SHAREHOLDERS IN UDF'S PUBLIC COMPANIES ARE BEING VICTIMIZED BY A PONZI-LIKE REAL ESTATE SCHEME TO KEEP THE COMPANIES AFLOAT

BACKGROUND

- **United Development Funding (UDF) IV,** a real estate investment trust (REIT), incorporated in Maryland and based in Grapevine, Texas, issues loans to acquire and develop single-family residential lots or mixed-use master planned residential communities and build single-family homes, and engages in other real estate-related finance activities, chiefly in the North Texas/Dallas-Fort Worth area.

- UDF IV was formed by Hollis M. Greenlaw, Chairman and CEO, and Todd Etter, a senior executive with various UDF funds, as a public non-traded REIT in 2009. It was later listed on the NASDAQ stock exchange in June 2014 (Nasdaq: UDF).

- UDF IV is one of a series of traded and non-traded REITs and real estate companies – including United Mortgage Trust (UMT), UDF I, UDF III and UDF V – that Greenlaw and Etter have established since 2003.

- In the wake of the collapse of American Realty Capital Properties' (ARCP) network of companies in early 2015, Hayman Capital, an alternative assets investment firm based in Dallas, Texas, became interested in the role that ARCP's affiliated broker-dealer, RCS Capital (RCAP), has played since 2009 of providing capital to the UDF companies.

SUMMARY

- Based on thorough examination of SEC filings, county records and various court documents, Hayman believes that shareholders in UDF's public funds – non-traded UMT, non-traded UDF III; publicly-traded UDF IV, and non-traded UDF V, which is currently attempting to raise $1 billion from retail investors – are being victimized by a Ponzi-like real estate scheme.

- Hayman asserts that monies contributed by investors in UDF's later funds are providing capital to repay investors in its earlier funds, i.e. UDF IV capital has been used to provide liquidity to UDF I, UDF III and UMT, and other UDF affiliated funds that preceded UDF IV.

- Hayman further believes that without UDF V, the funding mechanism funneling new capital to the earlier funds, UDF IV would be incapable of servicing its debts and standing alone.

- Finally, Hayman believes that UDF's principal borrowers are in financial distress, many of UDF's loans are already non-performing, and UDF's management is misleading investors as to the financial condition of its borrowers and the non-performing nature of its assets.

- Each day that the current management team is allowed to continue to perpetuate this scheme, UDF shareholders, who are chiefly individual investors and retirees, are being victimized; and as new dollars are invested in UDF V, even more losses will be created.

CRACKS IN UDF'S FACADE ARE STARTING TO APPEAR

- In late July or early August, the Chief Financial Officer of UDF's largest borrower, Centurion American, resigned abruptly and apparently without notice. Centurion American is a private real estate developer based in Farmers Branch, Texas, whose principal executive is Dallas businessman, Mehrdad Moayedi (collectively, "Centurion"). Centurion accounts for 43% of UDF III loans, 67% of UDF IV loans and 62% of UDF V loans, accounting for approximately $615 million of debt in total owed to UDF's public affiliates, with approximately $585 million concentrated in UDF III and UDF IV.

- 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. The lawsuit also alleges that multiple entities with loans outstanding and due to UDF III and UDF IV are insolvent. These entities are affiliated with UDF III and UDF IV's second largest non-affiliated borrower, a private real estate developer based in Austin, Texas, whose principal executive is Thomas Buffington ("Buffington").

- On November 24, 2015, UMT, UDF III, UDF IV and UDF V each filed Forms 8-K revealing that their independent registered public accounting firm, Whitley Penn LLP, declined on November 19, 2015, to stand for reappointment as the auditor for each company. This is despite UDF IV shareholders approving Whitely Penn's reappointment at their annual meeting only five months earlier.

- Also on November 24, 2015, William Kahane, formerly CEO of broker-dealer RCAP, which raised money from retail investors for UDF IV and UDF V, resigned as a director of UDF IV.

- 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 non-affiliated 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.

IMPLICATIONS OF THE POOR FINANCIAL CONDITION OF UDF'S TWO LARGEST BORROWERS AND UDF MANAGEMENT MISLEADING INVESTORS

- UDF IV has a significant amount of debt coming due in the next 12 months. This debt represents 78% of UDF IV's 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 not be able to repay its creditors/lenders and will become insolvent.

- If 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; especially if the current management team remains as the "steward" making decisions on behalf of the estate.

- The combination of near-term debt maturities and the financial distress of major debtors creates significant bankruptcy risk for UDF IV; in the event of a bankruptcy, UDF's shares will be virtually worthless.