

INVESTOR SUBSCRIPTION AGREEMENT
Series 3 Senior Secured Notes

Persons interested in purchasing Notes of KH Funding Company (the "Notes") must complete and return this Subscription Agreement along with their check, money order or wire transfer to:

KH Funding Company
10801 Lockwood Drive Suite 370
Silver Spring, MD 20901

If accepted by KH Funding Company (the "Company"), this Subscription Agreement shall constitute a subscription for Notes of the Company. The minimum investment, subject to waiver by the Company, is \$5,000.

Acceptance of this Agreement will be in the form of an Acknowledgment which will be mailed to you. Monthly statements will be mailed to you showing the transactions of your investment account. If this Agreement is not accepted by the Company, your investment funds will be returned to you within ten (10) days with no interest earned thereon.

Method of Payment: Check, money order or wire transfer payable to KH Funding Company.

I/we hereby irrevocably tender this Subscription Agreement for the purchase of \$_____ and, with this Subscription Agreement, I tender payment in such amount for the Notes subscribed.

Term Requested (check one): See the enclosed Rate Sheet for current interest rates.

_____ 1-Day Demand Note _____ 30-Day Demand Note
_____ 1-Year Fixed Term Note _____ 3-Year Fixed Term Note _____ 5-Year Fixed Term Note

The 1-day and 30-day Notes have an interest rate that is adjusted by the Company from time-to-time. The interest rate will not be less than 2.0% per year and will not adjust more than 0.5% in any 90-day period. We will notify you in writing at least seven (7) days prior to any decrease in the interest rate. The 1, 3 and 5-Year Fixed Term Notes have a fixed interest rate that is set at issuance.

Interest (check one): _____ Monthly _____ Quarterly _____ Accrued

In connection with this investment in the Company, I represent and warrant as follows:

1. I have received the Company's Prospectus dated November 7, 2008, and our current Rate Supplement, if applicable.
2. I am a bona fide resident of the state of_____.
3. My Social Security number or taxpayer identification number given below is correct.
4. I am not subject to backup tax withholding (NOTE: Please cross out #4 if you have been notified by the Internal Revenue Service that you are subject to backup withholding because of underreporting interest or dividends on your tax return.

Please register the Note which I am purchasing as follows:

Name: _____

As (check one):

_____ Individual _____ Existing Partnership _____ Trust
_____ Tenants-in-Common _____ Corporation _____ IRA or SEP
_____ Joint Tenants _____ Minor with adult custodian under UGMA

For the person(s) who will be registered noteholder(s):

Name	Telephone
Street address	Social Security or Taxpayer ID number
City State Zip	Date of birth (only required for IRA accounts)
Signature	Date