HAYMAN
CAPITAL MANAGEMENT, L.P.

ANATOMY OF A BILLION DOLLAR HOUSE OF CARDS:

THE CASE AGAINST UDF IV (Nasdaq: UDF)

January 2016

"Only when the tide goes out do you discover who's been swimming naked."

– Warren Buffet

UDF OVERVIEW

- UDF IV is a real estate investment trust (REIT) that issues loans to acquire and develop single-family residential lots or mixed-use master planned residential communities across Texas
- UDF IV was formed by Hollis M. Greenlaw, Chairman and CEO, and Todd Etter, a senior executive with various UDF funds, as a non-traded REIT in 2009 and later listed on the Nasdaq exchange in 2014
- UDF IV is one of a series of non-traded REITs and real estate companies – including United Mortgage Trust (UMT), UDF I, UDF III and UDF V

UDF IV
UNITED DEVELOPMENT FUNDING IV

NASDAQ Ticker:
UDF

Headquartered:
Grapevine, Texas

Public UDF Affiliates	Total Assets (Book Value)
United Mortgage Trust	$182.3 million
United Development Funding III, L.P.	$391.6 million
United Development Funding IV	$684.1 million
United Development Funding Income Fund V	$55.6 million
Book Value of Assets – UDF Public Affiliates	**$1.3 billion**

TIMELINE OF RECENT EVENTS

April 2014
SEC begins its UDF investigation

June 2015
UDF's largest borrower, Centurion American, defaults on third-party loan

August 2015
CFO of UDF's largest borrower, Centurion American, resigns

October 2015
Lawsuit filed naming UDF IV as a defendant alleging fraud and fraudulent transfer

Nov 19, 2015
The auditor for all four public UDF affiliates "declines to stand for reappointment" after having been approved by shareholders

Nov 24, 2015
UDF board member, affiliated with RCS Capital and Nick Schorsch, resigns

Dec 4, 2015
Hayman sends letter to UDF's auditor, Whitley Penn LLP, highlighting red flags and questioning the reliability of its audits

Dec 28, 2015
Lawsuit filed naming UDF IV as a defendant alleging shell scheme of straw-borrowers

THE UDF STRUCTURE IS A BILLION DOLLAR PROBLEM

Shareholders in UDF IV and UDF's other real estate investment trusts (REITs) are being victimized by UDF management's Ponzi-like real estate scheme:

1. New capital is used to finance distributions to existing investors
2. UDF loans are dangerously concentrated with just two borrowers, both of which are already in financial distress
3. Development activities are not taking place at many UDF-funded sites
4. Recent events, including lawsuits and key resignations, suggest the UDF network of funds is under significant distress

The combination of near-term debt maturities and the financial distress of major debtors creates significant bankruptcy risk for UDF IV; a bankruptcy would leave its shares virtually worthless.

PARTICIPANTS IN UDF'S PONZI-LIKE REAL ESTATE SCHEME

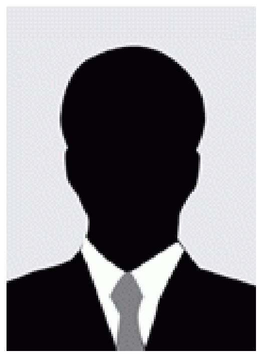
Retail Capital

Unsuspecting, retail investors

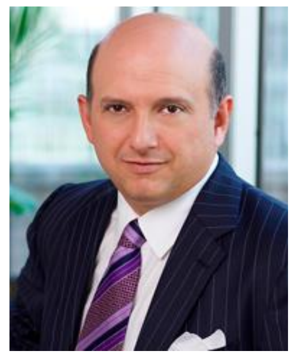
Average Joe

Someone to Raise the Capital

Network of 12,000 brokers and RIAs, many sacrificing best interests of clients for high fees and commissions.



Brokers/RIAs



Nick Schorsch
Founder and Former Chairman of RCS Capital (RCAP)

Numerous news reports linked Schorsch and an RCAP-affiliated public entity to investigations by the FBI and the SEC in late 2014. RCS Capital subsequently announced plans to file for bankruptcy in January 2016 and its shares were then delisted from the NYSE. A share of RCAP common stock is currently worth less than one cent.

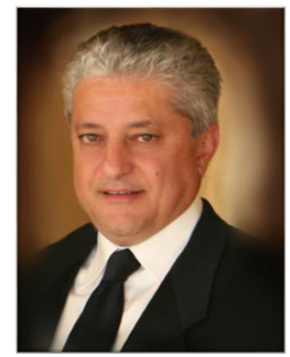
RCS CAPITAL

Key Players in a House of Cards

Unregulated lender and a complicit borrower at the center of the structure.

Hollis Greenlaw
Chairman of BoD and CEO of UDF IV
Real Estate – Lender

UDF IV
UNITED DEVELOPMENT FUNDING IV



Mehrdad Moayedi
CEO and Founder Centurion American
Real Estate – Developer

CA
CENTURION AMERICAN

United Development Funding (UDF) has raised over $1bn across 4 different public entities; RCS Capital (RCAP) raised the capital for UDF IV and is currently raising capital for UDF V, representing ~60% of equity raised to date.

NEW CAPITAL FUNNELED TO REPAY EXISTING INVESTORS

UDF V has provided liquidity to UDF IV, which has provided liquidity to UDF III (among other affiliates), which has provided liquidity to UDF I (among other affiliates).

UDFI

2003

UDF III

Loan Assets:
~$400M
~43% to Moayedi

2006

UDF IV

Loan Assets:
~$626M
~67% to Moayedi

2009

UDF V

Max Offering Size:
$1 BILLION

2015

Liquidity =
New RETAIL Capital

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New RETAIL Capital

Liquidity =
New RETAIL Capital

To date, UDF V has only issued 8 loans, but 6 of 8 have been to UDF III & UDF IV's largest borrower, Mehrdad Moayedi

HOW CAPITAL IS FUNNELED TO REPAY EXISTING INVESTORS

UDF raises new capital and funnels it to repay existing investors in FOUR primary ways:

- **Later UDF funds acquire loans from earlier UDF funds**
  - Example: UDF III issues a loan. Years later, UDF IV acquires the loan, which has accrued interest and become significantly larger from UDF III (i.e. doubling from origination to today); the loan UDF IV acquires from UDF III is secured almost entirely by undeveloped land 6 years after UDF III initially originated the loan. The result: UDF IV investor capital is used to repay UDF III investors.
- **Later UDF funds make loans directly to earlier UDF funds that are unable to repay their loans**
  - Example: UDF III lends money to a subsidiary of UDF I; the UDF I subsidiary is unable to repay the loan. UDF IV makes a loan to the same UDF I subsidiary and the loan owed to UDF III is repaid. The result: UDF IV capital is used to repay UDF III investors, which provided liquidity originally into UDF I.
- **Later UDF funds make loans to third-parties that owe loans to earlier UDF funds**
  - Example: UDF I lends money to an entity affiliated with UDF's largest borrower; years later, UDF III makes a loan to the same entity. UDF V then issues a loan to the same entity, which uses it to repay UDF III. The property securing the loan is undeveloped land and never generated any cash for the borrower. The result: UDF V investor capital is used to repay UDF III investors.
- **UDF uses primary equity and debt proceeds to pay distributions to existing investors in the same UDF fund**
  - Example: UDF IV raises equity from investor A; UDF IV raises equity from investor B and partially uses investor B's funds to pay "distributions" to investor A. UDF IV then raises debt from a bank, pledging its assets as collateral and uses the proceeds to pay "distributions" to investor A and investor B.

EXAMPLE OF HOW UDF FUNDS DISTRIBUTIONS WITH NEW CAPITAL

UDF IV (Former Non-Traded REIT)

CASH FROM OPERATIONS		PROCEEDS FROM EQUITY OFFERING		BORROWINGS UNDER CREDIT FACILITY		TOTAL DISTRIBUTIONS TO SHAREHOLDERS
$108M	+	$14M	+	$42M	=	$164M
~66%		~8%		~26%		

As a consequence of issuing loans that do not generate any cash income, ~34% of shareholder distributions, or $56 million, have been funded by new capital as reported by company; the actual dollar figure and % of distributions funded by new capital is likely much higher as cash from operations appears to be misstated and overstated.

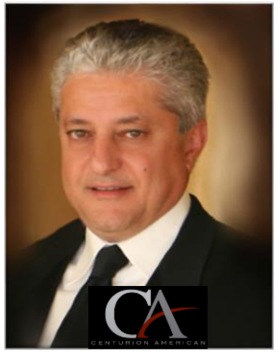
Hallmark of a Ponzi Scheme – Funding Distributions to Earlier Investors with Capital from New Investors

Source: UDF IV SEC Filings (10Ks/10Qs)

DANGEROUSLY CONCENTRATED LOAN PORTFOLIO

UDF loans are dangerously concentrated with just two borrowers, both of which are already in financial distress and which combine to account for over two-thirds of both UDF III and UDF IV

- **UDF's largest borrower is a private real estate developer based in Dallas, Texas, whose principal is noted Dallas business executive Mehrdad Moayedi**
  - Loans to Moayedi-controlled companies (collectively "Centurion") constitute $615 million, or 57% of total lending across UDF III, UDF IV, and UDV V
  - These loans pay an average interest rate of 13%, more than double the current market average for development loans
  - Public records indicate this borrower is unable to service its financial obligations
  - Centurion loans typically accrue larger and larger balances, do not generate cash receipts and are extended (and not repaid) upon maturity



Mehrdad Moayedi
CEO and Founder
Centurion American
Real Estate Developer

- **UDF's second largest borrower is a private real estate developer based in Austin, Texas, whose principal executive is Thomas Buffington**
  - Buffington loans appear to account for approximately 25% of the loan assets of UDF III and 10% of UDF IV
  - Six UDF IV loans to Buffington have matured without being extended or repaid
  - A lawsuit alleging fraud was filed in October against UDF IV, Buffington and others
  - UDF III filed an involuntary bankruptcy petition related to a Buffington affiliate on November 30, 2015

Thomas Buffington
Real Estate Developer

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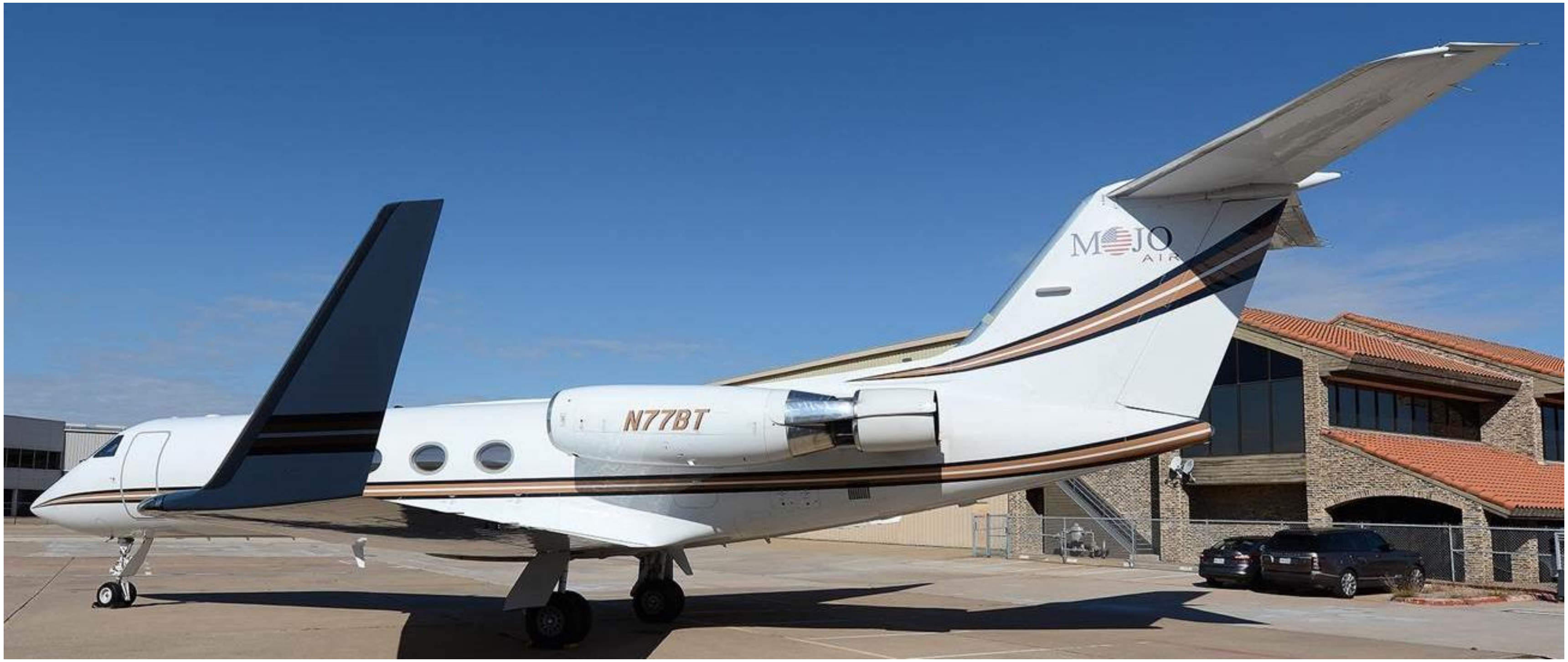
DANGEROUSLY CONCENTRATED LOAN PORTFOLIO

	UDF III	UDF IV	UDF V
Centurion	43%	67%	62%
+ Buffington	+ 25%	+ 10%	*Credible lending institutions do not subject themselves to this level of credit concentration!*
+ UDF Related	+ 22%	+ 11%	
Loan Concentration of Top 3 Borrowers	***90%***	***88%***	

RELATIONSHIPS GOES FAR BEYOND THAT OF LENDER (UDF) AND BORROWER (MOAYEDI)

Not only do **UDF III**, **UDF IV** and **UDF V** all have a dangerous concentration in loans to Centurion, the principal executive of Centurion, Mehrdad Moayedi, owns or recently owned a private jet ("MojoAir" pictured below) with the principal executive of UDF, Hollis Greenlaw.

The relationship between Greenlaw and Moayedi goes far beyond that of lender and borrower. Not only is there a concentration and undisclosed business relationship, but **the economics also do not add up.**



THE TOP-DOWN REASON
WHY THE ECONOMICS DO NOT ADD UP

Mehrdad Moayedi
CEO and Founder
Centurion American
Real Estate – Developer

OUTSTANDING DEBT	INTEREST RATE	INTEREST EXPENSE
$585M UDF III + UDF IV	Average **13%**	Annual **$75M**

Market Average
6-7%

The only way this debt load could possibly make sense is if Moayedi has a very large net worth; however, if Moayedi had a very large net worth, why would he be paying 13% interest or 2x the market rate in this low interest rate environment?

Why does the Dallas Business Journal's 2010 Deal Maker of the Year borrow at 2x the market rate for development loans?

THE BOTTOM-UP REASON WHY THE ECONOMICS DO NOT ADD UP

The three examples shown below are summaries of actual loans issued by UDF IV to Moayedi entities. These examples demonstrate how loans to Moayedi regularly behave over time: the loans accrue larger and larger balances, have no cash receipts, and are extended when the maturity date comes due

	LOAN EXAMPLE 1 (Originated 2012)	LOAN EXAMPLE 2 (Originated 2012)	LOAN EXAMPLE 3 (Originated 2010)	TOTAL BALANCE: 1 + 2 + 3
Loan Balance at 12/31/2012	$18 million	$11 million	$7 million	$36 million
Cash Receipts Since Origination	ZERO	ZERO	ZERO	ZERO
Loan Balance at 9/30/2015	$31 million	$22 million	$16 million	$68 million or >10% of UDF IV loans

These loans are 2nd lien development loans and 3 to 5 years later, the collateral securing these loans is still undeveloped land with no sign of development. If there is no development,

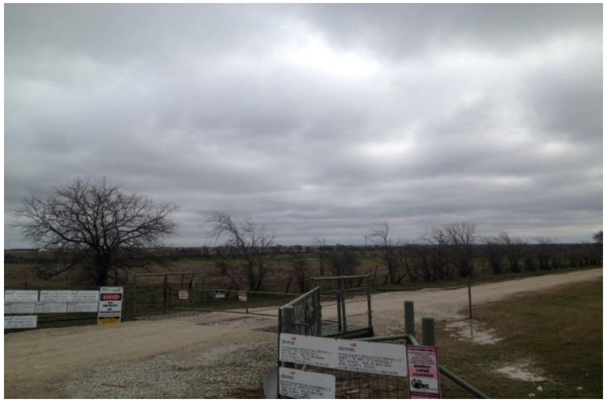
WHERE DID ALL THE MONEY GO?

DEVELOPMENT ACTIVITIES ARE NOT TAKING PLACE AT MANY UDF-FUNDED SITES

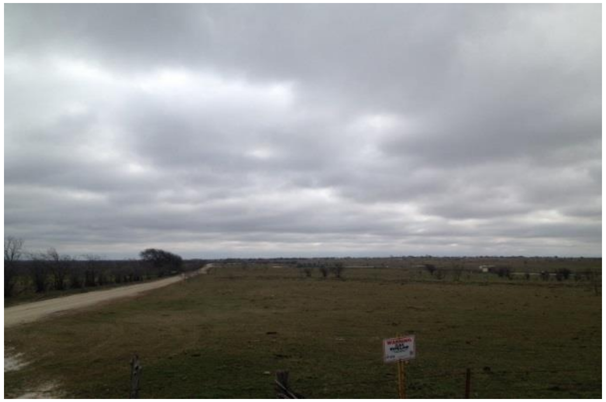
Lack of Value Creation Among UDF Investments

- UDF IV has disclosed in its SEC filings that it has not invested in loans secured by unimproved real property
- However, visits to many Centurion developments, funded by UDF, show no construction is taking place
- The Centurion developments are not income producing, several years after high interest-bearing loans were issued
- The irregular pattern of these loans secured by development sites without any development activity demonstrates that UDF's management lacks credibility and is misleading investors

Alpha Ranch Development site outside of Ft. Worth



"A Centurion American Development"



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DEVELOPMENT ACTIVITIES ARE NOT TAKING PLACE AT MANY UDF-FUNDED SITES

As a result, loans accrue larger and larger balances, do not generate cash receipts and, upon maturity, the loans are not repaid but simply extended. Below is an example of a typical loan to UDF's largest borrower secured by Alpha Ranch, the property shown on the prior page.

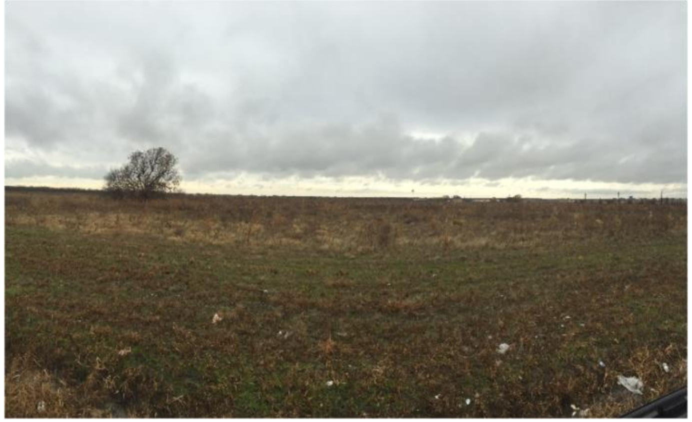
				Outstanding		Cash Receipts			
Entity	Date	Security	Collateral	Balance	Maturity Date	2015A	2014A	2013A	2012A
CTMGT Alpha Ranch	12/31/2012	2nd Lien	1,122 acres	$ 10,960,159	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	3/31/2013	2nd Lien	1,122 acres	$ 12,275,621	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	6/30/2013	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	$ -	$ -	$ -	$ -

Source: UDF IV SEC filings (Form 10-Ks and 10-Qs)

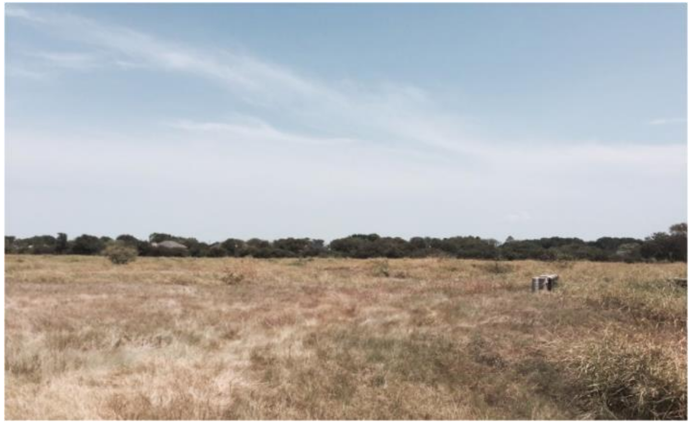
"A Rolling Loan Gathers No Loss"

VARIOUS UNDEVELOPED DEVELOPMENT SITES

Frisco 122 development site near Frisco, Texas

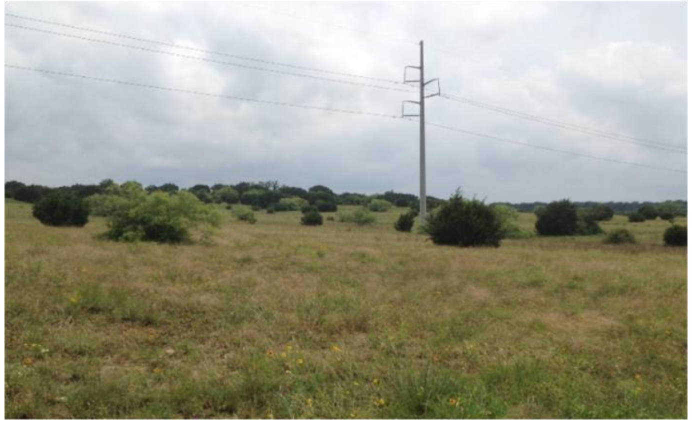


Shahan Prairie development site in Oak Point, Texas



Windsor Hills development site near Midlothian, Texas

Knox Ranch development site near Granbury, Texas



CRACKS IN UDF'S FACADE ARE STARTING TO SHOW

Recent events, including lawsuits and key resignations, suggest the UDF network of funds is under significant distress

- In June 2015, UDF's largest borrower, Centurion, defaulted on a first lien loan due to a third party and a second lien loan due to UDF IV
- In July or August 2015, the Chief Financial Officer of UDF's largest borrower, Centurion, resigned abruptly
- On or about October 30, 2015, a lawsuit was filed in Travis County, Texas naming UDF IV as a co-defendant in a case involving allegations of fraud, breach of contract, tortious interference and fraudulent transfer
- On November 24, 2015, all four public UDF companies each filed a Form 8-K with the SEC and revealed their independent registered public accounting firm, Whitley Penn LLP, declined to stand for reappointment
- On November 24, 2015, William Kahane, former CEO of RCAP, which raised money from retail investors for UDF IV and UDF V, resigned as a director of UDF V; RCAP subsequently announced plans to file for bankruptcy
- On November 30, 2015, UDF III filed an involuntary bankruptcy petition in the United States Bankruptcy Court for the Western District of Texas against UDF III and UDF IV's second largest borrower, Buffington
- On December 28, 2015, another lawsuit was filed against UDF IV, by an independent third-party development firm in Fort Bend County, Texas, alleging a scheme involving a shell-game of straw borrowers orchestrated by UDF management

UDF'S SCHEME HAS NEGATIVE IMPLICATIONS FOR ITS SHAREHOLDERS

The combination of near-term debt maturities and the financial distress of major debtors will have a substantial impact on UDF IV's equity valuation

- UDF IV has a significant amount of debt coming due in the next 12 months, representing 78% of its total debt
- If UDF's two largest borrowers – Centurion and Buffington, which have both shown signs of financial distress – cannot repay UDF IV in a timely manner, UDF IV will become insolvent
- When UDF's creditors/lenders become concerned about the solvency of UDF IV, these creditors/lenders will likely attempt to force UDF IV into a bankruptcy proceeding
- The combination of near-term debt maturities and the financial distress of major debtors creates significant bankruptcy risk for UDF IV; a bankruptcy would leave its shares virtually worthless.