

February 25, 2009

To Our Developer Partners:

The recent days and weeks have been an eventful time in the affordable housing development industry. We are pleased to see the federal government take action in passing the American Recovery and Reinvestment Act of 2009 (a.k.a. the Stimulus Bill) in order to facilitate the operations of the credit markets.

Despite this potential positive news, however, we still face a difficult situation in California and in San José. On February 18, the State's Pooled Money Investment Board (PMIB) acknowledged that there was backlog of State funding needs. The timing of the State's bond issuance is uncertain and several issuances would be necessary over several months in order to fulfill the State's needs.

The ramifications include a likely delay—potentially, several months—for disbursements to projects that have active State funding commitments. The delays are likely even longer until the State is able to make and fund new commitments.

We understand that developers and funders across the State are grappling with the implications from the State's situation. We are also actively involved in discussions of how to help mitigate the negative effects of the State's funding difficulties. We look forward to hearing from you and working together with you to help deals to progress despite the industry's adversity during this time.

As the State is currently limited in its ability to raise capital and make funding commitments, so too is San José. As we wait for the financial markets to offer reasonable rates for our pending municipal issuance, the City does not have the resources available is unable to make any new project financing commitments.

We want to emphasize that the City cannot at this time encourage developers to actively pursue any new projects in our jurisdiction without more certainty regarding the amount or timing of our future funding availability.

Once both the City is able to obtain financing and State funding is made available, our priority for project funding will be as follows:

1. First, we will strive to issue full funding commitments on those projects which have already received partial funding, such as land acquisition or predevelopment loans.

**To: Developer Partners**  
**Letter from the Director Regarding Funding Status**  
**February 25, 2009**  
**Page 2 of 2**

2. Second, we will consider projects that meet our policy objectives and already have active funding applications on file.
3. Third, we will consider new applications that meet our policy objectives.

Our Department is currently gathering data to inform our development priorities for the future. We want to continue a dialogue with developers regarding potential projects and their needs despite our funding hiatus.

We understand the economic impact of this announcement for our developer partners. Despite these temporary setbacks, we look forward to our continued partnership to help those in need in San José.

Should you have any questions or wish to meet to discuss, please call my assistant, Patricia Amii, at (408) 535-8233.

Sincerely,

Leslye Krutko  
Director