



**HAYMAN**  
CAPITAL MANAGEMENT, L.P.

A Review of IRS tax law on REITs and Testing of Debt vs. Equity Instruments

# Is UDF IV a Legitimate Real Estate Investment Trust?

August 2016

*“Only when the tide goes out do you discover who’s been swimming naked.”*

*– Warren Buffett*

# TABLE OF CONTENTS

- Overview of Real Estate Investment Trusts (REITs) – Qualified Income vs. “Prohibited Transactions”
- Implications for UDF IV – Why Is This Relevant?
  - Activities Underlying UDF IV Loans Would Constitute “Prohibited Transactions” if Pursued Directly
  - Debt Versus Equity – IRS Guidelines to Determine Whether Debt is Really Debt
  - There is a Reasonable Basis to Question Whether UDF IV Loans Constitute Debt
  - Severe Tax Consequences Exist if UDF IV “Loans” Are Determined to be Equity (Rather Than Debt) Because the Underlying Business Activities Would Constitute “Prohibited Transactions”
- Review of Certain Debt Versus Equity Factors
  - The extent of the purported lender’s participation in management of the purported borrower
  - The source of purported debt service payments and the ability to make debt service payments
  - Commercial reasonableness of debt-to-equity ratio (thin or adequate capitalization)
  - The failure of the debtor to repay on the due date
- A Reasonable Basis to Question Whether UDF IV Debt is Actually Debt – In Summary
- Appendix: Irregular Loan Patterns Related to UDF’s Largest Borrower



# OVERVIEW OF REAL ESTATE INVESTMENT TRUSTS

## QUALIFIED INCOME VS. PROHIBITED TRANSACTIONS



# OVERVIEW OF REAL ESTATE INVESTMENT TRUSTS

## SECURITIES AND EXCHANGE COMMISSION

- “A real estate investment trust (“REIT”), generally, is a company that owns – and typically operates – income-producing real estate or real estate-related assets.”
- “The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, **and mortgages or loans.**”
- “What distinguishes REITs from other real estate companies is that **a REIT must acquire and develop its real estate properties primarily to operate them** as part of its own investment portfolio, **as opposed to reselling those properties after they have been developed.**”



U.S. SECURITIES AND  
EXCHANGE COMMISSION

### Real Estate Investment Trusts (REITs)

A **real estate investment trust** (“REIT”), generally, is a company that owns – and typically operates – income-producing real estate or real estate-related assets. REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership – without actually having to go out and buy commercial real estate. The income-producing real estate assets owned by a REIT may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities, warehouses, and mortgages or loans.

Most REITs specialize in a single type of real estate – for example, apartment communities. There are retail REITs, office REITs, residential REITs, healthcare REITs, and industrial REITs, to name a few. What distinguishes REITs from other real estate companies is that a REIT must acquire and develop its real estate properties primarily to operate them as part of its own investment portfolio, as opposed to reselling those properties after they have been developed.

Source: <https://www.sec.gov/answers/reits.htm>

# PROHIBITED TRANSACTIONS AND THE TAX CONSEQUENCES

- *“Section 857(b)(6) of the Code imposes a tax for each taxable year of a REIT equal to 100 percent of the net income derived from prohibited transactions. Under § 857(b)(6)(B)(iii), the term “prohibited transaction” means a sale or other disposition of property described in § 1221(a)(1) that is not foreclosure property.”*



## Law and Analysis:

### Issue 1: Prohibited Transactions

Section 857(b)(6) of the Code imposes a tax for each taxable year of a REIT equal to 100 percent of the net income derived from prohibited transactions. Under § 857(b)(6)(B)(iii), the term “prohibited transaction” means a sale or other disposition of property described in § 1221(a)(1) that is not foreclosure property.

Section 857(b)(6)(C) excludes certain sales from the definition of a prohibited transaction. Under § 857(b)(6)(C), the term “prohibited transaction” does not include the sale of property which is a real estate asset (as defined in § 856(c)(5)(B) and which is described in section 1221(a)(1) if –

- (i) the REIT has held the property for not less than 2 years;
- (ii) the aggregate expenditures made by the REIT, or any partner of the REIT, during the 2-year period preceding the date of sale that are includable in the basis of the property do not exceed 30 percent of the net selling price of the property;
- (iii) (I) during the taxable year the REIT does not make more than 7 sales of property (other than sales of foreclosure property or sales to which section 1033 applies), or (II) the aggregate bases (as determined for computing earnings and profits) of property (other than sales of foreclosure property or sales to which section 1033 applies) sold during the taxable year does not exceed 10 percent of the aggregate bases of all the assets of the REIT as of the beginning of the taxable year, or (III) the fair market value of property (other than sales of foreclosure property or sales to which section 1033 applies) sold during the taxable year does not exceed 10 percent of the fair market value of all the assets of the REIT as of the beginning of the taxable year;
- (iv) In the case of property, which consists of land or improvements, not acquired through foreclosure (or deed in lieu of foreclosure), or lease termination, the REIT has held the property for not less than 2 years for production of rental income; and
- (v) If the requirement of clause (iii)(I) is not satisfied, substantially all of the marketing and development expenditures with respect to the property were made through an independent contractor (as defined in section 856(d)(3)) from whom the REIT itself does not derive or receive any income.

Source: <https://www.irs.gov/pub/irs-wd/0953018.pdf>

# PROHIBITED TRANSACTIONS AND THE TAX CONSEQUENCES (CONTINUED)

- *“Property described in section 1221(a)(1) includes property held by a taxpayer “primarily for sale to customers in the ordinary course of its trade or business”. The legislative history underlying section 857(b)(6), which was added to the Code by the Tax Reform Act of 1976, indicates that the purpose of that section was to “prevent a REIT from retaining any profit from ordinary retailing activities such as sales to customers of condominium units or subdivided lots in a development project.” S. Rep. No. 938, 84th Cong., 2d Sess. 470 (1976, 1976-3 (Vol. 4) C.B. 508.”*

PLR-114496-09

5

Property described in section 1221(a)(1) includes property held by a taxpayer “primarily for sale to customers in the ordinary course of its trade or business”. The legislative history underlying section 857(b)(6), which was added to the Code by the Tax Reform Act of 1976, indicates that the purpose of that section was to “prevent a REIT from retaining any profit from ordinary retailing activities such as sales to customers of condominium units or subdivided lots in a development project.” S. Rep. No. 938, 84<sup>th</sup> Cong., 2d Sess. 470 (1976, 1976-3 (Vol. 4) C.B. 508.

Source: <https://www.irs.gov/pub/irs-wd/0953018.pdf>



# SUMMARY OF REIT QUALIFIED INCOME AND PROHIBITED TRANSACTIONS

- A real estate investment trust (REIT) is an entity that satisfies certain U.S. federal income tax requirements and elects to be taxed as a REIT.
- A REIT is a type of pass-through entity that can eliminate its taxable income because, unlike most other corporations, it is permitted to deduct the amount of any dividends it pays when calculating its taxable income.
- This exemption from an entity level tax is the primary reason that a publicly traded entity desires to qualify as a REIT because it avoids double taxation, to which most public corporations are subjected.
- A REIT can invest in different types of real estate assets or limit its investment activities to a particular class of permitted real estate, including debt instruments secured by real property.
- The interest income derived from debt instruments is considered to be rent on real property and as a result, qualifies as REIT income.
- One key exception to the type of real estate activities a REIT can engage in is the limitation on a REIT's ability to earn income from so-called dealer activities, such as the development and sale of residential lots, which are considered "prohibited transactions."
- **Income derived from "prohibited transactions" is taxed at 100% in order to prevent REITs from engaging in activities such as sales to customers of subdivided lots in a development project.**



# IMPLICATIONS FOR UDF IV: WHY IS THIS RELEVANT?



# ACTIVITIES UNDERLYING UDF IV LOANS WOULD CONSTITUTE PROHIBITED TRANSACTIONS IF PURSUED DIRECTLY

- UDF IV was formed “primarily to generate current interest income by investing in secured loans and producing profits from investments in residential real estate.”
- UDF IV derives “a significant portion of [its] income by originating, purchasing, participating in and holding for investment secured loans made [...] for the acquisition and development of parcels of real property as single-family residential lots, and the construction of model and new single-family homes, including development of mixed-use master planned residential communities.”

## PROSPECTUS SUMMARY

*This prospectus summary highlights selected information contained elsewhere in this prospectus. See also the “Questions and Answers About this Offering” section immediately following this summary. This section and the “Questions and Answers About this Offering” section do not contain all of the information that is important to your decision whether to invest in our common shares of beneficial interest. To understand this offering fully, you should read the entire prospectus carefully, including the “Risk Factors” section and the financial statements.*

### United Development Funding IV

United Development Funding IV is a Maryland real estate investment trust formed on May 28, 2008 that qualified as a REIT under federal tax law beginning with the taxable year ended December 31, 2010. We were formed primarily to generate current interest income by investing in secured loans and producing profits from investments in residential real estate. We derive a significant portion of our income by originating, purchasing, participating in and holding for investment secured loans made directly by us or indirectly through our affiliates to persons and entities for the acquisition and development of parcels of real property as single-family residential lots, and the construction of model and new single-family homes, including development of mixed-use master planned residential communities. We also may make direct investments in land for development into single-family lots, new and model homes and portfolios of finished lots and homes; provide credit enhancements to real estate developers, homebuilders, land bankers and other real estate investors (such credit enhancements may take the form of a loan guarantee, the pledge of assets, a letter of credit or an inter-creditor agreement provided by us to a third-party lender for the benefit of a borrower and is intended to enhance the creditworthiness of the borrower, thereby affording the borrower credit at terms it would otherwise be unable to obtain); purchase participations in, or finance for other real estate investors the purchase of, securitized real estate loan pools and discounted cash flows secured by state, county, municipal or other similar assessments levied on real property. We also may enter into joint ventures with unaffiliated real estate developers, homebuilders, land bankers and other real estate investors, or with other United Development Funding-sponsored programs, to originate or acquire, as the case may be, the same kind of secured loans or real estate investments we may originate or acquire directly.

**While UDF IV purports to primarily generate income from loans secured by real estate, which would otherwise qualify as rent on real property, there is a reasonable basis to question whether UDF’s loans are fairly characterized as debt, rather than equity.**

**The underlying activities securing the loans are principally land development for sale of residential lots, which if pursued directly through a REIT, would be considered prohibited transactions.**



# DEBT VERSUS EQUITY

## IRS GUIDELINES TO DETERMINE WHETHER DEBT IS REALLY DEBT

- In assessing whether a given advance between parties is debt or equity, case law (rather than specific IRS code) has generally provided the guiding criteria; important factors to be considered when characterizing financings as debt or equity for tax purposes include:
  - The intent of the parties;
  - Commercial reasonableness of debt-to-equity ratios;
  - The presence or absence of a fixed maturity date on the security
  - **The source of the purported debt service payments and ability to make the debt service payments;**
  - **The extent of the purported lender’s participation in management of the purported borrower;**
  - Whether the intent to create a debtor-creditor relationship comports with economic reality
- Note that no one factor is decisive, and the weight given to each factor depends on the facts and circumstances; generally a transaction's substance, not its form, controls its effect for tax purposes.

### Debt Versus Equity

The IRS has appeared to settle on a debt versus equity argument in attacking the deductibility of interest in certain intercompany financial transactions. As we all know, numerous facts must be considered when determining if internal transfers of cash are debt versus equity. Not only does the intent of the parties matter, but the objective facts must evidence true debt between the parties.

In assessing whether a given advance between parties is debt or equity, the often discussed IRC Section 385 and its regulatory history are brought into play. Under those rules (and recent case law discussed below), the important factors to be considered when characterizing intercompany financings as debt or equity are:

- The intent of the parties;
- Whether the intent to create a debtor-creditor relationship comports with economic reality;
- Existence of traditional documentation, approvals/authority, journal entries and cash transfers consistent with debt and the intent of the transaction;
- Commercial reasonableness of debt-to-equity ratios;
- The names given to the documents in the transaction and disclosures concerning the nature of the transaction;
- The presence or absence of a fixed maturity date on the security;
- The source of the purported debt service payments and ability to make the debt service payments;
- The existence of traditional creditor rights;
- The extent of the purported lender's participation in management of the purported borrower;
- Commercially reasonable subordination to senior lenders;
- The purported borrower's ability to obtain loans from outside lending institutions; and
- The interest rate charged on the intercompany debt compared to third party debt.

*Text sourced from the website of a leading restructuring firm but this firm is in no way advising Hayman*

**A material number of UDF IV loans regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances. Borrowers consistently do not pay loans on time or at maturity and there is a reasonable basis to question UDF IV's borrowers' ability to repay loans. There is also a reasonable basis to question the extent of UDF IV's management's participation in the management of the assets underlying its "loans." Given these considerations, a reasonable auditor or investor would have to question the characterization of a material percentage of UDF IV's assets as debt, rather than as equity.**



# DEBT VERSUS EQUITY

## IRS GUIDELINES TO DETERMINE WHETHER DEBT IS REALLY DEBT (CONTINUED)

- As discussed, case law (rather than specific IRS code) has generally provided the guidelines for determining the “debt versus equity” question.
- One case that has regularly been cited over the past 40+ years is *Estate of Mixon v. United States* (“MIXON”).
- The Court in MIXON (U.S. Court of Appeals, Fifth Circuit or the “Court”) outlined thirteen factors which merit consideration in determining the “debt versus equity” question.
- The thirteen factors specifically, and directly, outlined by the Court in MIXON are included in the opinion excerpt on this page.
- The Court in MIXON also noted that no one factor is controlling.
- While MIXON is often cited, the considerations outlined by the Court do not represent an exhaustive list covering all case law.

*Excerpt from opinion in Estate of Mixon v. United States , 464 F.2d 394, 402 (5<sup>th</sup> Cir. 1972):*

Guidelines for determining the “debt versus equity” question have developed by the courts in a number of cases. <sup>11</sup> Decisions in this Circuit have stressed at least thirteen factors which merit consideration in determining this issue. They are:

- ((1)) the names given to the certificates evidencing the indebtedness;
- ((2)) the presence or absence of a fixed maturity date;
- ((3)) the source of payments;
- ((4)) the right to enforce payment of principal and interest;
- ((5)) participation in management flowing as a result;
- ((6)) the status of the contribution in relation to regular corporate creditors;
- ((7)) the intent of the parties;
- ((8)) “thin” or adequate capitalization;
- ((9)) identity of interest between creditor and stockholder;
- ((10)) source of interest payments;
- ((11)) the ability of the corporation to obtain loans from outside lending institutions;
- ((12)) the extent to which the advance was used to acquire capital assets; and
- ((13)) the failure of the debtor to repay on the due date or to seek a postponement.

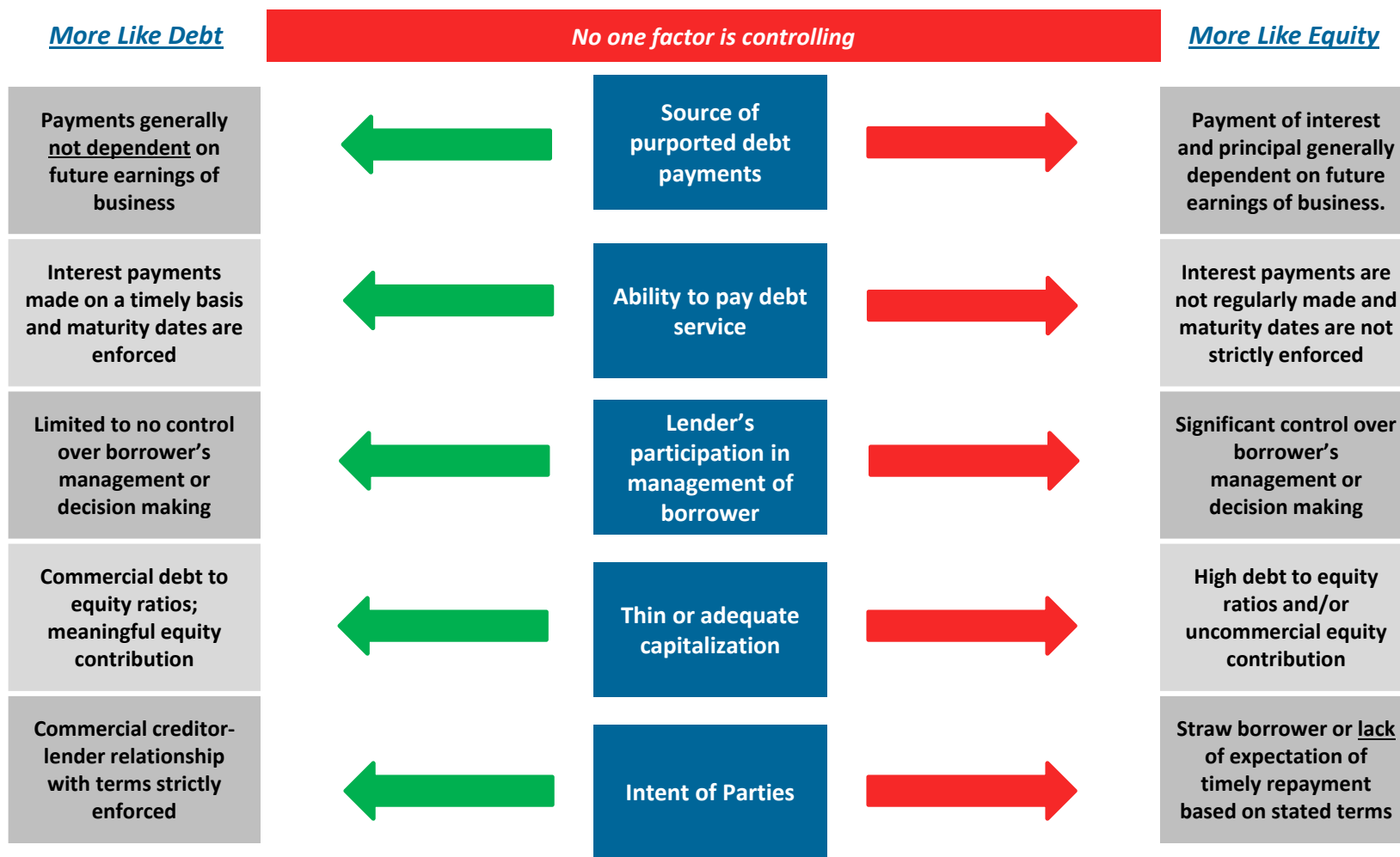
***“The approach of this Court has been to consider all the factors and weigh the evidence favoring characterization of the advance as debt or equity, while realizing that the various factors are not of equal significance and that no one factor is controlling.” – U.S. Court of Appeals, Fifth Circuit (Mixon opinion, 464 F.2d at 402.)***



# DEBT VERSUS EQUITY

## IRS GUIDELINES TO DETERMINE WHETHER DEBT IS REALLY DEBT (CONTINUED)

- Below are illustrative examples of the considerations as to whether an instrument would be considered debt versus equity:



# A REASONABLE BASIS TO QUESTION WHETHER UDF IV LOANS CONSTITUTE DEBT

- UDF IV has issued loans primarily to land developers, with 67% of loans to one developer (primarily of residential lots) in North Texas; the loans in “form” are structured as debt. UDF IV is owed an interest rate and there are stated to be fixed maturity dates.
- In substance, the characteristics of UDF IV’s “loans” lead to serious questions as to the intent of the parties from inception (i.e. at the time the loans were originally issued). A “loan” is determined to be debt by its substance and intent, rather than simply its “form.”
- The following pages outline a pattern of various UDF IV loans which raises questions regarding the substance of UDF IV loans and the original intent of the parties; specifically the “debt versus equity” factors listed below are reviewed:
  - The extent of the purported lender’s participation in management of the purported borrower
  - The source of the purported debt service payments
  - The ability to make debt service payments
  - Subordination relative to other creditors
  - Whether the stated intent to create a debtor-creditor relationship comports with economic reality
  - The commercial reasonableness of debt-to-equity ratios (thin or adequate equity capitalization from inception)
  - The failure of the debtor to repay on the due date or to seek a postponement
- Considered in aggregate (because no one factor is controlling), there is a reasonable basis to question the intent to create debt instruments, both in substance and form, from inception.
- A reasonable auditor would likely have to consider whether UDF IV’s loans are in fact debt instruments based on the evidence and patterns outlined on the subsequent pages; this would include both a testing of loans (individually and collectively) and a determination of broader intent. An audit would likely be deficient if an auditor failed to opine on such considerations.
- **If the determination is either that (i) the auditor cannot definitively make a conclusion or (ii) that the investments are likely equity rather than debt, there are potentially severe tax consequences and financial disclosure consequences for UDF IV.**



*DEBT VERSUS EQUITY FACTOR:*

**THE EXTENT OF THE PURPORTED LENDER'S  
PARTICIPATION IN MANAGEMENT OF THE  
PURPORTED BORROWER**

**THE ALLEGED USE OF SHELL ENTITIES AND STRAW BORROWERS**



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER

## 349 MEMORIAL, LLC

- On December 28, 2015, a lawsuit was filed in Fort Bend County, Texas (Houston area) by a third-party, independent real estate development firm against UDF IV and one of UDF IV's borrowers (349 Memorial, LLC).
- UDF IV disclosed a loan to the borrower (349 Memorial, LLC) as a "notes receivable – non-related parties" in its latest Form 10-Q filed with the Securities and Exchange Commission on November 11, 2015.
- While the complaint alleges breach of contract, it more importantly makes allegations in the "factual background" that raise critical questions about whether and how UDF IV is complying with REIT tax law and regulations.
- In the "factual background," the complaint alleges that: *"UDF is a Mortgage Real Estate Investment Trust, meaning its lawful purpose is not to develop properties, but rather to finance such development and earn income off the interest from those loans. **To get around the limitation, UDF creates entities that it controls to develop the subject property.** UDF then finances its newly formed entity's development of the property."*
- This statement alleges that UDF IV utilizes straw borrowers ("entities that it controls") in order to circumvent the limitations of the REIT tax structure by issuing loans and charging interest to shell entities, through which it shields income from the development and sale of residential lots which would otherwise be considered "prohibited transactions" and would be subject to 100% tax.
- These allegations bring into question not only "the extent of the purported lender's participation in management of the purported borrower" but also "the intent of the parties."

**A reasonable investor, regulator, tax authority or auditor would have to consider whether the characterization of this loan as "debt" rather than as equity is appropriate and what the tax or financial disclosure consequences may be.**



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## 349 MEMORIAL, LLC

- “To get around the limitation, UDF creates entities that it controls to develop the subject property. UDF then finances its newly formed entity’s development of the property.”
- “Plaintiffs negotiated with and arrived at a comprehensive deal with UMTH and UDF to transfer and develop this property.”

### FACTUAL BACKGROUND

10. Plaintiff Cernus Properties is operated by a licensed commercial broker who, together with the principal of UDEVCO, spent considerable time and effort to aggregate the purchase rights for over 456<sup>1</sup> acres of land in Missouri City, Texas, in an area north of the Lake Olympia Parkway and west of the Fort Bend Parkway. Broker’s and UDEVCO’s (collectively the “Plaintiffs”) successful work putting this land package together led to the development plan for a mixed use neighborhood originally identified as “Memorial Plantation.”

11. UDF is a Mortgage Real Estate Investment Trust, meaning its lawful purpose is not to develop properties, but rather to finance such development and earn income off the interest from those loans. To get around the limitation, UDF creates entities that it controls to develop the subject property. UDF then finances its newly formed entity’s development of the property.

12. Plaintiffs negotiated with and arrived at a comprehensive deal with UMTH and UDF to transfer and develop this property. Plaintiffs’ tendered a written offer with all material terms on July 21, 2014 to the Defendant. Ex. A. Defendants accepted and signed the offer. Ex. A at 2. With the agreement signed, Plaintiffs performed the pre-

**According to the complaint’s allegations in the “factual background,” UDF negotiated a deal to transfer and develop the property in question. As a result, it is reasonable to question the intent of the parties and extent of lender’s management of the borrower’s activities.**



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## 349 MEMORIAL, LLC

- “UDF and UMTH then created a shell entity called ‘349 Memorial’ two weeks before closing to hold title in the transferred property.”
- “UDF and UMTH [...] were at all times in control of the negotiation, planning and development of this project.”
- “In fact, through the months of negotiation of this deal with UDF, [...] Plaintiffs never once met anyone from ‘349 Memorial.’”
- “UDF’s principals even admitted that the representatives of its spin off entities, ‘don’t even know where the property is.’”

closing diligence, engineering, planning, and concept creation, all at significant cost to the Plaintiffs.

13. UDF and UMTH then created a shell entity called “349 Memorial” two weeks before closing to hold title in the transferred property. UDF and UMTH, however, were at all times in control of the negotiation, planning and development of this project. In fact, through the months of negotiation of this deal with UDF and UMTH, Plaintiffs never once met anyone from “349 Memorial.” UDF’s principals even admitted that the representatives of its spin off entities, “don’t even know where the property is.”

**UDF IV discloses a loan to “349 Memorial, LLC” as a “non-related party” loan as of its latest Form 10-Q filed on November 11, 2015. These allegations from the “factual background” suggest that “349 Memorial” is nothing more than a straw borrower which UDF both controlled and financed. Any reasonable auditor would likely question loans to this entity and any other related entities and their characterization as notes or debt instruments rather than as an equity investment. As a result, a reasonable auditor would also likely consider the tax consequences on both future and historical lot sales across all loans and the implication for both market value and stated book value of assets.**



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## 349 MEMORIAL, LLC

- “Leading up to the sale, however, UDF began to claim that it did not have sufficient liquidity to close the deal.”
- “UDF claimed that this liquidity issue would require it to delay the payment of the commission until August 3, 2015.”
- “Based on UDF’s representations that it would ultimately pay the commission, broker agreed to close the deal and delay payment.”
- “In addition, on August 3, 2015, [UDF and other defendants] failed to pay Broker its commission on the sale of the property and have refused Plaintiffs’ numerous demands for payment.”

15. Leading up to the sale, however, UDF began to claim that it did not have sufficient liquidity to close the deal and pay both the commission due to Broker and Plaintiffs’ due diligence expenses. UDF claimed that this liquidity issue would require it to delay the payment of the commission until August 3, 2015, and that this delay would allow it to pay the due diligence fees at closing. Based on UDF’s representations that it

would ultimately pay the commission, Broker agreed to close the deal and delay payment until no later than August 3, 2015.

18. In addition, on August 3, 2015, Defendants failed to pay Broker its commission on the sale of the property and have refused Plaintiffs’ numerous demands for payment.

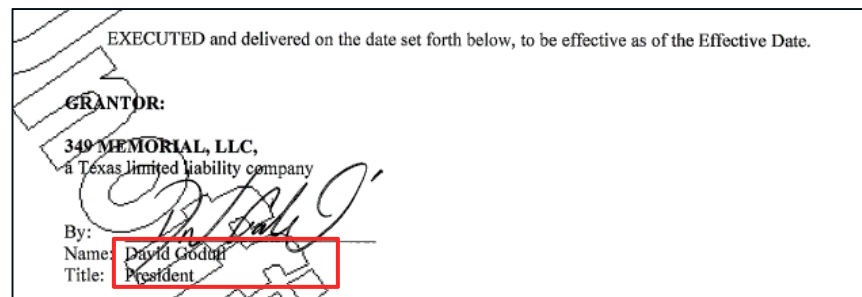
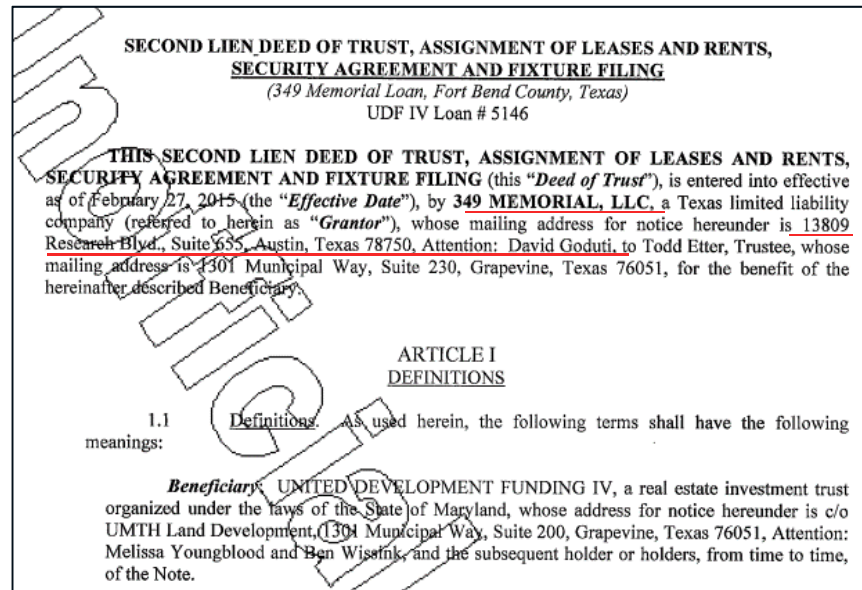
**Not only does the “factual background” allege that UDF financed an entity which it also controlled and disclosed as a “non-related party” but it also alleges that UDF and other related defendants were unable to meet financial obligations, claiming “that it did not have sufficient liquidity” some time during 2015. The lawsuit was filed in December 2015 and UDF later defaulted on debt in March 2016.**



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## 349 MEMORIAL, LLC

- On February 27, 2015, a deed of trust was filed in Fort Bend County, Texas, evidencing a 2<sup>nd</sup> lien loan from UDF IV to 349 Memorial, LLC.
- The address listed for 349 Memorial, LLC was 13809 Research Blvd., Suite 655, Austin, Texas 78750.
- The individual listed in the deed as the President of 349 Memorial was an individual by the name of David Goduti.
- Note that the “factual background” in the Fort Bend County complaint alleges that “the representatives of its spin off entities, ‘don’t even know where the property is.’”



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## 349 MEMORIAL, LLC

- Upon a visit to 13809 Research Blvd., Suite 655, Austin, Texas 78750 (the listed address for 349 Memorial), the placard displayed on this page was found outside the door.
- The placard, which clearly shows suite number 655, displayed the name “United Development Funding”.
- Considering the allegations in the “factual background” of the Fort Bend County lawsuit regarding the use of shell entities, is it merely a coincidence that the address listed for 349 Memorial, LLC had a UDF placard outside?



UDF IV discloses a loan to “349 Memorial, LLC” as a “non-related party” loan as of its latest Form 10-Q filed on November 11, 2015. The allegations from the “factual background” suggest that “349 Memorial” is nothing more than a straw borrower which UDF both controlled and financed. Any reasonable auditor would likely question loans to this entity and any other related entities and their characterization as notes or debt instruments rather than as an equity investment. As a result, a reasonable auditor would also likely consider the tax consequences on both future and historical lot sales across all loans and the implication for both market value and stated book value of assets.



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## PROSPER 236, LLC (RELATED TO 349 MEMORIAL)

- On January 30, 2015, a deed was filed in Collin County, Texas evidencing a second lien loan from UDF IV to Prosper 236, LLC.
- The signor for this entity was also David Goduti and the listed address in the deed for Prosper 236, LLC was the same Austin address: 13809 Research Blvd, Suite 655, Austin, Texas 78750.
- In UDF IV's Form 10-Q filed for the period ended June 30, 2015, a second lien loan to 236 Prosper, LLC was listed as a "non-related party" loan.

Given the apparent pattern related to the allegations in the Fort Bend County lawsuit and the common Austin address, any reasonable auditor would likely question whether the loan to Prosper 236, LLC was appropriately characterized as debt; this would also lead an auditor to question the characterization of all loans given the apparent pattern.

**DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS,  
SECURITY AGREEMENT AND FIXTURE FILING**  
*(Meadowbrook Bridge Loan, Collin County, Texas)*  
UDF IV Loan # \_\_\_\_\_

**THIS DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING** (this "*Deed of Trust*"), is entered into effective as of January 30, 2015 (the "*Effective Date*"), by **PROSPER 236, LLC**, a Texas limited liability company (referred to herein as "*Grantor*"), whose mailing address for notice hereunder is 13809 Research Blvd., Suite 655, Austin, Texas 78750, Attention: David Goduti, to Todd Etter, Trustee, whose mailing address is 1301 Municipal Way, Suite 230, Grapevine, Texas 76051, for the benefit of the hereinafter described Beneficiary.

**ARTICLE I  
DEFINITIONS**

1.1 **Definitions.** As used herein, the following terms shall have the following meanings:

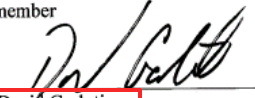
**Beneficiary:** UNITED DEVELOPMENT FUNDING IV, a real estate investment trust organized under the laws of the State of Maryland, whose address for notice hereunder is c/o UMTH Land Development, 1301 Municipal Way, Suite 200, Grapevine, Texas 76051, Attention: Melissa Youngblood and Ben Wissink, and the subsequent holder or holders, from time to time, of the Note.

EXECUTED and delivered on the date set forth below, to be effective as of the Effective Date.

**GRANTOR:**

**PROSPER 236, LLC,**  
a Texas limited liability company

By: Blueprint Land Development, LLC  
a Texas limited liability company  
its sole member

By:   
Name: David Goduti  
Title: Sole Manager



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## PROSPER 236, LLC (RELATED TO 349 MEMORIAL)

- Effective July 15, 2015, UDF V entered into a subordinate loan agreement with the same entity (Prosper 236, LLC), according to a Form 8-K filed with the SEC; on the same date, UDF IV released its lien against the assets underlying its loan to Prosper 236, LLC.
- The loan which UDF V issued to Prosper 236, LLC was subordinate to a senior loan issued by “a regional bank” and the CEO of UDF IV and UDF V personally guaranteed up to \$4 million of the \$16.3 million senior loan for the benefit of the regional bank and implicitly for the benefit of the ultimate borrower, Prosper 236, LLC.
- Why would the CEO of a subordinate lender, UDF V, personally guarantee a senior loan that had priority to UDF V rather than the principal individual of the real estate developer to which UDF V issued the loan?

### Item 1.01 Entry into a Material Definitive Agreement.

Effective July 15, 2015, United Development Funding Income Fund V, a Maryland real estate investment trust (“UDF V”), entered into a loan agreement to provide a \$9,500,000 subordinate development loan (the “Loan”) to Prosper 236, LLC, an unaffiliated single-purpose entity (“Borrower”). The Loan is evidenced and secured by a subordinate lien deed of trust to be recorded against approximately 117 acres of land in Prosper, Collin County, Texas, a promissory note, assignments of builder lot sale contracts, and other loan documents. The Loan is subordinate to a \$16,275,000 senior acquisition and development loan provided by a regional bank, and to one or more builder performance deeds of trust that secure \$3.414 million in earnest money deposits paid by the builders to secure their right to acquire the finished lots when they are complete. Hollis M. Greenlaw, the Chief Executive Officer and Chairman of the Board of Trustees of UDF V, has provided a limited guaranty of the senior loan in an amount not to exceed \$4 million. The proceeds of the Loan will be used to finance the Borrower’s closing costs, and to develop the land into single family residential lots for sale to homebuilders. The annual interest rate under the Loan is the lower of 13% or the highest rate allowed by law. The Loan matures and becomes due and payable in full on October 15, 2018. During the Loan term, Borrower is required to first pay off the senior loan in full and then pay down the Loan by paying over to UDF V all net proceeds of lot sales. Payments on the Loan will be generally applied first to accrued interest, and then to principal. The loan documents contain representations, warranties, covenants, and provisions for events of default that are typical for loans of this nature. UDF V received an origination fee equal to \$95,000 at the closing of the loan. As of July 16, 2015, UDF V had funded \$1,009,528 under the Loan.

Source: [https://www.sec.gov/Archives/edgar/data/1591330/000114420415043403/v415871\\_8k.htm](https://www.sec.gov/Archives/edgar/data/1591330/000114420415043403/v415871_8k.htm)

**A reasonable auditor would likely question whether the loan to Prosper 236, LLC was appropriately characterized as debt, given the apparent pattern related to the Fort Bend County lawsuit and the common Austin address; this would also likely lead an auditor to question the characterization of all loans given the apparent pattern.**



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER (CONTINUED)

## FRISCO 39, LLC (RELATED TO 349 MEMORIAL)

- On March 11, 2015, a deed was filed in Denton County, Texas evidencing a second lien loan from UDF V to Frisco 39, LLC.
- The signor for this entity was also David Goduti and the listed address in the deed for Frisco 39, LLC was the same Austin address: 13809 Research Blvd, Suite 655, Austin, Texas 78750.
- UDF V filed a Form 8-K on March 17, 2015 which disclosed a subordinate loan to Frisco 39, LLC, referring to it as “an unaffiliated single-purpose entity.”

Given the apparent pattern related to the Fort Bend County lawsuit and the common Austin address, any reasonable auditor would likely question whether the loan to Frisco 39, LLC was appropriately characterized as debt; this would also lead an auditor to question the characterization of all loans given the pattern.

**DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS,  
SECURITY AGREEMENT AND FIXTURE FILING**  
*(Phillips Creek Loan, Denton County, Texas)*  
UDF V Loan # 9004

**THIS DEED OF TRUST, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING** (this “*Deed of Trust*”), is entered into effective as of March 11, 2015 (the “*Effective Date*”), by **FRISCO 39, LLC**, a Texas limited liability company (referred to herein as “*Grantor*”), whose mailing address for notice hereunder is 13809 Research Blvd., Suite 655, Austin, Texas 78750, Attention: David Goduti, to Todd Etter, Trustee, whose mailing address is 1301 Municipal Way, Suite 230, Grapevine, Texas 76051, for the benefit of the hereinafter described Beneficiary.

**ARTICLE I  
DEFINITIONS**


1.1 **Definitions.** As used herein, the following terms shall have the following meanings:

**Beneficiary:** UNITED DEVELOPMENT FUNDING INCOME FUND V, a real estate investment trust organized under the laws of the State of Maryland, whose address for notice hereunder is 1301 Municipal Way, Suite 200, Grapevine, Texas 76051, Attention: Melissa Youngblood and Ben Wissink, and the subsequent holder or holders, from time to time, of the Note.

EXECUTED and delivered on the date set forth below, to be effective as of the Effective Date.

**GRANTOR:**

**FRISCO 39, LLC,**  
a Texas limited liability company

By:   
Name: David Goduti  
Title: President

Source: Denton County, Texas public records



# THE EXTENT OF THE PURPORTED LENDER'S PARTICIPATION IN MANAGEMENT OF THE PURPORTED BORROWER – IN SUMMARY

- A lawsuit filed in Fort Bend County, Texas alleged that UDF IV used shell entities, and in essence straw borrowers, to circumvent a key REIT “limitation.”
- The principal entity in question in the complaint was 349 Memorial, LLC; the listed address for 349 Memorial, LLC was in Austin, Texas and upon a visit to the address, a UDF placard was discovered outside the office suite, seeming to support the allegations in the lawsuit regarding shell entities related to, and controlled by, UDF.
- UDF IV disclosed a loan to 349 Memorial, LLC as a loan to a “non-related party”; not only does this appear to be a potential disclosure issue but the allegations in the lawsuit (and the questions regarding the address in Austin) lead to questions about whether (i) UDF IV is actively participating in the management of an entity to which it has issued a “debt” instrument and (ii) whether the instrument is accurately characterized as debt.
- UDF IV and UDF V have collectively issued at least three other loans to entities which appear to be related to 349 Memorial, LLC (specifically loans to Prosper 236, LLC and Frisco 39, LLC); each of these entities share the same principal individual as the signor in public deed recordings and share the same physical address in Austin, Texas, also according to deed recordings.
- While the plaintiffs in the 349 Memorial, LLC breach of contract complaint have chosen not to pursue the case further, the plaintiffs have also not rescinded the factual allegations in their complaint as unfounded; it is the factual allegations, rather than the complaint of breach of contract itself, which are most relevant to the potential tax implications and questions concerning financial disclosures.
- Because (i) 349 Memorial, LLC is alleged to be a shell entity and, effectively, to be a straw borrower; (ii) the information regarding the address of the entity in Austin seems to support the Fort Bend County lawsuit allegations; and (iii) the entities that have received loans from UDF IV or UDF V – 349 Memorial, LLC; Prosper 236, LLC; and Frisco 39, LLC – seem to be related, there is a reasonable basis to also question whether Prosper 236, LLC and Frisco 39, LLC are shell entities and/or straw borrowers as well.
- Similarly, it would be reasonable to then question whether loans to these entities are accurately disclosed as “unaffiliated” third-party loans and whether the loans are appropriately characterized as debt.
- The alleged use of shell entities or straw borrowers would likely constitute a significant red flag for an auditor which should then lead to questions regarding the nature and patterns of various other purported creditor-debtor relationships.



***DEBT VERSUS EQUITY FACTOR:***

**THE SOURCE OF PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE DEBT SERVICE PAYMENTS**

**EXAMPLES OF BORROWERS' APPARENT (I) INABILITY TO REPAY UPON MATURITY OR SERVICE INTEREST; (II) REGULAR POSTPONEMENT OF REPAYMENT; AND (III) REPAYMENT OF PRINCIPAL AND INTEREST DEPENDENT ON FUTURE EARNINGS OF THE BUSINESS**



# THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS

- Another key consideration as to whether an investment is characterized as debt or equity is the source of the purported debt service payments and *the ability to make the debt service payments*.
- In UDF IV's latest Form 10-Q filed for the quarter ended September 30, 2015, UDF IV disclosed that it "invested approximately 62% of the outstanding balance of [its] portfolio in 69 loans to our largest group of related borrowers. In addition, we are participating in 5 loans originated by our affiliates to the same group of related borrowers, representing an additional 5% of the outstanding balance of our loan portfolio."
- Despite 67% concentration of credit risk to one related group of borrowers, UDF IV never discloses anything about who or what that group is; based on record searches with the Secretary of State of Texas, it has become clear that the borrower is Centurion American, a private real estate developer in North Texas which operates through a web of related affiliates (collectively "Centurion"). While UDF IV has never confirmed this explicitly, it also has not denied the accuracy.
- Loans to Centurion regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances. All while, in numerous instances, land remains undeveloped for years. This leads to questions as to (i) "the ability to make the debt service payments," (ii) "whether the intent to create a debtor-creditor relationship comports with economic reality," (iii) the "commercial reasonableness of debt-to-equity ratios" and (iv) "the intent of the parties."



**Not only do the concentration and the irregular patterns of loans lead to questions about the lender-borrower relationship between UDF and Centurion, but there is also evidence that supports Centurion's inability to repay its debts which, collectively, would likely cause a reasonable auditor to question whether the characterization of loans to Centurion affiliates as debt are appropriate.**



## THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

In a Form 8-K filed with the SEC, UDF explained that “most of our loans allow for interest accrual, which causes the loan balance to increase.”

- **Loans to UDF’s largest borrower accounts for 43% of UDF III, 67% of UDF IV, and 62% of UDF V.**
  - Loans owed by UDF’s largest borrower, Centurion, typically do not generate actual cash income.
  - When loans owed by Centurion American are due, the loans are almost always not repaid at maturity.
  - When loans are not repaid, the loans are repeatedly extended, and regularly without an extension fee.
- **In a typical development loan, interest is “accrued” and then paid (typically within 30-45 days); in the case of UDF, interest is typically not paid but instead, is added to the loan balance, on a regular basis, for years.**
- **The following examples are all related to UDF’s largest borrower, Centurion. These loans account for over 25% of UDF IV’s loan portfolio as of September 30, 2015 and are representative of and material to UDF IV’s portfolio.**
- **The irregular patterns of these loans lead to questions as to whether the loans are appropriately characterized as debt rather than as equity investments.**



## THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

- Each loan summarized below is owed by UDF’s largest group of related borrowers – Centurion (detail on each loan is provided in the appendix). These loans (and entities) account for an outstanding balance of \$166 million at September 30, 2015, according to UDF IV’s Form 10-Q, representing 26% of the outstanding balance of all UDF IV loans and 40% of all loans issued to UDF IV’s largest borrower, Centurion. These loans were (i) all issued either in 2012 or 2013, (ii) have collectively generated less than \$1 million in cash receipts and (iii) have collectively increased from \$92 million to \$166 million at September 30, 2015, an increase of \$74 million, or an increase of over 80% (excluding any “unpaid” balances in “accrued interest” on the balance sheet).
- While significantly more loans also demonstrate irregularities, this sample set is representative of loans to this developer. As discussed previously, loans to this developer regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances. All while, in numerous instances, land remains undeveloped for years.
- The pattern of non-payment and extension provides a reasonable basis for an auditor to question the ability of the borrower to repay loans and the intent of the parties. If the borrower does not have the ability to repay the loans upon maturity, does the intent to create a debtor-creditor relationship comport with economic reality and has the borrower provided sufficient equity capital to satisfy the commercial reasonableness of debt-to-equity ratios?

(\$ in millions)	Ex. 1	Ex. 2	Ex. 3	Ex. 4	Ex. 5	Ex. 6	Ex. 7	Ex. 8	Ex. 9	Ex. 10	Ex. 11	Total
Original Date	12/31/12	12/31/12	12/31/12	12/31/12	12/31/12	12/31/12	12/31/12	12/31/13	6/30/13	12/31/12	9/30/13	
Original Balance	\$11.0	\$18.3	\$7.2	\$23.5	\$1.9	\$3.4	\$3.9	\$2.2	\$3.1	\$10.6	\$6.6	\$91.7
Cash Receipts	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0.7	\$0	\$0.7
Balance 9/30/15	\$21.8	\$30.6	\$15.9	\$28.3	\$10.1	\$9.2	\$5.6	\$5.0	\$5.8	\$17.8	\$15.6	\$ 165.7



# THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

- A Centurion affiliate, CTMGT Frisco 122, LLC, defaulted on a 1st lien loan in June 2015; when a loan secured by real estate is in default, the lender often appoints a substitute trustee to enforce its deed of trust, which is exactly what happened. A copy of the “Appointment of Substitute Trustee” is included on this page.
- **“Default has been made in the payment of the indebtedness** secured by the Deed of Trust”
- “Beneficiary hereby requests the Substitute Trustee to sell the property described in the Deed of Trust”
- This document was executed on June 10, 2015, just over two years after the loan was originally issued. At the time, UDF IV also had a 2<sup>nd</sup> lien loan outstanding to, and owed by, this Centurion entity, which at least as of the last Form 10-Q filed with the SEC, was still outstanding and owed to UDF IV.
- The first lien lender took action to enforce its rights as a creditor while UDF IV (in a subordinate position) took no such similar action upon maturity; instead, UDF IV has rolled short-term maturity dates on multiple occasions despite the fact that development activities had not begun.

APPOINTMENT OF SUBSTITUTE TRUSTEE

THE STATE OF TEXAS  
COUNTY OF DENTON

By Deed of Trust dated May 30, 2013, CTMGT FRISCO 122, LLC, a Texas limited liability company, as Grantors, conveyed to JOE M. JOPLIN, Trustee, certain property situated in Denton County, Texas, to secure the payment of the indebtedness therein referenced (the "Obligations"), including the Note therein described payable to the order of LITTLE ELM CEMETERY ASSOCIATION, a Texas nonprofit corporation (who together with its successors and assigns and subsequent holders of the Note are referred to as the "Beneficiary"), and renewals and extensions thereof, and any and all indebtedness of Grantors to Beneficiary, which Deed of Trust is recorded in Document No. 2013-66204, Land Records of Denton County, Texas, to which Deed of Trust and record thereof reference is here made for all purposes.

Default has been made in the payment of the indebtedness secured by the Deed of Trust and the sale provided for therein should be made.

The contingency stated in the Deed of Trust as a condition precedent for the appointment of a Substitute Trustee in substitution for the Trustee named in the Deed of Trust has occurred.

The Deed of Trust provides that Beneficiary may appoint a Substitute Trustee by a designation in writing of a Substitute Trustee.

Beneficiary hereby appoints D. RAY MURPHY, G. RANDAL HULLETT or JARED J. PACE as Substitute Trustee, to act under and by virtue of the Deed of Trust.

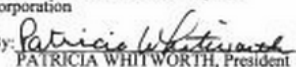
Beneficiary hereby requests the Substitute Trustee to sell the property described in the Deed of Trust, which includes the following:

Being 122.163 acres of land situated in the Major Sanders Survey, Abst. No. 1183, the M.E.P.&P. RR. Co. Survey, Abst. No. 919 and the A. Sparks Survey, Abst. No. 1491, City of Frisco, Denton County, Texas, being more fully described in Exhibit "A" attached hereto and incorporated herein by reference.

The address of the Substitute Trustee is as follows: 1700 Redbud Blvd., Suite 300, McKinney, Texas 75069.

The address of the Beneficiary is as follows: 7995 Player Court, Frisco, Texas 75034.

EXECUTED: June 10, 2015.

LITTLE ELM CEMETERY ASSOCIATION, a Texas nonprofit corporation  
By:   
PATRICIA WHITWORTH, President

Appointment of Substitute Trustee - Page 1  
672004.1



# DEVELOPMENT ACTIVITIES ARE NOT TAKING PLACE AT THIS UDF-FUNDED SITE

The picture of the land owned by Centurion (included below) was taken in December 2015, two and a half years after the acquisition and after multiple defaults.



Given the fact that Centurion as a borrower, with an interest rate of 13%, had not begun development within two and a half years after receiving a loan from UDF, there is a reasonable basis to question the source of purported debt payments and the ability to make debt service payments; there is also basis to question whether the intent to create a debtor-lender relationship comports with economic reality and the commercial reasonableness of debt-to-equity ratios.

(CONTINUED)

## DEVELOPMENT ACTIVITIES ARE NOT TAKING PLACE AT THIS UDF-FUNDED SITE

As a result, this loan accrued a larger and larger balance, has not generated any cash receipts and, upon maturity, the loan was not repaid. The analysis below was created by Hayman, relying on disclosures directly from ten UDF IV SEC Filings, including Forms 10-Q and Forms 10-K.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts		
				Balance	Maturity Date	2015A	2014A	2013A
CTMGT Frisco 122, LLC	6/30/2013	2nd Lien	350 Paper Lots	\$ 3,122,872	2/28/14	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	9/30/2013	2nd Lien	350 Paper Lots	\$ 3,140,164	2/28/14	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	12/31/2013	2nd Lien	350 Paper Lots	\$ 3,207,615	2/28/14	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	3/31/2014	2nd Lien	350 Paper Lots	\$ 3,338,579	2/28/15	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	6/30/2014	2nd Lien	350 Paper Lots	\$ 4,366,505	2/28/15	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	9/30/2014	2nd Lien	350 Paper Lots	\$ 4,591,528	2/28/15	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	12/31/2014	2nd Lien	350 Paper Lots	\$ 4,816,235	2/28/15	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	3/31/2015	2nd Lien	350 Paper Lots	\$ 4,896,696	5/30/15	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	6/30/2015	2nd Lien	350 Paper Lots	\$ 5,565,803	5/30/15	\$ -	\$ -	\$ -
CTMGT Frisco 122, LLC	9/30/2015	2nd Lien	350 Paper Lots	\$ 5,750,184	3/31/16	\$ -	\$ -	\$ -

Given the pattern of this loan, there is a reasonable basis to question the expectation of performance from inception. Given the underlying asset remained undeveloped for years, there is also a reasonable basis to question the source of purported debt payments (i.e. future earnings of business) and whether there was a commercial equity investment or thin capitalization.



# THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

- A Centurion affiliate, CTMGT AR II, LLC, missed a scheduled principal payment and interest payment on a first lien loan in November 2014; following the missed payment, the lender sent a default letter and later agreed to modify the loan.
- “*Borrower failed to make the payment* in the amount of \$442,500 due under the note on November 14, 2014 *resulting in Lender’s default letter* dated December 1, 2014 *accelerating the debt and providing notice of foreclosure sale* on January 6, 2015.”
- This document was executed on December 23, 2014; just over two years after the loan was originally issued. At the time, UDF IV also had a 2nd lien loan outstanding to, and owed by, this Centurion entity, which at least as of the last Form 10-Q filed with the SEC, was still outstanding and owed to UDF IV.
- The underlying property had not been developed as of a site visit during 2015 and no activity in the Denton County deed records support any such development since then to date.

**LOAN MODIFICATION AGREEMENT**

This Loan Modification Agreement (the “Agreement”) is made and entered into as of December 23, 2014 (the “Effective Date”), by and between W.R. Rose Investments, Inc., Trustee, a Texas corporation acting as Trustee, (“Lender”), and CTMGT AR II, LLC, a Texas limited liability corporation (“Borrower”).

**WITNESSETH**

WHEREAS, Lender is the owner and holder of the Promissory Note (the “Note”) dated November 14, 2012, in the original principal amount of \$3,800,000.00 from Borrower to Lender (the “Loan”) which matures on November 14, 2017;

WHEREAS, this Note is secured by a Deed of Trust (“Deed of Trust”) to John A. Wise, Trustee, recorded as Document Number 2012-131097 of the Real Property Records of Denton County, Texas, encumbering the hereinafter described property (“Property”) (the Note, the Loan and the Deed of Trust are collectively referred to herein as the “Loan Documents”), to-wit:

Being more fully described in Exhibit “A” attached hereto and incorporated herein by reference.

WHEREAS, Borrower failed to make the payment in the amount of \$442,500.00 due under the Note on November 14, 2014, resulting in Lender’s default letter dated December 1, 2014 and Lender’s letter dated December 12, 2014 accelerating the debt and providing notice of foreclosure sale on January 6, 2015;

WHEREAS, Borrower and Lender have agreed to modify certain provisions of the Loan subject to the terms and conditions set forth herein.

Default on multiple loans – small loans relative to the hundreds of millions of dollars which Centurion owes to UDF – leads to broad questions about the borrower’s ability to make debt service payments; UDF has continued to extend credit to Centurion despite the pattern since this time through multiple entities and because the land has not been developed, it leads to questions as to the source of purported debt service payments.



# THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

- A Centurion affiliate, CTMGT Granbury, LLC, was unable to timely make debt payment on a \$3.3 million loan and entered into a modification and extension in return for a fee in April 2016.
- “Maker will *pay a loan extension fee* of \$30,000 on April 22, 2016.”
- “Maker will deposit \$55,000 with lender on April 29, 2016 *as a reserve for attorney’s fees, expenses and additional collateral.*”
- Once again, UDF had a second lien loan outstanding to, and owed by, the same entity at the time of the modification and extension agreement.
- The underlying property had not been developed as of a site visit during 2015 and no activity in the Hood County deed records support any such development since then to date.

**Given the pattern of non-payment, there is a reasonable basis to question (i) the source of purported debt service payments, (ii) the ability to make debt service payments, and (iii) the characterization of loans to this borrower as debt.**

## MODIFICATION AND EXTENSION AGREEMENT

Date: April 11, 2016

Maker: CTMGT Granbury, LLC, a Texas limited liability company, 1221 N. I-35E, Suite 200, Carrollton, Texas 76006

Lender: Lowry Donkey Farm LP, a Texas limited partnership, 2715 Acton Hwy., Granbury, Texas 76049.

Note: \$3,300,000.00 Deed of Trust Note dated April 24, 2014 executed by Maker, and payable to the order of Lender

Deed of Trust: Deed of Trust executed by Maker and recorded in File No. 2014-0003721 of the Real Property Records of Hood County, Texas

Guarantor: Mohrdad Moayedi

For valuable consideration, the parties agree that as of the Date hereof:

1. The unpaid principal and all unpaid interest and fees on the Note are payable on May 1, 2017.

2. Maker will pay a loan extension fee of \$30,000.00 on April 22, 2016.

3. Maker will pay a principal reduction payment of \$300,000.00 on April 29, 2016.

4. Maker will deposit \$55,000.00 with Lender on April 29, 2016 as a reserve for attorney’s fees, expenses and additional collateral. Lender may apply the funds as Lender chooses in its sole discretion. Lender will apply any remaining funds in the reserve when the Note is repaid to the principal balance.

5. As a material inducement to Lender to execute this Agreement, Maker and Guarantor acknowledge that as of this date:

a. The lien of the Deed of Trust is valid against the real property described therein and that the lien is renewed in full force and effect to secure the payment of the Note and the obligations described in the Deed of Trust.

b. There are no claims or offsets against, or defenses or counterclaims to, the Note or the other obligations secured by the Deed of Trust.

c. The Guaranty remains in full force and effect.



## THE SOURCE OF THE PURPORTED DEBT SERVICE PAYMENTS AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS – IN SUMMARY

- Loans to entities related to UDF IV's largest purported borrower (Centurion) regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances.
- In three specific instances, collectively dating back to 2014, there is evidence in public records which suggests Centurion has had difficulty making debt service payments on senior loans; in each of these instances, (i) UDF IV is a subordinate lender; (ii) the senior lender has taken action consistent with a debtor-creditor relationship in which the debtor is struggling to service its debts; and (iii) there does not appear to be any similar evidence in the public records of UDF IV exercising its rights as a creditor to either foreclose or accelerate payment.
- The senior loans which Centurion has struggled to timely pay are very small relative to the over \$400 million Centurion owes through its affiliates to UDF IV alone and over \$600 million Centurion collectively owes to UDF III, UDF IV, and UDF V, as of September 30, 2015 based on financial disclosures filed with the SEC.
- If there is reason to question Centurion's ability make debt service payments on a few small senior loans, there is also a reasonable basis to question Centurion's ability to make debt service payments to UDF IV on its subordinate loans.
- The numerous examples of subordinate loans secured by land that remains undeveloped for multiple years lead to questions regarding the source of purported debt service payments and specifically whether, and to what extent, the repayment of principal and interest is dependent on future earnings – earnings which are primarily dependent on the development and sale of single-family residential lots.
- Because of the irregular loan patterns and the apparent inability to timely service senior debt, there is a reasonable basis to question (i) the broader lending relationship between UDF IV and Centurion, (ii) the substance of individual transactions and (iii) the characterization of numerous loans as debt, especially considering other red flags such as the alleged use of shell entities and straw borrowers.



## ***DEBT VERSUS EQUITY FACTOR:***

# **COMMERCIAL REASONABLENESS OF DEBT-TO-EQUITY RATIO (THIN OR ADEQUATE CAPITALIZATION)**

IN ORDER TO DETERMINE THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS, IT IS NECESSARY TO UNDERSTAND HOW AN ENTITY IS CAPITALIZED AND WHAT ITS EXPECTATIONS ARE AT THE TIME OF THE FINANCING. ABSENT UNEXPECTED BUSINESS DEVELOPMENTS, SUBSEQUENT PERFORMANCE MAY SHED LIGHT ON THE PARTIES' EXPECTATIONS. IN ORDER TO ASSESS THE INITIAL CAPITALIZATION AND SUBSEQUENT PERFORMANCE, IT IS NECESSARY TO HAVE ACCESS TO THE BORROWER'S FINANCIAL STATEMENTS.

THE FOLLOWING CASE STUDY IS AN EXAMPLE OF A UDF IV LOAN ISSUED TO AN ENTITY THAT APPEARS TO HAVE HAD LITTLE OR NEGATIVE EQUITY FROM BEGINNING TO END.



# ABILITY TO MAKE DEBT SERVICE PAYMENTS AND THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS

## A Case Study of a Centurion Affiliate (CTMGT Verandah).

- UDF IV issued a loan to CTMGT Verandah, LLC on April 15, 2013 (according to public record searches, this entity was initially registered approximately two weeks prior on March 27, 2013); the maximum loan balance was \$3.1 million and the maximum reported outstanding balance was \$2.8 million as at June 30, 2014.
- CTMGT Verandah, LLC owned and developed 110 lots in Hunt County, Texas (based on UDF IV disclosures); over the course of 2014 and 2015, CTMGT Verandah, LLC sold lots (dissipating collateral).
- The lots which CTMGT Verandah, LLC owned and developed were in a municipal utility district (MUD) and the financial statements for this entity were included in a municipal bond document filed publicly.
- The financial statements for CTMGT Verandah, LLC show that, at 12/31/13, 12/31/14 and 9/30/15, this entity was balance sheet insolvent (negative book value of equity).
- Based on (i) the remaining collateral disclosed in UDF IV's Form 10-Q for the period ended September 30, 2015 and (ii) the sales amount (in dollars) per lot implied by CTMGT Verandah's lot sale revenue, there appears to be insufficient market value of collateral to repay its liabilities both to UDF IV and other creditors.

**Not only is there a question as to the ability of this borrower to pay but there is also a question about the initial capitalization of this entity and the commercial reasonableness of debt to equity ratio (at issuance and currently) given the reported financials showed negative equity at the end of 2013 and 2014 (and at Sept. 30, 2015) and given the entity was formed in 2013, noting that real estate in North Texas has broadly appreciated (if it is insolvent now, given the circumstances, it was likely thinly capitalized from an equity perspective at inception with little or no equity); these questions raise further questions about the characterization of the UDF IV loan to CTMGT Verandah, LLC as debt rather than equity.**



# ABILITY TO MAKE DEBT SERVICE PAYMENTS AND THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS

## A Case Study of a Centurion Affiliate (CTMGT Verandah).

- Below is the balance sheet of CTMGT Verandah, LLC as disclosed in Hunt County, Texas public records as at 12/31/14 and 9/30/15, showing negative equity at the end of the calendar period immediately following the year the loan was issued (issued April 2013).
- Note that the partners' equity at 12/31/13 was negative ~\$413k (included in the 12/31/14 balance sheet statement of equity).

CTMGT Verandah, LLC Balance Sheet <u>December 31, 2014</u>		CTMGT Verandah, LLC Balance Sheet <u>September 30, 2015</u>	
Assets	Balance	Assets	Balance
Current Assets		Current Assets	
Cash	35,670	Cash	54,724
<b>Total Current Assets</b>	<b>35,670</b>	<b>Total Current Assets</b>	<b>54,724</b>
Inventories		Inventories	
Finished Lots	1,736,583	Land	16,993
<b>Total Inventories</b>	<b>1,736,583</b>	Finished Lots	391,454
Other Assets		<b>Total Inventories</b>	<b>408,446</b>
Prepays and Deferred Expenses	42,712	Other Assets	
<b>Total Assets</b>	<b>1,814,965</b>	Prepays and Deferred Expenses	322
		<b>Total Assets</b>	<b>463,492</b>
<b>Liabilities and Equity</b>		<b>Liabilities and Equity</b>	
Liabilities		Liabilities	
Accounts Payable	75,716	Retainage	(13,914)
Retainage	(13,914)	Earnest Money Received	145,000
Earnest Money Received	175,000	Other Payables/Deferred Income	322
Other Payables/Deferred Income	42,712	Notes Payable	756,586
Notes Payable	2,180,431	<b>Total Liabilities</b>	<b>887,993</b>
<b>Total Liabilities</b>	<b>2,459,945</b>	Equity	
Equity		Partners' Equity	(644,980)
Partners' Equity	(413,462)	Current Year Income/(Loss)	220,478
Current Year Income/(Loss)	(231,518)	<b>Total Equity</b>	<b>(424,501)</b>
<b>Total Equity</b>	<b>(644,980)</b>	<b>Total Liabilities and Equity</b>	<b>463,492</b>
<b>Total Liabilities and Equity</b>	<b>1,814,965</b>		

If there was negative equity approximately 9 months and 18 months after the entity was formed and after the loan was issued (and if the underlying collateral has generally increased in value in the interim period), was it thinly capitalized from the beginning? And, was there ever any equity or was the "loan" structured to account for the vast majority if not all income?



# ABILITY TO MAKE DEBT SERVICE PAYMENTS AND THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS

## A Case Study of a Centurion Affiliate (CTMGT Verandah).

- Below is the outstanding balance of UDF IV's loan at various points in time based on UDF IV disclosures.
- Because (i) the remaining collateral as of 9/30/15 was only 16 finished lots and (ii) because UDF IV has only received an average of ~\$26,500 per lot sold, it implies the remaining asset value of the collateral is ~\$423K versus a loan balance of \$761K.
- Using the same assumptions, the value of the collateral (at the time the loan was issued) was ~\$2.9 million (an estimate based on 110 lots x \$26.5k per lot); given UDF IV's loan was in excess of \$2.8 million, it suggests there may have been little to no equity at all times.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts		
				Balance	Maturity Date	2015A	2014A	2013A
CTMGT Verandah, LLC	6/30/2013	1st Lien	110 Paper Lots	\$ 1,095,915	4/15/15	\$ -	\$ -	\$ -
CTMGT Verandah, LLC	9/30/2013	1st Lien	110 Paper Lots	\$ 1,399,276	4/15/15	\$ -	\$ -	\$ -
CTMGT Verandah, LLC	12/31/2013	1st Lien	110 Paper Lots	\$ 1,808,595	4/15/15	\$ -	\$ -	\$ -
CTMGT Verandah, LLC	3/31/2014	1st Lien	110 Paper Lots	\$ 2,157,767	4/15/15	\$ -	\$ -	\$ -
CTMGT Verandah, LLC	6/30/2014	1st Lien	110 Finished Lots	\$ 2,833,141	4/15/15	\$ -	\$ -	\$ -
CTMGT Verandah, LLC	9/30/2014	1st Lien	84 Finished Lots	\$ 2,434,998	4/15/15	\$ -	\$ 650,438	\$ -
CTMGT Verandah, LLC	12/31/2014	1st Lien	71 Finished Lots	\$ 2,180,431	4/15/15	\$ -	\$ 962,840	\$ -
CTMGT Verandah, LLC	3/31/2015	1st Lien	44 Finished Lots	\$ 1,553,003	4/15/16	\$ 710,757	\$ 962,840	\$ -
CTMGT Verandah, LLC	6/30/2015	1st Lien	23 Finished Lots	\$ 944,826	4/15/16	\$ 1,338,239	\$ 962,840	\$ -
CTMGT Verandah, LLC	9/30/2015	1st Lien	16 Finished Lots	\$ 760,809	4/15/16	\$ 1,522,981	\$ 962,840	\$ -

	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Cumulative
Finished Lot Collateral (End of Period)	110	84	71	44	23	16	16
Implied Lot Sales (During Interim Period)	-	26	13	27	21	7	94
Cash Receipts (to UDF IV)	\$ -	\$ 650,438	\$ 312,402	\$ 710,757	\$ 627,482	\$ 184,742	\$ 2,485,821
Cash Receipts (to UDF IV) Per Lot - Implied	\$ -	\$ 25,017	\$ 24,031	\$ 26,324	\$ 29,880	\$ 26,392	\$ 26,445



# ABILITY TO MAKE DEBT SERVICE PAYMENTS AND THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS

## A Case Study of a Centurion Affiliate (CTMGT Verandah).

- Even based on gross market value (rather than net value available to UDF IV), the implied remaining collateral appears to be significantly less than the outstanding balance on UDF IV's loan and the total liabilities of the entity.

	<u>12/31/2014</u>	<u>9/30/2015</u>
Collateral - Finished Lots (EOP)	71	16
Implied Lot Sales (During Period)	39	55
	<i>12 Months</i>	<i>9 Months</i>
CTMGT Verandah Lot Revenue	\$ 1,264,146	\$ 1,814,177
Implied Sales Per Lot (i.e. market value per lot)	\$ 32,414	\$ 32,985
Cash Receipts to UDF IV During Period	\$ 962,840	\$ 1,522,981
Cash Receipts to UDF IV Per Lot	\$ 24,688	\$ 27,691
<b>Implied Remaining Collateral (EOP) - Market Value</b>	<b>\$ 2,301,394</b>	<b>\$ 527,761</b>
<i>Total CTMGT Verandah Liabilities (EOP)</i>	<i>\$ 2,459,945</i>	<i>\$ 887,993</i>
<i>UDF IV Loan Balance - End of Period (EOP)</i>	<i>\$ 2,180,431</i>	<i>\$ 760,809</i>
CTMGT Verandah Liabilities to Value (EOP)	113%	117%
UDF IV Loan to Value (EOP)	95%	144%

	<i>12 Months</i>	<i>9 Months</i>
<i>CTMGT Verandah, LLC Income Statement</i>	<i>12/31/2014</i>	<i>9/30/2015</i>
Sales - Lots	\$ 1,264,146	\$ 1,814,177
Sales - Other	-	-
Total Sales	\$ 1,264,146	\$ 1,814,177
Cost of Sales		
Direct Selling & Closing	51,471	74,631
Lots	<u>953,897</u>	<u>1,345,129</u>
Total Cost of Sales	1,005,368	1,419,760
<b>Gross Profit</b>	<b>258,778</b>	<b>394,417</b>
Property Maintenance Costs	8,506	-
Property Taxes	100,919	20,997
Interest	378,038	152,943
G&A	<u>2,832</u>	-
Total Expenses	490,295	173,939
Other Income	-	-
<b>Net Income (Loss)</b>	<b>\$ (231,518)</b>	<b>\$ 220,478</b>

Note: This table was created from the actual statements on the following page.

**Given the high loan-to-value (LTV), was this business thinly capitalized and is the loan accurately characterized as debt?**



# ABILITY TO MAKE DEBT SERVICE PAYMENTS AND THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS

## A Case Study of a Centurion Affiliate (CTMGT Verandah).

- Below are the income statements for CTMGT Verandah, LLC from 2014 and 2015 which show aggregate net income of negative \$11k from 1/1/14 to 9/30/15 (sourced from Hunt, County Texas Municipal Bond Documents); even without regard to principal payments, the interest on the debt (\$531K) accounts for more than 80% of gross profit (\$653K) on a cumulative basis since the beginning of 2014 to 9/30/15.

CTMGT Verandah, LLC  
Income Statement  
Year to Date  
December 31, 2014

	Month \$	Year-to-Date \$	%
<b>Revenue</b>			
Sales - Lots		1,264,146	100
	0	0	0
Total Sales	0	1,264,146	100
<b>Cost of Sales</b>			
Direct Selling & Closing Lots		51,471	4
		953,897	75
Total Cost of Sales		1,005,368	80
Gross Profit		258,778	20
<b>Expenses</b>			
Property Maintenance Costs	8,236	8,506	1
Property Taxes		100,919	8
Interest		378,038	30
General & Administrative Costs	259	2,832	
Total Expenses	8,494	490,295	39
Other Income/ (Expense)			
Net Income or (Loss)	(8,494)	(231,518)	(18)

CTMGT Verandah, LLC  
Income Statement  
Year to Date  
September 30, 2015

	Month \$	Year-to-Date \$	%
<b>Revenue</b>			
Sales - Lots	4,000	1,814,177	100
	0	0	0
Total Sales	4000	1,814,177	100
<b>Cost of Sales</b>			
Direct Selling & Closing Lots		74,631	4
		1,345,129	74
Total Cost of Sales		1,419,760	78
Gross Profit	4,000	394,417	22
<b>Expenses</b>			
Property Taxes	(700)	20,997	1
Interest		152,943	8
Total Expenses	(700)	173,939	10
Other Income/ (Expense)			
Net Income or (Loss)	4,700	220,478	12

Aggregate negative net income



# ABILITY TO MAKE DEBT SERVICE PAYMENTS AND THE COMMERCIAL REASONABLENESS OF DEBT TO EQUITY RATIOS

- Because UDF IV's borrowers are all private entities, the financial statements of these borrowers are typically not made public which makes it difficult to evaluate the debt to equity ratios (or the solvency) of UDF IV's borrowers.
- CTMGT Verandah, LLC is one of the few Centurion entities for which financial statements have been publicly disclosed.
- CTMGT Verandah, LLC appears to have been thinly capitalized from the beginning and it is unclear whether any commercial amount of equity was ever invested.
- While CTMGT Verandah, LLC is one of the few Centurion entities with a publicly disclosed financial statement, it provides important insight into the financial health of a UDF IV borrower, only leading to more questions regarding the financial health and capitalization of other Centurion entities funded by UDF IV.
- This case study makes it clear why (i) the financial statements of the borrowers are so relevant and (ii) why an auditor of UDF IV would need to review those financial statements when evaluating whether UDF IV loans are actually debt versus equity.
- No one factor is controlling when considering the debt versus equity question; instead, many factors must be considered in determining the substance and intent of the transaction.
- Similarly, an auditor, tax professional or the IRS may not just look at one loan in a vacuum; instead, if a number of red flags established a pattern, the aggregate facts and circumstances would likely be considered when determining the broader substance of creditor-debtor relationships and the intent of the parties involved.
- Based on the pattern of (i) alleged use of shell entities and straw borrowers, (ii) apparent inability of borrowers to pay debt service and (iii) the apparent negative equity and thinly capitalized entity affiliated with UDF IV's largest borrower, there is a reasonable basis to question the broader substance and characterization of UDF IV "loans."



***DEBT VERSUS EQUITY FACTOR:***

**THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS**

**A MATERIAL NUMBER OF UDF IV LOANS HAVE MATURED IN THE PAST 10+ MONTHS WITHOUT APPARENTLY BEING REPAYED, AT LEAST PARTLY CONTRIBUTING TO A UDF IV DEFAULT ON ITS DEBT IN THE INTERIM; ROLLING OF LOANS OCCURS SO REGULARLY (AND WITHOUT EXTENSION FEES) THAT IS UNCLEAR WHETHER THE BORROWERS EVEN HAVE TO SEEK AN EXTENSION OR WHETHER IT IS JUST GRANTED OR EXPECTED.**



# THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

- UDF IV last filed financial statements with the SEC for the quarter ended September 30, 2015. Subsequent to September 30, 2015, UDF IV has had \$374 million (~60% of total loans) worth of outstanding loan balances (loans owed to UDF IV) that should have matured between 9/30/15 and mid-July 2016. This is based on the disclosed maturity date included in the Form 10-Q filed on November 11, 2015 for each loan and includes loans that had already matured as of 9/30/15 but had not been repaid (e.g. a loan with a maturity date of March 31, 2016 as of 9/30/15 should have matured and been repaid in the interim period). The table below discloses the loans (and maturity dates) that should have matured and been repaid in the interim period:

Reference	Borrower	Loan Type	Lender (1)	Location	Interest Rate	Issue Date	Maturity Date (3)	9/30/2015 Balance
1	HLL II Land Acquisitions of Texas, LP	Notes Receivable - Related Parties	UDF IV AC	Bexar County, TX	13	12/22/2010	3/22/2016	1,760,309
2	HLL Land Acquisitions of Texas, LP	Notes Receivable - Related Parties	UDF IV FVIII	Harris County, TX	13	2/17/2011	1/21/2016	12,652,467
3	UDF Ash Creek, LP	Notes Receivable - Related Parties	UDF IV	Dallas County, TX	13	4/20/2011	10/20/2015	1,533,791
4	UDF PM, LLC	Notes Receivable - Related Parties	UDF IV	Lubbock County, TX	13	10/17/2012	10/17/2015	5,254,219
5	One KR Venture, LP	Notes Receivable - Related Parties	UDF IV AC	Bexar County, TX	13	12/14/2012	6/14/2016	19,050,163
6	CTMGT Granburg, LLC	Notes Receivable - Non-Related Parties	UDF IV FI	Hood County, TX	13	5/21/2010	5/21/2016	15,930,883
7	Crescent Estates Custom Homes, LP	Notes Receivable - Non-Related Parties	UDF IV FII	Dallas and Denton County, TX	13	6/10/2010	6/10/2016	2,207,384
8	CTMGT Land Holdings, LP	Notes Receivable - Non-Related Parties	UDF IV	Rockwall County, TX	14	7/23/2010	1/28/2016	22,731,555
9	165 Howe, LP	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	11/22/2010	11/22/2015	1,583,627
10	The Resort at Eagle Mountain Lake, LP	Notes Receivable - Non-Related Parties	UDF IV	Tarrant County, TX	13	12/21/2010	12/21/2015	5,674,342
11	FH 295, LLC/CTMGT	Notes Receivable - Non-Related Parties	UDF IV AC	Denton County, TX	15	10/5/2010	10/5/2015	3,831,691
12	CTMGT Williamsburg, LLC	Notes Receivable - Non-Related Parties	UDF IV FII	Rockwall County, TX	13	11/30/2011	10/31/2015	19,150,272
13	UDF Sinclair, LP	Notes Receivable - Non-Related Parties	UDF IV AC	Bexar County, TX	13	2/16/2011	12/31/2015	42,675
14	Shale-114, LP	Notes Receivable - Non-Related Parties	UDF IV	Denton and Wise County, TX	13	3/28/2011	3/28/2016	4,679,994
15	Woods Chin Chapel, LTD	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	6/30/2011	1/31/2016	12,870,450
16	CTMGT Montalcino, LLC	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	12/13/2011	12/13/2015	28,323,188
17	CTMGT Valley Ridge, LLC	Notes Receivable - Non-Related Parties	UDF IV FVIII	Tarrant County, TX	13	3/2/2012	3/2/2016	201,539
18	Crescent Estates Custom Homes, LP	Notes Receivable - Non-Related Parties	UDF IV AC	Dallas County, TX	13	4/27/2012	4/27/2016	6,717,141
19	CTMGT Alpha Ranch, LLC	Notes Receivable - Non-Related Parties	UDF IV	Tarrant County, TX	13	7/31/2012	10/31/2015	21,757,358
20	CTMGT AR II, LLC	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	11/14/2012	11/14/2015	2,004,026
21	CTMGT Legends, LLC	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	11/16/2012	11/16/2015	2,767,114



Source: UDF IV SEC Filings (Form 10-Q)

Table continued on next page...

# THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

Reference	Borrower	Loan Type	Lender (1)	Location	Interest Rate	Issue Date	Maturity Date (3)	9/30/2015 Balance
23	CTMGT Rockwall 38, LLC	Notes Receivable - Non-Related Parties	UDF IV	Rockwall County, TX	13	2/4/2013	2/4/2016	1,825,790
24	CTMGT Verandah, LLC	Notes Receivable - Non-Related Parties	UDF IV AC	Hunt County, TX	13	4/15/2013	4/15/2016	760,809
25	CTMGT Frisco 122, LLC	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	5/30/2013	3/31/2016	5,750,184
26	CTMGT Five Oaks Crossing, LLC	Notes Receivable - Non-Related Parties	UDF IV	Tarrant County, TX	13	6/5/2013	6/5/2016	2,866,606
27	CTMGT Bear Creek, LLC	Notes Receivable - Non-Related Parties	UDF IV	Dallas County, TX	13	12/27/2013	6/27/2016	1,425,072
28	CTMGT Southlake Houston, LLC	Notes Receivable - Non-Related Parties	UDF IV	Galveston County, TX	13	12/27/2013	12/27/2015	6,802,487
29	BDMR Development, LLC	Notes Receivable - Non-Related Parties	UDF IV	Kaufman County, TX	13	1/9/2014	1/9/2016	7,565,277
30	CADG Sutton Fields, LLC	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	3/25/2015	3/31/2016	4,683,377
31	One Creekside, LP	Notes Receivable - Non-Related Parties	UDF IV	Tarrant County, TX	13	11/30/2011	4/25/2016	749,930
32	CTMGT Valley Ridge II, LLC	Notes Receivable - Non-Related Parties	UDF IV	Tarrant County, TX	13	7/18/2013	7/18/2016	1,523,552
33	One Windsor Hills, LP	Notes Receivable - Non-Related Parties	UDF IV	Ellis County, TX	13	5/9/2012	5/9/2016	7,805,341
34	One Windsor Hills, LP	Notes Receivable - Non-Related Parties	UDF IV	Ellis County, TX	13	5/25/2012	5/25/2016	1,610,000
35	CTMGT Regatta, LLC	Notes Receivable - Non-Related Parties	UDF IV	Denton County, TX	13	10/25/2012	10/25/2015	10,066,569
36	One Windsor Hills, LP	Notes Receivable - Non-Related Parties	UDF IV	Ellis County, TX	13	10/17/2013	5/25/2016	9,486,458
37	Nuway Homes Texas, LP/Lexington 26, LP	Notes Receivable - Non-Related Parties	UDF IV HF	Harris County, TX	13	6/13/2014	6/13/2016	505,160
38	Megatel Homes II, LLC	Notes Receivable - Non-Related Parties	UDF IV FIII	Bexar County, TX	13	3/27/2012	11/27/2015	612,000
39	BHM Highpointe, LTD	Notes Receivable - Non-Related Parties	UDF IV FIV	Travis County, TX	13	11/16/2010	11/30/2014	2,138,128
40	Buffington Land, LTD	Notes Receivable - Non-Related Parties	UDF IV	Travis County, TX	13	1/26/2011	1/26/2015	16,603,627
41	PH SPM2B, LP	Notes Receivable - Non-Related Parties	UDF IV FII	Travis County, TX	13	6/26/2012	6/30/2015	530,300
42	BHM Highpointe, LTD	Notes Receivable - Non-Related Parties	UDF IV FIII	Travis County, TX	13	8/7/2012	12/31/2014	13,156
43	BLG Plantation, LLC	Notes Receivable - Non-Related Parties	UDF IV FVIII	Harris County, TX	13	11/26/2012	11/26/2015	1,931,059
44	BLG Hawkes, LLC	Notes Receivable - Non-Related Parties	UDF IV	Travis County, TX	13	1/25/2013	1/25/2016	4,229,540
45	BLD Scenic Loop, LLC	Notes Receivable - Non-Related Parties	UDF IV FVI	Bexar County, TX	13	4/19/2013	4/19/2016	3,743,780
46	Buffington VOHL 5A 6A 6B, Ltd	Notes Receivable - Non-Related Parties	UDF IV FIX	Travis County, TX	13	4/26/2013	4/26/2016	4,276,223
47	PH Park at BC, LP	Notes Receivable - Non-Related Parties	UDF IV FVII	Travis County, TX	11	5/3/2013	12/30/2014	293,654
48	Buffington Westpointe, LLC	Notes Receivable - Non-Related Parties	UDF IV AC	Bexar County, TX	13	5/31/2013	5/31/2016	2,727,009

Table continued on next page...



# THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

Reference	Borrower	Loan Type	Lender (1)	Location	Interest Rate	Issue Date	Maturity Date (3)	9/30/2015 Balance
49	BLD Gosling, LLC	Notes Receivable - Non-Related Parties	UDF IV FII	Harris County, TX	13	6/28/2013	6/28/2016	6,322,104
50	BLD SPM 2A, LLC	Notes Receivable - Non-Related Parties	UDF IV FIII	Travis County, TX	13	6/28/2013	6/28/2016	2,209,999
51	BLD SPM 3A, LLC	Notes Receivable - Non-Related Parties	UDF IV FIII	Travis County, TX	13	6/28/2013	6/28/2016	2,604,172
52	BLD PBC 4A, LLC	Notes Receivable - Non-Related Parties	UDF IV FIV	Travis County, TX	13	6/28/2013	6/28/2016	991,254
53	BLD Crystal Springs, LLC	Notes Receivable - Non-Related Parties	UDF IV FVIII	Williamson County, TX	13	7/15/2013	12/31/2014	14,588,228
54	BLD VOHL 6A-1, LLC	Notes Receivable - Non-Related Parties	UDF IV FVIII	Travis County, TX	13	5/20/2013	5/20/2016	1,010,218
55	BLD VOHL 6B-2, LLC	Notes Receivable - Non-Related Parties	UDF IV FII	Travis County, TX	13	5/20/2013	5/20/2016	980,140
56	K. Hovnanian Terra Bella, LLC	Notes Receivable - Non-Related Parties	UDF IV FVI	Pasco County, FL	12	3/19/2014	1/19/2016	274,477
57	Classic Neighborhood Alternate Holdings, LLC	Notes Receivable - Non-Related Parties	UDF IV FVIII	Travis County, TX	13	7/10/2014	7/10/2016	1,280,951
58	349 Memorial, LLC	Notes Receivable - Non-Related Parties	UDF IV	Fort Bend County, TX	13	2/27/2015	2/27/2016	707,736
59	Prosper 236, LLC	Notes Receivable - Non-Related Parties	UDF IV	Collin County, TX	13	1/28/2015	8/28/2015	1,136,648
60	Megatel Bedford VDL, LLC	Notes Receivable - Non-Related Parties	UDF IV FVI	Tarrant County, TX	13	5/9/2014	5/9/2016	1,492,630
61	UMT Home Finance, LP	Loan Participation Interests - Related Parties	UDF IV	Dallas County, TX	13	10/3/2013	11/14/2015	3,064,875
62	Hidden Lakes Investments, LP	Notes Receivable - Non-Related Parties	UDF IV FIV	Galveston County, TX	13	1/30/2012	4/30/2016	4,923,415
63	UDF III, LP	Loan Participation Interests - Related Parties	UDF IV	Rockwall County, TX	15	6/30/2010	1/28/2016	17,762,455
64	UMT Home Finance III, LP	Loan Participation Interests - Related Parties	UDF IV	Harris County, TX	13	5/31/2012	3/29/2016	3,008,298
65	UDF III, LP	Loan Participation Interests - Related Parties	UDF IV	Collin and Tarrant County, TX	12	6/11/2012	6/4/2016	1,216,126
66	UDF III, LP	Loan Participation Interests - Related Parties	UDF IV	Collin County, TX	12	5/2/2013	12/28/2015	10,203,886

Total loan balances that have matured prior to or subsequent to UDF IV's latest 10-Q based on maturity date: **\$374,199,092**

UDF IV has **\$374 million (~60% of total loans)** worth of outstanding loan balances (loans owed to UDF IV) that should have matured between 9/30/15 and mid-July 2016. Despite this, UDF IV defaulted on a relatively small loan owed to an affiliate of Waterfall Asset Management in March 2016, as detailed on the following page.



# THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

UDF entered into a forbearance agreement with affiliates of Waterfall Asset Management “effective March 4, 2016 pursuant to which *the trust acknowledged the occurrence of certain events of default.*”

## Item 1.01 Entry into a Material Definitive Agreement

As disclosed in a Current Report on Form 8-K filed with the Securities and Exchange Commission (the “SEC”) on July 9, 2014, United Development Funding IV, a Maryland real estate investment trust (the “Trust”), entered into a loan agreement (the “Loan Agreement”) on July 2, 2014 with Waterfall Finance 4, LLC, an unaffiliated entity, for a \$35 million term loan (the “Loan”). On May 17, 2016, the Trust and Waterfall Eden Master Fund, Ltd., Waterfall Sandstone Fund, LP and HEDCO ABS, Ltd. (collectively, the “Lenders”), as successors-in-interest to Waterfall Finance 4, LLC under the Loan Agreement, entered into a Forbearance Agreement effective as of March 4, 2016 pursuant to which the Trust acknowledged the occurrence of certain events of default and the Lenders agreed to forbear from exercising any of their default-related rights against the Trust until August 4, 2016 (the “Forbearance Period”). The Forbearance Period will earlier terminate if the loan is repaid, if an event of default occurs, or if the Trust fails to meet or maintain certain representations, warranties, terms, conditions or covenants contained in the Forbearance Agreement. On March 7, 2016, the Trust made a required payment of all accrued but unpaid interest and a portion of the principal on the Loan. During the Forbearance Period, interest accrues at the default interest rate of one-month LIBOR plus 11.5%, but the Trust is only required to pay interest at the non-default interest rate of one-month LIBOR plus 9.0%. The difference between the default interest rate and the non-default interest rate is added to the outstanding principal balance of the Loan and will be due and payable to the Lenders on January 5, 2017. The Trust is required to use a portion of its future available cash flow to pay transaction expenses, interest due under the Loan, and principal. The Trust has agreed to provide certain financial reporting to the Lenders and it has agreed to suspend distributions to its shareholders during the Forbearance Period. The Trust also agreed not to originate new mortgage loans, incur additional debt, grant additional or substitute collateral to any other lender, or dispose of assets without first obtaining the consent of the Lenders. The balance of the Loan as of May 23, 2016 is approximately \$28.5 million.

Despite having (i) \$374 million in outstanding loans that were scheduled to mature and be repaid during the interim period between September 2015 and mid-July 2016 (~60% of total loan balances) and (ii) \$625 million in total outstanding balance of purported loans with an average interest rate of 13% (~\$81 million of purported annual interest and ~\$7 million of monthly interest owed to UDF IV by its borrowers – principally Centurion), UDF defaulted on a \$35 million loan requiring monthly amortization payments of only \$2.9 million owed to Waterfall Asset Management. *A reasonable auditor would likely question the characterization of all UDF loans as debt rather than as equity* given (i) the allegations of using shell entities to circumvent REIT limitations, (ii) the pattern of non-payment and default by UDF’s largest borrower and (iii) what appears to be the lack of payment on a vast majority of loans that were scheduled to mature in the past 9+ months which may have contributed to UDF IV’s default on a relatively small loan.



# THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

While UDF IV’s default and inability to timely pay its creditors seems to be inconsistent with its stated financial position, there is reason to believe it may be due, at least in part, to UDF IV borrowers’ inability to pay “debt” owed to UDF IV in a timely manner. Given UDF IV has almost 90% of its loans concentrated in three borrowers (Centurion, a private real estate development firm in Austin (“Buffington”), and parties related to UDF), it is reasonable to question the ability of these borrowers to make debt service payments. It happens to be the case that UDF III has ~90% concentration to the same three counterparty groups. So if UDF IV has issues, does UDF III as well?

Loan Concentration (% of total loan balance)	UDF III	UDF IV	UDF V
Centurion	43%	67%	62%
+			
Buffington	25%	10%	<i>UDF III, IV and V are all subject to the same credit risk</i>
+			
UDF Related	22%	11%	
<b>Loan Concentration of Top 3 Borrowers</b>	<b>90%</b>	<b>88%</b>	

UDF III recently communicated that it was suspending partner distributions in a letter dated March 23, 2016



Source: Forms 10-Q and Forms 10-K filed with the SEC for UDF III, UDF IV and UDF V

# THE FAILURE OF THE DEBTOR TO REPAY ON THE DUE DATE AND THE ABILITY TO MAKE THE DEBT SERVICE PAYMENTS (CONTINUED)

- Subsequent to the effective date of the forbearance agreement through which UDF IV acknowledged the occurrence of “certain events of default,” UDF III communicated to its limited partners that it would be suspending distributions, explaining that “it is prudent for UDF III to preserve cash as we continue to work with UDF III’s borrowers to determine their capital requirements.”
- UDF III disclosed “loan” assets of \$374 million as of September 30, 2015 and only \$10 million of debt obligations yet it determined it needed to suspend distributions, an economic reality that does not comport with the stated financial position of the company.
- While UDF III’s borrowers should be paying interest on “loans” which theoretically would fund distributions, instead, UDF III is suspending distributions while it determines the “capital requirements” of its “borrowers”, which happen to be, in large measure, the same group of borrowers as UDF IV.

**A reasonable auditor would likely question the characterization of loans to these borrowers as debt rather than equity as well as the veracity of financial disclosures.**

<i>UDF III Form 10-Q Filed 11/16/15</i>	
	<u>September 30, 2015</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 136,488
Restricted cash	1,389,503
Accrued interest receivable	13,556,411
Accrued interest receivable – related parties	2,257,618
Accounts receivable – related parties	349,021
Notes receivable, net	286,171,227
Notes receivable – related parties, net	16,416,706
Participation interest – related party, net	71,206,633
Other assets	89,689
<b>Total assets</b>	<b>\$ 391,573,296</b>
<b>Liabilities and Partners' Capital</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 206,574
Accrued liabilities	289,830
Accrued liabilities – related parties	3,072,060
Distributions payable	5,501,575
Lines-of-credit	10,000,000
<b>Total liabilities</b>	<b>19,070,039</b>

### *United Development Funding Suspends Distribution Payments to UDF III Investors – UDFInvestigation.com*

In a March 23 letter to investors, the company’s board of directors stated that it “feel[s] it is prudent for UDF III to preserve cash as we continue to work with UDF III’s borrowers to determine their capital requirements. Therefore, we are not forecasting limited partner distributions at this time.” The company stated that it intended to provide updates at some point in the future.

*Note: UDFInvestigation.com is an independent third-party website of a law firm investigating UDF.*



# **A REASONABLE BASIS TO QUESTION WHETHER UDF IV DEBT IS ACTUALLY DEBT – IN SUMMARY**

**AND WHY IT IS SO RELEVANT TO INVESTORS, AUDITORS AND REGULATORS.**



# WHY IS THIS RELEVANT TO UDF IV?

- The pattern outlined in this presentation, while far from an exhaustive review of accounting red flags, is central to the evaluation and determination of whether a financial investment is debt or equity, as informed by IRS testing guidelines informed predominantly by case law.
- Not only is the economic pattern relevant to the determination but the relationship between, and the intent of, the parties involved is also relevant.
- An audit would likely be deficient if it did not rigorously test all UDF IV loans, collectively and individually, to determine whether loans were appropriately characterized as debt rather than as an equity investment.
- Without a reasonable level of access to the books, records and principal individuals of UDF IV's purported borrowers, most notably Centurion, it would be impracticable to sufficiently test (i) the intent of the parties, (ii) whether the intent to create a debtor-creditor relationship comports with economic reality, (iii) the commercial reasonableness of debt-to-equity ratios, (iv) the source of the purported debt service payments and ability to make debt service payments and (v) the extent of the purported lender's participation in management of the purported borrower.
- There could potentially be significant tax consequences (including potential REIT qualification consequences) and financial disclosure consequences should it be determined that any, if not a material number, of UDF IV's loans are determined to be equity investments rather than debt because the primary underlying business activities would constitute "prohibited transactions" if directly pursued through a REIT.
- Regarding potential REIT qualification consequences, two income tests – 856(c)(2) and 856(c)(3) – ensure that REITs are used predominantly to invest passively in real estate: (1) at least 95 percent of a REIT's income must generally be derived from passive sources such as rents from real property, dividends, interest, and certain capital gains, as opposed to "active" income from business activities; and (2) at least 75 percent of a REIT's income must be derived from real estate sources including rents, mortgage interest, and capital gains on real estate. If either income test is failed for any taxable year, UDF IV's status as a REIT could be in jeopardy.
- Based on the publicly available information, there is a reasonable basis to question the nature of the relationship between UDF IV and its largest borrower, which would inform in these determinations and potentially impact REIT income tests.





---

## APPENDIX I

Irregular Loan Patterns  
Related to UDF's Largest  
Borrower

---

# EXAMPLE 1: CTMGT ALPHA RANCH, LLC

CTMGT Alpha Ranch is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Alpha Ranch	12/31/2012	2nd Lien	1,122 acres	\$ 10,960,159	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	3/31/2013	2nd Lien	1,122 acres	\$ 12,275,621	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	6/30/2013	2nd Lien	1,122 acres	\$ 12,533,731	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	9/30/2013	2nd Lien	1,122 acres	\$ 14,111,540	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	12/31/2013	2nd Lien	1,122 acres	\$ 14,402,932	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	3/31/2014	2nd Lien	1,122 acres	\$ 14,647,153	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	6/30/2014	2nd Lien	3,026 paper lots	\$ 14,948,798	7/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	9/30/2014	2nd Lien	3,026 paper lots	\$ 17,423,383	10/31/14	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	12/31/2014	2nd Lien	3,026 paper lots	\$ 18,101,263	10/31/15	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	3/31/2015	2nd Lien	3,026 paper lots	\$ 18,344,045	10/31/15	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	6/30/2015	2nd Lien	3,026 paper lots	\$ 19,182,736	10/31/15	\$ -	\$ -	\$ -	\$ -
CTMGT Alpha Ranch	9/30/2015	2nd Lien	3,026 paper lots	\$ 21,757,358	10/31/15	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.  
– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 2: ONE WINDSOR HILLS, LP

One Windsor Hills L.P. is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
One Windsor Hills L.P.	12/31/2012	2nd Lien	1,583 acres across 3 notes	\$ 18,328,202	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	3/31/2013	2nd Lien	1,583 acres across 3 notes	\$ 18,595,887	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	6/30/2013	2nd Lien	1,583 acres across 3 notes	\$ 20,037,367	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	9/30/2013	2nd Lien	1,583 acres across 3 notes	\$ 20,791,692	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	12/31/2013	2nd Lien	1,990 acres across 4 notes	\$ 23,258,122	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	3/31/2014	2nd Lien	1,990 acres across 4 notes	\$ 23,826,489	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	6/30/2014	2nd Lien	1,952 acres across 4 notes	\$ 25,471,898	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	9/30/2014	2nd Lien	1,952 acres across 4 notes	\$ 25,735,171	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	12/31/2014	2nd Lien	1,954 acres across 4 notes	\$ 27,855,350	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	3/31/2015	2nd Lien	1,954 acres across 4 notes	\$ 28,251,889	5/9/15	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	6/30/2015	2nd Lien	1,954 acres across 4 notes	\$ 30,274,387	5/9/16	\$ -	\$ -	\$ -	\$ -
One Windsor Hills L.P.	9/30/2015	2nd Lien	1,954 acres across 4 notes	\$ 30,644,991	5/9/16	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.**  
**– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 3: CTMGT GRANBURY, LLC

CTGMT Granbury, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Granbury	12/31/2012	1st Lien	552 acres	\$ 7,194,564	5/21/13	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	3/31/2013	1st Lien	552 acres	\$ 7,364,766	5/21/13	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	6/30/2013	1st Lien	552 acres	\$ 8,450,985	5/21/14	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	9/30/2013	1st Lien	552 acres	\$ 8,872,308	5/21/14	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	12/31/2013	1st Lien	552 acres	\$ 9,296,497	5/21/14	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	3/31/2014	1st Lien	552 acres	\$ 9,510,523	5/21/14	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	6/30/2014	1st/2nd Lien	3,231 Paper Lots, 1,541 Acres	\$ 12,213,029	5/21/15	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	9/30/2014	1st/2nd Lien	3,231 Paper Lots, 1,541 Acres	\$ 12,323,386	5/21/15	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	12/31/2014	1st/2nd Lien	2,094 Acres	\$ 13,900,296	5/21/15	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	3/31/2015	1st/2nd Lien	2,094 Acres	\$ 14,016,085	5/21/15	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	6/30/2015	1st/2nd Lien	2,094 Acres	\$ 15,817,653	5/21/16	\$ -	\$ -	\$ -	\$ -
CTMGT Granbury	9/30/2015	1st/2nd Lien	2,094 Acres	\$ 15,930,883	5/21/15	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.**  
**– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 4: CTMGT MONTALCINO, LLC

CTGMT Montalcino, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Montalcino	12/31/2012	2nd Lien	478 Acres	\$ 23,531,488	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	3/31/2013	2nd Lien	478 Acres	\$ 24,605,284	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	6/30/2013	2nd Lien	478 Acres	\$ 25,166,455	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	9/30/2013	2nd Lien	478 Acres	\$ 26,230,516	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	12/31/2013	2nd Lien	41 Finished Lots, 129 Paper Lot	\$ 30,231,437	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	3/31/2014	2nd Lien	36 Finished Lots, 129 Paper Lot	\$ 31,828,627	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	6/30/2014	2nd Lien	34 Finished Lots, 129 Paper Lot	\$ 25,086,276	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	9/30/2014	2nd Lien	34 Finished Lots, 125 Paper Lot	\$ 25,221,928	12/13/14	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	12/31/2014	2nd Lien	33 Finished Lots, 125 Paper Lot	\$ 28,589,524	6/13/15	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	3/31/2015	2nd Lien	30 Finished Lots, 125 Paper Lot	\$ 28,594,520	6/13/15	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	6/30/2015	2nd Lien	28 Finished Lots, 125 Paper Lot	\$ 28,299,279	12/13/15	\$ -	\$ -	\$ -	\$ -
CTMGT Montalcino	9/30/2015	2nd Lien	24 Finished Lots, 125 Paper Lot	\$ 28,323,188	12/13/15	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.**  
**– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 5: CTMGT REGATTA, LLC

CTGMT Regatta, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Regatta	12/31/2012	2nd Lien	346 acres	\$ 1,878,285	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	3/31/2013	2nd Lien	346 acres	\$ 3,784,917	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	6/30/2013	2nd Lien	346 acres	\$ 4,604,430	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	9/30/2013	2nd Lien	346 acres	\$ 4,698,100	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	12/31/2013	2nd Lien	346 acres	\$ 5,320,012	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	3/31/2014	2nd Lien	346 acres	\$ 5,444,909	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	6/30/2014	2nd Lien	1,870 Paper Lots	\$ 5,596,879	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	9/30/2014	2nd Lien	1,870 Paper Lots	\$ 5,600,134	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	12/31/2014	2nd Lien	1,870 Paper Lots	\$ 6,399,688	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	3/31/2015	2nd Lien	1,870 Paper Lots	\$ 8,367,412	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	6/30/2015	2nd Lien	1,870 Paper Lots	\$ 9,962,479	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta	9/30/2015	2nd Lien	1,870 Paper Lots	\$ 10,066,569	10/25/15	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.**  
**– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 6: CTMGT REGATTA II, LLC

CTGMT Regatta II, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding					
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Regatta II	12/31/2012	2nd lien	516 acres	\$ 3,447,598	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	3/31/2013	2nd lien	516 acres	\$ 6,617,242	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	6/30/2013	1st/2nd Lien	10.97 acres + 516 acres	\$ 6,703,193	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	9/30/2013	1st/2nd Lien	10.97 acres + 516 acres	\$ 6,806,692	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	12/31/2013	1st/2nd Lien	10.97 acres + 516 acres	\$ 7,694,714	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	3/31/2014	1st/2nd Lien	10.97 acres + 516 acres	\$ 7,766,713	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	6/30/2014	1st/2nd Lien	10.97 acres + 516 acres	\$ 7,851,031	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	9/30/2014	1st/2nd Lien	10.97 acres + 516 acres	\$ 7,900,630	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	12/31/2014	1st/2nd Lien	10.97 acres + 516 acres	\$ 8,954,283	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	3/31/2015	1st/2nd Lien	10.97 acres + 516 acres	\$ 9,050,282	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	6/30/2015	1st/2nd Lien	10.97 acres + 516 acres	\$ 9,122,166	10/25/15	\$ -	\$ -	\$ -	\$ -
CTMGT Regatta II	9/30/2015	1st/2nd Lien	10.97 acres + 516 acres	\$ 9,172,204	10/25/15	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.  
– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 7: CTMGT WILLIAMSBURG, LLC

CTGMT Williamsburg, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Williamsburg, LLC	12/31/2012	1st lien	244 acres	\$ 3,916,158	2/7/15	\$ -	\$ -	n/a	\$ -
CTMGT Williamsburg, LLC	3/31/2013	1st lien	244 acres	\$ 4,415,014	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	6/30/2013	1st lien	244 acres	\$ 4,415,014	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	9/30/2013	1st lien	244 acres	\$ 4,415,014	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	12/31/2013	1st lien	244 acres	\$ 4,427,905	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	3/31/2014	1st lien	244 acres	\$ 4,967,653	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	6/30/2014	1st lien	803 paper lots	\$ 4,967,653	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	9/30/2014	1st lien	803 paper lots	\$ 4,986,931	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	12/31/2014	1st lien	803 paper lots	\$ 4,989,209	2/7/15	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	3/31/2015	1st lien	803 paper lots	\$ 5,636,045	2/7/17	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	6/30/2015	1st lien	803 paper lots	\$ 5,636,045	2/7/17	\$ -	\$ -	\$ -	\$ -
CTMGT Williamsburg, LLC	9/30/2015	1st lien	803 paper lots	\$ 5,636,045	2/7/17	\$ -	\$ -	\$ -	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.  
– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 8: CTMGT WILLIAMSBURG 1B FL-2, LLC

CTGMT Williamsburg 1B FL-2, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Williamsburg 1B FL-2	12/31/2013	1st lien	43.747 acres	\$ 2,156,138	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	3/31/2014	1st lien	43.747 acres	\$ 2,157,268	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	6/30/2014	1st lien	141 paper lots	\$ 2,162,518	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	9/30/2014	1st lien	141 paper lots	\$ 2,191,638	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	12/31/2014	1st lien	141 paper lots	\$ 2,482,555	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	3/31/2015	1st lien	141 paper lots	\$ 3,611,119	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	6/30/2015	1st lien	141 paper lots	\$ 4,064,756	10/31/16	\$ -	\$ -	\$ -	n/a
CTMGT Williamsburg 1B FL-2	9/30/2015	1st lien	141 paper lots	\$ 5,048,270	10/31/16	\$ -	\$ -	\$ -	n/a

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.**

**– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 9: CTMGT FRISCO 122, LLC

CTGMT Frisco 122, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Frisco 122, LLC	6/30/2013	2nd Lien	350 Paper Lots	\$ 3,122,872	2/28/14	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	9/30/2013	2nd Lien	350 Paper Lots	\$ 3,140,164	2/28/14	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	12/31/2013	2nd Lien	350 Paper Lots	\$ 3,207,615	2/28/14	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	3/31/2014	2nd Lien	350 Paper Lots	\$ 3,338,579	2/28/15	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	6/30/2014	2nd Lien	350 Paper Lots	\$ 4,366,505	2/28/15	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	9/30/2014	2nd Lien	350 Paper Lots	\$ 4,591,528	2/28/15	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	12/31/2014	2nd Lien	350 Paper Lots	\$ 4,816,235	2/28/15	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	3/31/2015	2nd Lien	350 Paper Lots	\$ 4,896,696	5/30/15	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	6/30/2015	2nd Lien	350 Paper Lots	\$ 5,565,803	5/30/15	\$ -	\$ -	\$ -	n/a
CTMGT Frisco 122, LLC	9/30/2015	2nd Lien	350 Paper Lots	\$ 5,750,184	3/31/16	\$ -	\$ -	\$ -	n/a

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.  
– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 10: TRAVIS RANCH (TR) PARTICIPATION

CTGMT Travis Ranch (TR), LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
TR Paper Lot Participation	12/31/2012	Equity Pledge	472 acres	\$ 10,619,663	1/28/13	\$ -	\$ -	\$ -	\$ -
TR Paper Lot Participation	3/31/2013	Equity Pledge	472 acres	\$ 10,632,663	1/28/14	\$ -	\$ -	\$ -	\$ -
TR Paper Lot Participation	6/30/2013	Equity Pledge	472 acres	\$ 10,979,096	1/28/14	\$ -	\$ -	\$ -	\$ -
TR Paper Lot Participation	9/30/2013	Equity Pledge	472 acres	\$ 12,863,610	1/28/14	\$ -	\$ -	\$ -	\$ -
TR Paper Lot Participation	12/31/2013	Equity Pledge	472 acres, 10 finished lots	\$ 12,617,401	1/28/14	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	3/31/2014	Equity Pledge	472 acres, 10 finished lots	\$ 12,815,485	1/28/15	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	6/30/2014	Equity Pledge	472 acres, 10 finished lots	\$ 13,104,722	1/28/15	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	9/30/2014	Equity Pledge	472 acres, 9 finished lots	\$ 14,820,986	1/28/15	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	12/31/2014	Equity Pledge	401 acres, 10 finished lots	\$ 15,013,983	1/28/16	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	3/31/2015	Equity Pledge	401 acres, 10 finished lots	\$ 15,259,609	1/28/16	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	6/30/2015	Equity Pledge	401 acres, 10 finished lots	\$ 15,581,688	1/28/16	\$ -	\$ -	\$719,432	\$ -
TR Paper Lot Participation	9/30/2015	Equity Pledge	401 acres, 10 finished lots	\$ 17,762,455	1/28/16	\$ -	\$ -	\$719,432	\$ -

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.  
– “A Rolling Loan Gathers No Loss”**



# EXAMPLE 11: CTMGT FRONTIER 80, LLC

CTGMT FRONTIER 80, LLC is a Centurion American entity.

Entity	Date	Security	Collateral	Outstanding		Cash Receipts			
				Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Frontier 80, LLC	9/30/2013	1st Lien	288 paper lots	\$ 6,552,835	9/6/14	\$ -	\$ -	\$ -	n/a
CTMGT Frontier 80, LLC	12/31/2013	1st Lien	288 paper lots	\$ 7,651,793	9/6/14	\$ -	\$ -	\$ -	n/a
CTMGT Frontier 80, LLC	3/31/2014	1st Lien	288 paper lots	\$ 8,267,525	9/6/14	\$ -	\$ -	\$ -	n/a
CTMGT Frontier 80, LLC	6/30/2014	1st Lien	288 paper lots	\$ 8,282,102	9/6/14	\$ -	\$ -	\$ -	n/a
CTMGT Frontier 80, LLC	9/30/2014	2nd Lien	288 paper lots	\$ 12,452,679	2/18/17	\$ -	\$ 0	\$ -	n/a
CTMGT Frontier 80, LLC	12/31/2014	2nd Lien	288 paper lots	\$ 12,962,679	2/18/17	\$ -	\$ 0	\$ -	n/a
CTMGT Frontier 80, LLC	3/31/2015	2nd Lien	288 paper lots	\$ 13,472,679	2/18/17	\$ -	\$ 0	\$ -	n/a
CTMGT Frontier 80, LLC	6/30/2015	2nd Lien	288 paper lots	\$ 13,823,929	2/18/17	\$ -	\$ 0	\$ -	n/a
CTMGT Frontier 80, LLC	9/30/2015	2nd Lien	288 paper lots	\$ 15,608,611	2/18/17	\$ -	\$ 0	\$ -	n/a

*“Most of our loans allow for interest accrual, which causes the loan balance to increase.”*

- UDF MANAGEMENT

**Loans to UDF’s largest borrower regularly (i) do not generate any cash (principal or interest), (ii) are extended without fees, and (iii) accrue larger and larger balances for years.**

**– “A Rolling Loan Gathers No Loss”**

