



KH FUNDING COMPANY

Investment Accounts and Loans

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INVESTOR UPDATE

We are writing to provide you with an update on our plans to repay your KH Funding Company investment debt securities. Since February 2010, we have worked closely with Wells Fargo Bank, National Association ("Wells Fargo"), the trustee for your securities, to develop and implement a restructuring plan that is both efficient and in the best interests of you, our investor. Although Wells Fargo does not make or control our restructuring decisions, we believe strongly that investors will be best served if Wells Fargo plays an active role in the process.

We hope to surface from these challenging times as a going concern, but our primary objective is to return as much money to our investors as we can, as quickly as possible. At present, we have formulated several possible alternatives and are working with consultants who are helping us analyze these alternatives and make a final decision. Although our balance sheet is fairly straight-forward, this process is nevertheless complicated and has been hampered somewhat by the challenging economic times with which all of us are dealing. We hope to be in a position to provide you with more detailed information in the very near future.

Lastly, we understand there is confusion among some of you as to why we continue to send account statements or why these statements continue to show the accrual of interest. We are required under the terms of your securities to send you statements, even after acceleration. The unpaid balance of your account does continue to accrue interest, and we are accruing that interest so that we and you can keep track of the balances owed.

As always, please do not hesitate to call us if you should have any questions regarding your investment account.

Sincerely yours,

Investor Relations