance sheet of Financial Security Assurance Holdings Ltd. and Subsidiaries as of December 31, 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the management of Financial Security Assurance Holdings Ltd. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (not presented separately herein) present fairly, in all material respects, the consolidated financial position of Financial Security Assurance Holdings Ltd. and Subsidiaries at December 31, 1996, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

New York, New York
January 24, 1997