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September 29, 2006

Mr. David Einhorn
President
Greenlight Capital, LLC
140 East 45th Street
24th Floor
New York, NY 10017

Dear Mr. Einhorn:

On behalf of the Board of Directors of Allied Capital Corporation, I write in response to your letter dated September 15, 2006, which was addressed to Brooks Browne, former Chairman of Allied's Audit Committee.

We have looked into your allegations that Allied's management played a role in an attempt to access your phone records and have found no evidence to support your claim. As noted in Mr. Browne's March 16, 2005, letter to you, the Allied Board remains skeptical of the motive behind your allegations, given your history of making broad accusations of misconduct against Allied management while simultaneously having an apparent financial motive to depress Allied's stock price. The Board is therefore not disposed to credit your claims without corroborating evidence. Notwithstanding our March 16, 2005 invitation for you to provide us with any supporting evidence of your own, you have supplied none.

As Mr. Browne explained in his March 16, 2005 letter, Allied's Board has authorized the Audit Committee to receive and evaluate any evidence of wrongdoing by Allied management that you are prepared to provide. In the event that we receive any such material, we will consider what, if any, further action is warranted. Please address any correspondence, marked "confidential", to the Audit Committee Chairman, c/o Corporate Secretary, Allied Capital Corporation, 1919 Pennsylvania Avenue, NW, Washington, DC 20006.

Respectfully,

A handwritten signature in black ink, appearing to read "Ann Torre Bates".

Ann Torre Bates
Chairman of the Audit Committee