

PiperJaffray®

Piper Jaffray Lending LLC, a subsidiary of Piper Jaffray Companies  
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RECEIVED

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February 18, 2009

Brian O'Connell, Community Development Manager ✓  
City of Northfield  
801 Washington Street  
Northfield, MN 55075

Kathleen MacBride, Finance Manager  
City of Northfield  
801 Washington Street  
Northfield, MN 55075

Re: City of Northfield, Minnesota, Taxable Tax Increment Revenue Note  
(The Crossings Project), Series 2006

Dear Brian and Mac:

We met last week to discuss the current status of development and tax increment collections relating to the development contemplated by the Contract for Private Development by and between the City and Mendota Homes, Inc. (the "Developer"), dated as of December 30, 2005 (the "Contract"). Pursuant to the Contract, the City issued its Taxable Tax Increment Revenue Note (The Crossings Project), Series 2006 (the "Note") in the maximum principal amount of \$4,266,000, for the purpose of providing for the payment or reimbursement of Public Development Costs incurred by the Developer. The Note was purchased by Piper Jaffray Lending LLC, and participations in the Note were sold to various banks.

Due to unforeseen economic conditions, development of the Minimum Improvements described in the Contract has not proceeded according to schedule. Although now current, payment of interest due on the Note on August 1, 2008 was not timely made. Less of the principal amount of the Note has been advanced than expected. Actual market values of developed property may be less than market values established pursuant to Assessment Agreements.

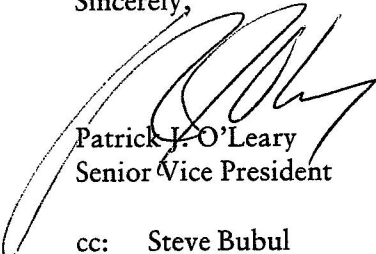
The adjustment of the interest rate on the Note which occurred in accordance with its terms effective February 1, 2009 from 7.125% to 3.860% has a positive effect on projected debt service coverage for the Note going forward.

In order to address the impact of unforeseen economic conditions on the security for the Note, we are requesting the City to modify the Note and the Contract as follows:

- No further advances available to be made on the Note, whether for payment of interest or for public development costs related to Phase II or Phase III. We view this as a confirming amendment, as the Contract and the Note currently provide that advances will not be made if the Developer is in default. You indicated at our meeting that there might be some additional costs related to Phase I improvements. If you can quantify those costs, we can look at debt service coverage projections in light of the reduced interest rate and determine whether it is feasible to advance for such amounts.
- Provide for the issuance of an Additional Note or Notes to provide for payment or reimbursement of public development costs related to Phase II or Phase III, at such time as specified conditions are met.
- Eliminate the remedy of termination of the Note for non-payment or delinquent payment of taxes. While this serves as reasonable leverage in the situation where the Developer retains a tax increment note and the right to receive payment thereon, it is unrealistically harsh as to a third party lender. The City is protected in any event, as the Note is a revenue obligation as to which no payment needs to be made in the event of non-payment or delinquent payment.
- Amend the principal amortization schedule to provide for level debt service on redetermination of the interest rate, and to reflect the reduced outstanding principal amount.

We appreciate your consideration of our request as we work together to address this troubled development. Please feel free to contact me if you need any additional information.

Sincerely,



Patrick J. O'Leary  
Senior Vice President

cc: Steve Bubul  
Mark Ruff