

Exhibit A

Letter from Ernst & Young LLP's Human Capital Practice

August 27, 2004

PRIVATE AND CONFIDENTIAL

Mr. Roger Sevigny
In His Capacity as Liquidator of the Home Insurance Company in Liquidation
State of New Hampshire Insurance Department
56 Old Suncook Road
Concord NH 03301-7317

Dear Commissioner Sevigny:

Ernst & Young LLP's ("E&Y") Human Capital Practice has been engaged to advise the Liquidator of Home Insurance Company in Liquidation ("Home" or the "Company") in the development of incentive compensation programs for employees of Home. As a part of this engagement, E&Y advised the Liquidator that it would be appropriate to review the Special Deputy Liquidator's (Peter Bengelsdorf's) existing compensation arrangements relative to typical market levels. The purpose of this letter is to (1) identify the competitiveness of the Special Deputy Liquidator's current compensation to comparative market levels (other companies in liquidation and distressed situations as well as "healthy" insurance companies of similar size) and (2) recommend any pertinent modifications to the Special Deputy Liquidator's compensation.

BACKGROUND

E&Y earlier developed three incentive compensation programs for the current executives and employees of the Home specifically designed to meet the needs of the liquidation operations. These plans, the Retention Incentive Plan (RIP), the Annual Incentive Plan (AIP), and the Collection Incentive Sharing Plan (CISP) were approved by the State of New Hampshire Superior Court on April 21, 2004 (please see Docket No. 03-E-0106). The Special Deputy Liquidator position does not participate in these or any other incentive plans. The Liquidator is the administrator of the RIP, AIP and CISP plans and the Special Deputy Liquidator by delegation is responsible for monitoring the operation of the three plans. As such, it is appropriate for the Special Deputy Liquidator's compensation to be independent of these plans.

The Special Deputy Liquidator is the top executive of Home serving as an independent contractor to the State of New Hampshire and reporting directly to the Commissioner. We have reviewed the scope and duties of the Special Deputy Liquidator position and, based on our experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to develop a market competitive compensation program for the Special Deputy Liquidator position.

The current compensation arrangement for the Special Deputy Liquidator consists solely of an hourly work rate of \$250 established by the Independent Consultant Agreement between Mr.

Bengelsdorf and the State of New Hampshire. Mr. Bengelsdorf does not participate in any other compensation programs nor does he receive any health and welfare, retirement or severance benefits from Home. Compensation theory and our experience indicate that a competitive compensation level is one that approximates 90% - 110% of targeted market levels (typically 50th percentile, to 75th percentile). Mr. Bengelsdorf's current total direct compensation ("TDC"), after being reduced by 25% to adjust for the absence of the benefits currently provided to Home employees, is 45% of median (50th percentile) and 21% of 75th percentile market levels. (Please see Exhibit I). TDC is defined to mean base salary plus annual and long-term incentives.

This positioning is significantly below market and less competitive than the overall TDC for Home's other top executives and employees, which fall between the 50th and 75th percentiles. Mr. Bengelsdorf is budgeted to work approximately 2,400 hours during calendar year 2004 resulting in total pre-tax compensation of approximately \$600,000. This amount, when reduced for the cost of benefits provided to Home's executives and other employees but not present here, approximates a base compensation amount of \$480,000. Going forward, the annual number of hours worked may vary depending upon the progress of asset collections over the expected duration of the liquidation.

Typically, in an insurer liquidation of this large size, the top executive equivalent position, is a full participant in any incentive (either annual or long term) plans that may be developed. Since the Special Deputy Liquidator, by delegation, is responsible for monitoring the three incentive compensation plans, it is appropriate for his incentive compensation plan to be independent.

Accordingly, E&Y has developed a recommended separate compensation structure for the Special Deputy Liquidator position that provides the opportunity to receive market competitive compensation (approximately 50th percentile) based upon general incentives which align the Special Deputy Liquidator's performance with Home's creditors. Such performance objectives are more fully described in the next section.

SPECIAL DEPUTY LIQUIDATOR – PROPOSED COMPENSATION PROGRAM

Program Objectives

The proposed compensation program for the Special Deputy Liquidator has four (4) primary objectives:

1. Recognize Mr. Bengelsdorf's role as the top executive of Home;
 - Preserve the position's contractor status but recognize that, in terms of time spent, Mr. Bengelsdorf is more than a full-time employee and is filling the role of the top executive;
2. Acknowledge Significant Contributions That Have Already Occurred;
 - Acknowledge the significant amount of value that has already been contributed to the liquidation process by the Special Deputy Liquidator with liquid cash at March 5, 2003 of a negative one million to approximately \$620 million as of June 16, 2004;
3. Align Incentives with the Liquidation's goals;

- Provide Mr. Bengelsdorf with a structured incentive plan of performance objectives that aligns his objectives with Home's creditors. Mr. Bengelsdorf's primary responsibilities are to: (1) effectively marshal assets of the estate, (2) hire and maintain an adequate staff, (3) file timely and appropriate reports on the Liquidation's status and (4) operate the Liquidation in a cost effective manner;
- 4. Use available comparable market compensation;
 - Develop competitive market data consistent with Published Survey Analysis and Proxy Analysis;
 - Remain consistent with competitive market positioning in relation to the current executive team.

Administration

The Liquidator will serve as the administrator of the Special Deputy's compensation program.

Compensation Components (Please See Exhibit I)

The Compensation for the Special Deputy Liquidator will consist of three (3) components:

1. Base Compensation – Unchanged from Consulting Agreement:

- Mr. Bengelsdorf's base compensation will remain at \$250 per hour.
- In order to present base compensation in the same manner as other Home employees and to develop an apples-to-apples comparison with market data, we have adjusted the base compensation to reflect the fact that Mr. Bengelsdorf does not receive benefits.
 - Specifically, the current year's base compensation of \$600,000 has been reduced by 25% to adjust for the normal benefits.
 - This adjustment results in base compensation of \$480,000 (or \$600,000/1.25).

2. Annual Incentive ("AI") Bonus Structure

The AI Bonus will be established and determined by the Liquidator in accordance with the process described below.

- Annually, at the outset of the plan cycle, the Liquidator will set the annual goals for this plan (e.g. success in marshalling assets, organization performance within budget, implementation of an effective claim determination operation, extent of early access distributions, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year).
- After the end of the plan cycle, the Liquidator will evaluate Mr. Bengelsdorf's performance with respect to each of those goals and will determine the AI bonus based upon those accomplishments.
- Mr. Bengelsdorf's AI opportunity will be a target dollar amount of \$400,000.
- This amount is similar to the target AI Bonus opportunity provided to the next most senior Home executive, with a slight upward adjustment in recognition of Special Deputy Liquidator's duties and responsibilities.

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- Any AI Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, such amount will be paid in full.

3. "Stay" Bonus

- Mr. Bengelsdorf's "Stay" Bonus opportunity will be a dollar amount of \$400,000 (covering a twenty two month period March 2003 to December 2004) payable January 1, 2005 with an additional "Stay" Bonus opportunity of \$400,000 (covering a twelve month period January 1, 2005 to December 31, 2005) payable January 1, 2006. Both "Stay" bonus opportunities are subject to his continued retention as an independent contractor.
- Such "Stay" Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, such amount will be paid in full.

SUMMARY CONCLUSIONS

Overall, the proposed total direct compensation for the Special Deputy Liquidator represents a program that is weighted toward variable or performance-based compensation while also encouraging a continuation of the existing relationship. The resulting TDC (base compensation plus Annual Incentive Bonus and "Stay" Bonus) for the Special Deputy Liquidator, if performance objectives are achieved, will be approximately \$1.25 million (payable in 2005 and noting that the initial "Stay Bonus covers a twenty two month period). This amount is slightly above the market median (50th percentile). This positioning is less competitive than the total direct compensation for Home's other top executives, which is between the 50th and 75th percentiles.

We sincerely appreciate the opportunity to continue to provide human resource advisory assistance to Home Insurance Company in Liquidation on this engagement. Please do not hesitate to call Martha Cook at 404.817.5734 if you have any questions.

Very truly yours,

Ernst & Young LLP

Copy to: John Moyer; Ernst & Young, Atlanta
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