UDF’s Ponzi-Like Scheme Continues to Unravel:

The Northpointe Crossing Quandary

September 2016

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

– Warren Buffett
THE NORTHPOINTE CROSSING QUANDARY

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IMPORTANT THEMES CONSISTENTLY AT ISSUE

- **Questionable management claims**: UDF, through multiple entities (including public affiliates such as UDF III) issued subordinate loans on real estate in tertiary markets leading up to and at the onset of the great financial crisis (December 2007), despite claiming that UDF management “identified the housing bubble and avoided lending in frothy markets.”

- **Questionable carrying value of loans**: In this case, the initial collateral was dissipated yet a considerable loan balance remained outstanding, indicating that the collateral was woefully insufficient to repay the loan and implying that the remaining balance effectively represented a deficiency note secured only by a subordinate pledge of equity.

- **Ponzi-like financing structure**: Capital from a subsequent fund (UDF IV) allowed a prior fund (UDF III) to fully recover its investment, transferring considerable risk and any losses from the prior fund (UDF III) to the subsequent fund (UDF IV).

- **Potential disclosure issues**: Disclosures regarding this situation are opaque at best and, in aggregate, misleading. The relevant omissions in disclosures, and the circumstances, lead to questions regarding the intent of the parties in structuring investments and the substantive nature of UDF loans.

- **Apparent regulatory concern**: In a letter to UDF III, the SEC even commented on the loan related to this situation, asking UDF III to provide additional information “where an unusual or irregular credit situation appears to have occurred.”

- **Debt vs. equity questions**: Considering all of the facts and circumstances, there is a reasonable basis to question whether UDF loans are appropriately characterized as debt; if loans are determined to be mischaracterized, there are potentially significant tax consequences, financial disclosure consequences and REIT qualification consequences.

- **Broader implications**: Had UDF management not used capital from subsequent funds (such as UDF IV) to provide liquidity to prior funds (such as UDF III), the issues which are present and evident today would likely have surfaced far sooner.
UDF I acquired Northpointe Crossing, a residential development in Anna, Texas, in December 2007 through an odd series of transactions involving both an affiliate of Centurion American and an apparent joint venture partnership between UDF itself and Lennar.

Coinciding with the transaction in December 2007, UDF I – via a wholly-owned subsidiary – was issued a senior loan ($4.2 million) and second lien loan from UDF III ($6.0 million).

UDF I struggled to repay the senior lender which entered into multiple short-term modification and extension agreements during 2011 and 2012; just five months prior to the first extension, UDF III increased the commitment on its second lien to $15.0 million in 2011 and has, in aggregate, amended and extended the loan four times.

In May 2013, UDF IV purchased a “participation interest” in UDF III’s loan to UDF I; subsequently, the balance owed to UDF III was virtually all repaid and ~$11 million was still owed to UDF IV at 9/30/15, despite the fact that virtually all of the initial collateral was dissipated in the interim, indicating the collateral was woefully insufficient to repay the loan.

UDF IV capital allowed UDF III to fully recover its investment related to Northpointe Crossing, effectively leaving UDF IV with a deficiency balance and transferring considerable risk and any losses to UDF IV.

UDF’s disclosures regarding this situation are opaque at best and, in aggregate, misleading. The relevant omissions in disclosures, and the circumstances, lead to questions regarding the intent of the parties in structuring investments and the substantive nature of UDF loans.

There is a reasonable basis to question whether UDF loans are appropriately characterized as debt; if loans are determined to be mischaracterized, there are potentially significant tax consequences, financial disclosure consequences and REIT qualification consequences.
OWNERSHIP TRANSFERS OF NORTHPOINTE CROSSING
A CONFUSING HISTORY OF TRANSACTIONS AND TRANSFERS BETWEEN UDF AND CENTURION AMERICAN

Northpointe Crossing has transferred back and forth between UDF related entities and Centurion American related entities five times, leading up to and subsequent to the great financial crisis; notably, Centurion American represents UDF III, UDF IV and UDF V’s largest group of related borrowers.

Pre-Financial Crisis Transfer Summary

A) UDF II and Lennar Texas Holding Company acquired the Northpointe Crossing development assets (“Northpointe”) in Dec 2004, through a partnership (both parties listed as managers).
B) UDF II and Lennar Texas Holding Company transferred Northpointe to a Centurion American affiliate.
C) On the same day, the Centurion American affiliate transferred Northpointe to a UDF I subsidiary.

Post-Financial Crisis Transfer Summary

D) UDF Northpointe, LLC was “purchased by an unrelated third party,” which actually was an affiliate of Centurion in Dec 2008.
E) In May 2009, Centurion assigned the land to a UDF I subsidiary.
F) On the same day, UDF I transferred the interest in the collateral back to the Centurion affiliate.

Source: Collin County, Texas Deed Records; UDF III and UDF IV SEC filings.
**FINANCING HISTORY OF NORTHPOINTE CROSSING**  
**A UDF CENTURION AMERICAN RESIDENTIAL DEVELOPMENT PROJECT LIFE CYCLE**

Northpointe Crossing is a residential development in Anna, Texas which UDF has financed through various funds for nearly a decade.

### Description of Key Events

<table>
<thead>
<tr>
<th>Event</th>
<th>Details</th>
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<tbody>
<tr>
<td><strong>A)</strong></td>
<td>UDF I acquired the Northpointe Crossing Development Assets (&quot;Northpointe&quot;) through a wholly-owned subsidiary (UDF Northpointe, LLC) from a Centurion American affiliate in <strong>December 2007</strong>; the Centurion American affiliate had acquired the same assets on the same day from a partnership in which UDF was a manager (HLL Land Acquisitions). The assets were later transferred between UDF affiliates and Centurion American affiliates multiple times during and subsequent to the great financial crisis.</td>
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<tr>
<td><strong>B)</strong></td>
<td>Upon the acquisition of the assets in <strong>December 2007</strong>, UDF Northpointe, LLC received a <strong>1st lien loan</strong> from Park Cities Bank with a maximum amount of $4.2 million.</td>
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<td><strong>C)</strong></td>
<td>Coinciding with the issuance of the 1st lien loan, UDF Northpointe, LLC also received a <strong>2nd lien loan</strong> from UDF III with a maximum amount of $6 million.</td>
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<td><strong>D)</strong></td>
<td>In <strong>June 2011</strong>, UDF III increased the commitment amount on its 2nd lien loan to $15 million, an increase of $9 million.</td>
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<td><strong>E)</strong></td>
<td>In <strong>December 2011</strong>, the senior lender (Park Cities Bank) entered into a short-term modification and extension agreement; subsequently in <strong>June 2012</strong>, the senior lender entered into an additional short-term modification and extension agreement resulting in the interest rate increasing to 10% per annum, indicating the borrower was unable to repay the loan based on the agreed upon terms and accepted higher borrowing costs to modify the loan, rather than potentially accelerating the debt or facing a foreclosure sale.</td>
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<tr>
<td><strong>F)</strong></td>
<td>Despite apparent issues in repaying the senior loan, UDF IV purchased a &quot;participation interest&quot; in UDF III’s second lien loan in <strong>May 2013</strong>. As of September 30, 2015, UDF IV was owed $10.9mm related to this loan and UDF III was only owed $65k (or 0.6% of the total).</td>
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<tr>
<td><strong>G)</strong></td>
<td>In <strong>July 2013</strong>, subsequent to UDF IV acquiring a &quot;participation interest&quot; in UDF III’s second lien loan, the senior loan was finally repaid.</td>
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### UDF Interconnected Financing Relationships

- **A)** UDF Northpointe, LLC (originally a UDF I subsidiary, purchased by an affiliate of Centurion American)
- **B)** 1st lien loan
- **C)** 2nd lien loan
- **D)** UDF IV
- **E)** Modified and extended multiple times
- **F)** “Participation Interest” in UDF III’s loan

Source: Collin County Deed Records; UDF III and UDF IV SEC filings.
MARKETING CLAIMS INCONSISTENT WITH REALITY
ISN’T IT IRONIC, DON’T YOU THINK: UDF IV MANAGEMENT TEAM IDENTIFIED THE HOUSING BUBBLE!

- Despite numerous red flags regarding loan patterns, disclosure practices and marketing claims that Hayman has documented at length, UDF’s former auditor appears to have either missed the signs or may have failed to sufficiently escalate the issues.

- In a UDF IV investor presentation from June 2014, UDF made the representation that its management team “identified the housing bubble and avoided lending in frothy markets.”

- Note that the UDF affiliated funds are all managed by the same group of principal individuals.

- As the Northpointe Crossing example illustrates, as do other similar examples which Hayman has documented at length, evidence seems to suggest that management claims would be inconsistent with reality.

It would be ironic if UDF’s management team identified the housing bubble and at the same time, decided to issue loans on residential real estate in tertiary markets entering the housing crisis; there would potentially be a marketing issue if management claimed to have avoided lending in frothy markets when evidence would seem to suggest otherwise. A pattern of disclosure issues and questionable marketing claims would likely inform an auditor as it considered the intent and substance of various transactions.

Source: http://investors.udfiv.com/Cache/1500062253.PDF?Y=&O=PDF&D=8&FID=1500062253&T=&IID=4213398

THE NORTHPOINTE CROSSING QUANDARY
INITIAL COLLATERAL DISSIPATED  
YET A SIGNIFICANT LOAN BALANCE REMAINED OUTSTANDING

Northpointe Crossing Land Assets Dissipated

UDF III + UDF IV Balance Related to Northpointe Crossing

Despite virtually all Northpointe Crossing assets being dissipated, a significant loan balance remained outstanding ($11.0 million when combining the balance owed to UDF III and UDF IV as of September 30, 2015). Subsequent to the dissipation of the initial collateral, additional collateral was assigned to secure the loan. However, the additional collateral is in the form of a pledge of equity (rather than, and NOT, a lien on real property) which is subordinate to all real property liens on undeveloped land owned by an undisclosed third-party. Given the unusual nature of this loan and the relevant debt versus equity considerations (see page 9), a reasonable auditor would likely question whether the loan is appropriately characterized as debt.

Source: Collin County Deed Records; UDF III and UDF IV SEC filings.
TRANSFER OF LOAN FROM UDF III TO UDF IV
THE PONZI-LIKE NATURE OF UDF LOANS

UDF IV capital allowed UDF III to fully recover its investment related to Northpointe Crossing, despite the fact that the initial collateral was woefully insufficient to repay the loan (par + accrued interest), implying that (i) the original loan was impaired; and (ii) that the remaining loan balance effectively represents a deficiency note secured by a subordinate pledge of equity. As a consequence, this series of transactions transferred considerable risk and any losses from UDF III to UDF IV.

Despite apparent issues in repaying the senior loan, UDF IV purchased a “participation interest” in UDF III’s second lien loan in May 2013. As of September 30, 2015, UDF IV was owed $10.9mm related to this loan and UDF III was only owed $65k (or 0.6% of the total). In July 2013, subsequent to UDF IV acquiring a “participation interest” in UDF III’s second lien loan, the senior loan was finally repaid. Virtually all of the Northpointe Crossing development assets have been dissipated and despite this, a considerable loan balance remains outstanding; UDF IV has since been assigned a subordinate “pledge of equity” in an unnamed and poorly disclosed “unrelated third party.” Given the unusual nature of this loan and the relevant debt versus equity considerations (see page 9), a reasonable auditor would likely question whether the loan is appropriately characterized as debt.

Source: Collin County Deed Records; UDF III and UDF IV SEC filings.
Note: Loan balances include accrued interest.
DEBT VERSUS EQUITY CONSIDERATIONS
IRS GUIDELINES TO DETERMINE WHETHER DEBT IS REALLY DEBT – UDF III/UDF IV “LOAN” TO UDF NORTHPOINTE

- Considerations that would provide a reasonable basis to question whether debt is really debt:
  - Lenders participation in management of the borrower – related management.
  - Source of debt payments (principal and interest) dependent on future earnings of the business – 12% interest, largely on sale of finished residential lots; initial collateral was dissipated and significant loan balance remains outstanding – currently secured by subordinate pledge of equity.
  - Status of the contribution in relation to corporate creditors – initially a 2nd lien loan; borrower struggled to repay 1st lien loan. 1st lien lender entered into multiple short-term extensions resulting in incremental interest at the expense of 2nd lien lender.
  - Thin or adequate capitalization – to be determined, would need to review UDF I, UDF Northpointe II, L.P. and UDF Northpointe, LLC financials. UDF III repayment seemingly dependent on participation agreement (and funds) from UDF IV leads to questions regarding capitalization and source of payments.
  - Failure of debtor to repay on the due date – amended and extended four times.
  - The intent of the parties – no one factor is controlling.

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

Guidelines for determining the “debt versus equity” question have developed by the courts in a number of cases. “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.)
SUMMARY OF KEY POINTS

• A Summary of Northpointe Crossing:
  - UDF owned Northpointe Crossing through a partnership with Lennar dating back to December 2004; in December 2007, UDF I acquired the Northpointe assets via a wholly-owned subsidiary through a series of transactions involving an affiliate of Centurion American.
  - UDF III caused public shareholder capital to be lent to the UDF I subsidiary (UDF Northpointe, LLC) as a 2nd lien loan.
  - UDF Northpointe, LLC and its successor entities struggled to repay the senior loan which had priority over the UDF III loan; the senior lender entered into multiple modification and extension agreements during 2011 and 2012.
  - The UDF III loan has been amended and extended four times.
  - Despite these circumstances, UDF IV acquired a participation interest in UDF III’s loan; subsequently, the balance owed to UDF III was virtually all repaid and as of September 30, 2015, UDF IV was still owed a significant amount ($10.9mm).
  - This considerable loan balance remains outstanding despite the fact that virtually all of the initial collateral supporting the loan was dissipated in the interim, indicating the collateral was woefully insufficient to repay the loan.
  - While UDF III recognized ~$7.2 million in interest income on its second lien loan from 2008 to 2015, UDF III has effectively been fully repaid despite the difficulty of the borrower to repay its senior lender and seemingly at the expense of UDF IV.

• There is a reasonable basis to question whether the intent to create creditor-debtor relationships comport with economic reality given (i) the initial collateral apparently could not support the loan balance; (ii) almost 100% of the loan was transferred from UDF III to UDF IV; (iii) the repeated pattern of extensions of the second lien loan upon maturity despite difficulties repaying a senior loan with priority and (iv) the related nature and irregular transfers between UDF I and an affiliate of Centurion American.

• Given all of these factors, there is also a reasonable basis to question (i) the original intent of the parties; (ii) the expectations regarding the source of purported debt service payments and the ability to pay; (iii) how the “borrower” was initially capitalized (thinly or adequately) and (iv) to what extent future payments were dependent on the future earnings of the business.

• Furthermore, the lenders and borrower are all managed by the same principal group of related individuals; despite the fact that the shareholders of each party are unique and separate, management of the lender controls the management of the borrower and despite what any third party report may say about the “reasonableness” of a “loan” on a loan-by-loan basis (at issuance), a reasonable auditor would likely have to consider all the facts relative to broad red flags and loan-specific red flags when evaluating intent and determining whether loans (in substance, rather than form) are appropriately characterized as debt rather than equity.
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 equity investments.

- Without a reasonable level of access to the books, records and principal individuals of UDF IV’s purported borrowers (including former or current related parties such as UDF Northpointe, LLC and UDF Northpointe II, L.P. but also notably affiliates of 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 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 UDF IV’s relationship with its related parties and its largest borrower (Centurion), which would inform in these determinations and potentially impact REIT income tests.

- The following pages provide supporting detail regarding the confusing and incomplete nature of disclosures, an inquiry by the SEC involving the loan related to Northpointe Crossing and relevant debt versus equity considerations.
SUPPORTING DETAIL:

SUMMARY OF CORRESPONDENCE BETWEEN THE SECURITIES AND EXCHANGE COMMISSION AND UDF III

SEC COMMENTS REGARDING THE LOAN TO UDF NORTHPOINTE, LLC
Beginning with a letter dated September 27, 2011, the SEC’s Division of Corporation Finance engaged in correspondence with UDF III regarding concerns about the company’s financial disclosures in its SEC filings.

One of those concerns related to a loan issued by UDF III to UDF Northpointe, LLC.

Regarding the loan to UDF Northpointe, LLC the letter stated: “We also note in certain cases that the maturity date has passed without payment (UDF Northpoint) […] Please revise future filings to provide additional information to allow an investor to fully understand the facts and circumstances related to each of these types of situations where an unusual or irregular credit situation appears to have occurred.”

The following page details the disclosures which may have prompted this comment from the SEC’s Division of Corporation Finance.
UDF III DISCLOSURES RELEVANT TO SEC COMMENT
UDF III FORM 10-Q AND FORM 10-K (MARCH 31, 2011 AND DECEMBER 31, 2011, RESPECTIVELY)

- In December 2007, UDF III issued a loan to UDF Northpointe, LLC “in the principal amount of approximately $6 million.”
- According to the March 31, 2011 Form 10-Q filing, the loan “was payable on December 28, 2010, but remains outstanding as of March 31, 2011.”
- This disclosure may have prompted the SEC comment regarding “certain cases” in which “the maturity date has passed without payment (UDF Northpointe)[…].”
- In the subsequent Form 10-K filing for the period ended December 31, 2011, it was disclosed that approximately “$11.6 million and $10.1 million” was outstanding on this loan “as of December 31, 2011 and 2010, respectively.”
- Despite the fact that the original principal amount of the loan was $6 million and that the loan was not amended and increased to $15 million until June 30, 2011, there was somehow an outstanding balance of $10.1 million as of December 31, 2010.
- Additional analysis of disclosures is provided on the following pages.

Source: UDF III SEC Filings (Forms 10-Q and 10-K)
SUPPORTING DETAIL:

ADDITIONAL ANALYSIS OF DISCLOSURES

UDF III AND UDF IV – SEC DISCLOSURES
UDF IV DISCLOSURE REGARDING NORTHPOINTE CROSSING
THE PONZI-LIKE NATURE OF UDF LOANS

• “On May 2, 2013, [UDF IV] entered into a participation agreement [...] with UDF III pursuant to which [UDF IV] purchased a participation interest in UDF III’s loan [...] to UDF Northpointe II, LLC”

• “As of December 31, 2014, the Northpointe II Loan is secured by a first lien deed of trust on 14 finished lots in Collin County, Texas [...]” [Northpointe Crossing lots]

• “[...] and a pledge of the equity interests in a borrower affiliate that owns 80 acres of undeveloped land in Collin County, Texas effectively subordinating this pledge to all real property liens.”

• “The Northpointe II Loan has subsequently been amended twice pursuant to two separate extension agreements resulting in a current maturity date of December 28, 2015.”

Source: Collin County Deed Records; UDF III and UDF IV SEC filings.

UDF IV – Form 10-K for the period ended December 31, 2014

On May 2, 2013, we entered into a participation agreement (the “Northpointe II Participation”) with UDF III pursuant to which we purchased a participation interest in UDF III’s loan (the “Northpointe II Loan”) to UDF Northpointe II, LLC ("Northpointe II"), an affiliated Delaware limited partnership. The general partner of our Advisor is also the general partner of UMTL III, our asset manager. UMTL III is the general partner of UDF III. As of December 31, 2014, the Northpointe II Loan is secured by a first lien deed of trust on 14 finished lots in Collin County, Texas and a pledge of the equity interests in a borrower affiliate that owns 80 acres of undeveloped land in Collin County, Texas, effectively subordinating this pledge to all real property liens.

The Northpointe II Participation gives the right to receive payment from UDF III of principal and accrued interest relating to amounts funded by us under the Northpointe II Participation. The interest rate under the Northpointe II Loan is the lower of 12% or the highest rate allowed by law. Our participation interest will be repaid as Northpointe II repays the Northpointe II Loan, unless we reinvest the proceeds in an additional participation interest. Northpointe II is required to make loan payments upon the sale of lots covered by the deed of trust or a sale of land covered by the pledge. The Northpointe II Loan and our participation in this loan were originally due and payable in full on December 28, 2013. The Northpointe II Loan has subsequently been amended twice pursuant to two separate extension agreements resulting in a current maturity date of December 28, 2015. The Northpointe II Participation has also been extended to December 28, 2015 in connection with these modifications. In determining whether to extend this participation, we evaluated the economic conditions, the estimated value and performance of the underlying collateral, the guarantor, adverse situations that may affect the borrower’s ability to pay or the value of the collateral and other relevant factors.

UDF IV – Form 10-Q for the period ended September 30, 2015

On May 2, 2013, we entered into a participation agreement (the “Northpointe II Participation”) with UDF III pursuant to which we purchased a participation interest in UDF III’s loan (the “Northpointe II Loan”) to UDF Northpointe II, LLC (“Northpointe II”), an affiliated Delaware limited partnership. The general partner of our Advisor is also the general partner of UMTL III, our asset manager. UMTL III is the general partner of UDF III. The Northpointe II Participation is due and payable in full on December 28, 2015.

UDF IV discloses that it purchased a “participation interest” in a UDF III loan but it does not disclose that UDF III has effectively been completely repaid and that UDF IV now accounts for 99.4% of the economic interest in the loan. The disclosure also explains that only 14 finished lots remain from the initial collateral package (which was 255 lots and 114 acres in Collin County, Texas). While incremental collateral has since been added, the UDF IV disclosure explains that this collateral is actually a “pledge of the equity interests” in a “borrower affiliate” on “undeveloped land” (non-income producing) and that UDF IV’s claim is subordinated to all real property liens. Not only does UDF IV not disclose the name of the “borrower affiliate” but it also does not disclose what real property liens encumber the property.
BALANCE ON UDF IV’S PARTICIPATION INTEREST

THE PONZI-LIKE NATURE OF UDF LOANS

The balance on UDF IV’s participation interest grew significantly (i) as UDF III’s balance declined nearly to zero and (ii) as almost all of the collateral was dissipated – 255 finished lots and 113.68 acres.

As of September 30, 2014, only 14 finished lots were listed as the collateral supporting a $7.0 million loan, through a participation in a 1st lien loan and a pledge of equity.

As of December 31, 2014, new collateral appears to be assigned to support the loan, namely 288 paper lots and subsequently an incremental 178.5 acres.

Periodic filings in 2014 and 2015 do not make it clear that most, if not all, of the initial collateral originally supporting the development loan had been dissipated.

Note that the “participation” in the 2nd lien and then the 1st lien is associated with the initial 255 finished lots and 113.68 acres; only a pledge of equity is associated with the 288 paper lots and 178.5 acres.

Collateral initially securing the loan was insufficient to repay the loan and as a result, additional collateral has been provided. But, it is unclear (i) from where the collateral came or (ii) what the value of the collateral is given the subordinate nature and the lack of a deed of trust on real property. Given (i) the loan transfer from UDF III; (ii) the continual extensions; (iii) the dissipation of initial collateral without repayment of the loan; and (iv) the opaque description of the “pledge of equity interests” as new collateral, a reasonable auditor would likely question the substantive nature of these transactions and question whether these loans are appropriately characterized as debt.

Source: Collin County Deed Records; UDF IV SEC filings (Forms 10-Q and Forms 10-K).
UDF III DISCLOSURE REGARDING NORTHPOINTE CROSSING
THE PONZI-LIKE NATURE OF UDF LOANS

- The Northpointe Crossing loan was “initially collateralized” by a second lien deed of trust on 251 finished lots and 110 acres of land in Texas.

- As of September 30, 2015, the Northpointe Crossing loan was “secured by a first lien deed of trust on 1 finished lot in Collin County, Texas and a pledge of equity interests in a non-related entity that owns 259 acres of residential land in Collin County, Texas.”

- “The original maturity date of the UDF NP loan was December 28, 2010. The UDF NP Note has been extended four times resulting in a current maturity date of December 28, 2015.”

| Source: Collin County Deed Records; UDF III and UDF IV SEC filings. | THE NORTHPOINTE CROSSING QUANDARY | 19 |
POTENTIAL DISCLOSURE ISSUES
WOULD A REASONABLE UDF IV INVESTOR WANT TO KNOW

• UDF IV did not disclose that:
  – (i) UDF Northpointe, LLC, the original borrower, was originally a wholly-owned subsidiary of UDF I;
  – (ii) an affiliate of Centurion American, its largest group of related borrows, purchased UDF Northpointe, LLC from UDF I in December 2008;
  – (iii) UDF Northpointe, LLC assigned its interest in the Northpointe Crossing collateral to UDF Northpointe II, L.P. in May 2009;
  – (iv) UDF Northpointe II, L.P. concurrently transferred the ownership of the collateral back to UDF Northpointe, LLC in May 2009.

• While UDF IV disclosed that it had acquired a “participation interest” in UDF III’s loan, UDF IV did not disclose that it had effectively acquired the entire loan, owning 99.4% of the economic interest, allowing UDF III to virtually be fully repaid.

• While UDF IV disclosed that the loan had been “amended twice pursuant to two separate extension agreements,” UDF IV did not disclose that in aggregate the original loan had been amended and extended four times.

• While UDF IV disclosed that its loan participation was originally due and payable on December 28, 2013, UDF IV did not disclose that the original related loan was actually due three years prior, on December 28, 2010.

• UDF IV did not disclose that the original borrower had entered into multiple extension and modification agreements with the original senior lender in 2011 and 2012, resulting in an increase in the rate of interest on the senior loan prior to UDF IV entering into the participation agreement.

Source: UDF III and UDF IV SEC Filings (Forms 10-Q and Forms 10-K)
SUPPORTING DETAIL:

A REASONABLE BASIS TO QUESTION WHETHER UDF IV DEBT IS ACTUALLY DEBT

DEBT VERSUS EQUITY CONSIDERATIONS (REVISITED)
DEBT VERSUS EQUITY CONSIDERATIONS (REVISITED)
IRS GUIDELINES TO DETERMINE WHETHER DEBT IS REALLY DEBT – UDF III/UDF IV “LOAN” TO UDF NORTHPOINTE

- Considerations that would provide a reasonable basis to question whether debt is really debt:
  - Lenders participation in management of the borrower – related management.
  - Source of debt payments (principal and interest) dependent on future earnings of the business – 12% interest, largely on sale of finished residential lots; initial collateral was dissipated and significant loan balance remains outstanding – currently secured by subordinate pledge of equity.
  - Status of the contribution in relation to corporate creditors – initially 2nd lien loan; borrower struggled to repay 1st lien loan. 1st lien lender entered into multiple short-term extensions resulting in incremental interest at the expense of 2nd lien lender.
  - Thin or adequate capitalization – to be determined, would need to review UDF I, UDF Northpointe II, L.P. and UDF Northpointe, LLC financials. UDF III repayment seemingly dependent on participation agreement (and funds) from UDF IV leads to questions regarding capitalization and source of payments.
  - Failure of debtor to repay on the due date – amended and extended four times.
  - The intent of the parties – no one factor is controlling.

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

Guidelines for determining the “debt versus equity” question have developed by the courts in a number of cases. 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.)
SUPPORTING DETAIL:

OVERVIEW OF DEVELOPMENT ASSETS

NORTHPOINTE CROSSING – ANNA, TEXAS
NORTHPOINTE CROSSING DEVELOPMENT OVERVIEW
ANNA, TX (NORTH OF MCKINNEY, TX)

• Northpointe Crossing is a development in Anna, Texas (North of McKinney, TX); Centurion American’s website provides the following descriptions of Northpointe Crossing:
  – “110 acres offers 255 single family lots”
  – “the community has plans for open space and greenbelts and two amenity centers featuring a children’s playground and a water splash park.”

• UDF III originated a 2nd lien loan to UDF Northpointe, LLC related to the Northpointe Crossing development in December 2007; at the time, UDF Northpointe, LLC was a wholly-owned subsidiary of UDF I.

• UDF Northpointe, LLC was sold to an “unrelated party” which turned out to be an affiliate of Centurion American and Mehrdad Moayedi.

• UDF IV acquired a “participation interest” in UDF III’s loan related to Northpointe Crossing in June 2013. UDF IV holds ~99.4% of the interest in the loan, effectively acquiring the entire loan.

• UDF Northpointe, LLC sold 98 acres to “LGI Homes – Northpointe, LLC” in November 2013; currently, based on a search of the central appraisal district, UDF Northpointe, LLC only owns 2 acres in Collin County, TX, effectively dissipating all of its collateral, despite references on Centurion American’s website to 110 acres and despite ~$10.9 million still being owed to UDF IV.
NORTHPOINTE CROSSING DEVELOPMENT OVERVIEW
ANNA, TX (NORTH OF MCKINNEY, TX)
NORTHPOINTE CROSSING LOCATION OVERVIEW
ANNA, TX (NORTH OF MCKINNEY, TX)

Source: Google Maps.
UDF Northpointe sold 98 acres to LGI Homes in 2013, it currently owns only 2 acres in Collin, County TX, effectively dissipating all of its real property in Northpointe Crossing.

Source: Collin County Central Appraisal District, Google Maps.
LAND CURRENTLY OWNED BY UDF NORTHPOINTE IN COLLIN COUNTY
ANNA, TX (NORTH OF MCKINNEY, TX)

- A search of the Collin County central appraisal district database for land owned by “UDF Northpointe,” which would capture either known affiliated entity – UDF Northpointe, LLC and UDF Northpointe II, L.P. – showed that only ~2 acres is currently owned by UDF Northpointe, LLC in Collin County.

Source: Collin County, Texas Central Appraisal District.
SUPPORTING DETAIL:

DEED HISTORY SUPPORTING TIMELINE AND TRANSACTIONS

COLLIN COUNTY, TEXAS – PUBLIC DEED RECORDINGS
HLL LAND ACQUISITIONS ACQUIRED NORTHPOINTE CROSSING LAND IN 2004
OCTOBER 26, 2004 - 189 ACRES IN COLLIN COUNTY – LENNAR TEXAS HOLDING COMPANY + UDF II

Source: Collin County, Texas Public Records.
AN ENTITY AFFILIATED WITH MEHRDAD MOAYEDI ACQUIRES LAND ON SAME DAY IT WAS SOLD TO UDF NORTHOINTE, LLC
UDF II AND LENNAR SOLD LAND TO AN ENTITY AFFILIATED WITH MEHRDAD MOAYEDI WHICH THEN SOLD TO UDF I

STATE OF TEXAS §
COUNTY OF COLLIN §

THAT ALL LAND ACQUISITIONS OF TEXAS, L.P., a Texas limited partnership ("Grantor"), for and in consideration of the sum of Ten Dollars ($10.00) and other good and valuable consideration to Grantor, in land paid by 165 HOWE, L.P., a Texas limited partnership ("Grantor"), the receipt and sufficiency of which is hereby acknowledged by Grantor, has GRANTED, SOLD AND CONVEYED, and by these presents does hereby GRANT, SELL AND CONVEY unto Grantee, that certain real property (the "Property"); whether one or more) situated in Collin County, Texas, as more particularly described and/or depicted on Exhibit "A" attached hereto and made part hereof for all purposes.

EXHIBIT "A"

TRACT I:

BEING a 113.68 acre tract of land situated in the SAMUEL MOORE SURVEY, ABSTRACT NO. 657, Collin County, Texas, and the ROBERT WHITTAKER SURVEY, ABSTRACT NO. 1011, Collin County, Texas and being portion of that called 188.974 acre tract described in Deed dated May 16, 1973, from L. L. Leslie; Karl Leslie; Billie Stimson DeArman and husband, Wilson I. DeArman to Kerry E. Burleson and Kenneth S. Burleson as recorded in Volume 806, Page 810, of the Deed Records of Collin County, Texas, and being more particularly described by metes and bounds as follows:

TRACT II:

(Parcel A) NORTHOINTE CROSSING, PHASE I NORTH an addition to the City of Anna, Collin County, Texas, according to the plat recorded in Volume 2006, Page 819, Map Records, Collin County, Texas.

(Parcel B) NORTHOINTE CROSSING, PHASE I SOUTH an addition to the City of Anna, Collin County, Texas, according to the plat recorded in Volume 2006, Page 820, Map Records, Collin County, Texas.

EXECUTED this 28th day of December, 2005

GRANTOR:

HLL LAND ACQUISITIONS OF TEXAS, L.P., a Texas limited partnership

By: HLL Development, L.L.C., a Texas limited liability company, its General Partner

By: Lennar Texas Holding Company, a Texas corporation, its Manager

By: United Development Funding II, Inc., a Nevada corporation, its Manager

By: Name: Hollis Greenlaw
Title: President

Source: Collin County, Texas Public Records.
LAND ACQUIRED BY UDF NORTHPOINTE, LLC

12/28/07: A WHOLLY-OWNED SUBSIDIARY OF UDF I BUYS LAND FROM AN ENTITY AFFILIATED WITH MEHRDAD MOAYEDI, UDF III FINANCES A SECOND LIEN LOAN AS PART OF THE TRANSACTION

SPECIAL WARRANTY DEED WITH VENDOR'S LIEN

STATE OF TEXAS §
COUNTY OF COLLIN §

THAT, 165 HOWE, L.P., a Texas limited partnership ("Grantor"), for and in consideration of the sum of Ten Dollars ($10.00) and other good and valuable consideration to Grantor, in hand paid by UDF NORTHPOINTE, LLC., a Texas limited liability company ("Grantee"), the receipt and sufficiency of which is hereby acknowledged, and the further consideration of the execution and delivery by Grantee of Two Notes dated of even date herewith, executed by Grantee and referred to as the First-Lien Note and the Second-Lien Note, has GRANTED, SOLD AND CONVEYED, and by these presents does hereby GRANT, SELL AND CONVEY unto Grantee, that certain real property (the "Property", whether one or more) situated in Collin County, Texas, as more particularly described and/or depicted on Exhibit "A" attached hereto and made part hereof for all purposes.

The First-Lien Note is payable to the order of Park Cities Bank in the principal sum of Four Million One Hundred Ninety Five Thousand Seven Hundred Fifty and No/100 Dollars ($4,195,750.00). The First-Lien Note is secured by the first and superior vendor’s lien against, and superior title to, the Property retained in this Deed in favor of Park Cities Bank, and is also secured by a Deed of Trust of even date from Grantee to Thomas R. Youngblood, Trustee.

The Second-Lien Note is payable to the order of United Development Funding III, L.P., a Delaware limited partnership in the amount of Six Million and No/100 Dollars ($6,000,000.00). The Second-Lien Note is secured by a second and inferior vendor’s lien against the Property retained in this Deed in favor of United Development Funding III, L.P., a Delaware limited partnership, and is also secured by a Subordinate Deed of Trust, Security Agreement and Fixture Filing (Financing Statement) of even date from Grantee to Todd Etter, Trustee.

EXECUTED this 28 day of December, 2007.

GRANTOR:
165 HOWE, L.P.
a Texas limited partnership

By: Para Investments, Inc.,
a Texas corporation
its General Partner

By: Mehrdad Moayedi, President

• An entity affiliated with Mehrdad Moayedi sold land to a UDF I subsidiary in December 2007, just at the prior peak, and at the onset of the great financial crisis.

• UDF III provided a second lien loan to UDF I’s subsidiary of $6mm, which was subordinate to a 1st lien loan from a senior bank lender of $4.2 million.
LAND ACQUIRED BY UDF NORTHPOINTE, LLC  
LEGAL DESCRIPTION OF LAND ACQUIRED IN COLLIN COUNTY, TX

- UDF Northpointe, LLC acquired:
  - 113.68 acre tract of land in Northpointe Crossing Phase I North (acquired 127 finished lots)
  - Northpointe Crossing Phase I South (acquired 124 finished lots)
- In total, UDF Northpointe, LLC acquired approximately **113.68 acres and 251 finished lots** in Collin County, TX.

**TRACT I:**

BEING a 113.68 acre tract of land situated in the SAMUEL MOORE SURVEY, ABSTRACT NO. 627, Collin County, Texas, and the ROBERT WHITAKER SURVEY, ABSTRACT NO. 1011, Collin County, Texas and being portion of that called 188.971 acre tract described in Deed dated May 16, 1973, from L. L. Leslie; Karl Leslie; Billie Stimson DeArman and husband, Wilson I. DeArman to Kerry E. Burleson and Kenneth S. Burleson as recorded in Volume 866, Page 810, of the Deed Records of Collin County, Texas, and being more particularly described by metes and bounds as follows:

THENCE North 02 deg. 55 min. 49 sec. East, along the common line of said called 188.971 acre tract, and said Lentz tract, a distance of 1424.82 feet to the POINT OF BEGINNING and containing 4,951,790 square feet or 113.68 acres of computed land.

**TRACT II:**

(Parcel A)
**NORTHPOINTE CROSSING, PHASE I NORTH**, an addition to the City of Anna, Collin County, Texas, according to the plat recorded in Volume 2006, Page 819, Map Records, Collin County, Texas.

(Parcel B)
**NORTHPOINTE CROSSING, PHASE I SOUTH**, an addition to the City of Anna, Collin County, Texas, according to the plat recorded in Volume 2006, Page 820, Map Records, Collin County, Texas.

Source: Collin County, Texas Public Records.
LAND ACQUIRED BY UDF NORTHPOINTE, LLC (CONTINUED)

LEGAL DESCRIPTION OF LAND ACQUIRED IN COLLIN COUNTY, TX

TRACT II:

(Parcel A)

NORTHPOINTE CROSSING, PHASE 1 NORTH, an addition to the City of Anna, Collin County, Texas, according to the plat recorded in Volume 2006, Page 819, Map Records, Collin County, Texas.

UDF Northpointe acquired 127 lots (all but 1)

(Parcel B)

NORTHPOINTE CROSSING, PHASE 1 SOUTH, an addition to the City of Anna, Collin County, Texas, according to the plat recorded in Volume 2006, Page 820, Map Records, Collin County, Texas.

UDF Northpointe acquired 124 lots (all but 12)

Source: Collin County, Texas Public Records.
SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT is made and executed by UNITED DEVELOPMENT FUNDING, L.P., a Nevada limited partnership (the "Subordinate Creditor") for the benefit of PARK CITIES BANK (the "Bank").

RECITALS:

A. On or about the date hereof, the Bank, has extended to UDF NORTHPOINTE, LLC, a Texas limited liability company ("Borrower"), a $4,195,750.00 commercial loan (the "Loan"). Which Bank Loan is (i) evidenced by that certain Loan Agreement dated as of [date] herein (the "Loan Agreement"); and (ii) evidenced by a Promissory Note dated as of [date] herein (the "Promissory Note"); and (iii) secured by, among other things, that certain deed of trust (with Security Agreement and Assignment of Rents) dated as of [date] herein (the "Deed of Trust"); and (iv) collateralized by a real estate article located in [County], Texas, more particularly described on Exhibit A attached hereto and incorporated herein by reference for all purposes (the "Property"). The Bank Note, Bank Loan Agreement, Deed of Trust and all of the other documents evidencing, securing or governing the Bank Loan are referred to collectively herein as the "Loan Documents."

B. Subordinate Creditor has on this date extended financing to Borrower (the "Subordinate Loan"). Subordinate Loan is (i) evidenced by a promissory note (the "Subordinate Note"); and (ii) secured by a deed of trust (the "Subordinate Deed of Trust"); and (iii) collateralized by a real estate article located in [County], Texas, more particularly described on Exhibit B attached hereto and incorporated herein by reference for all purposes (the "Property"). The Subordinate Note, Subordinate Deed of Trust and all of the other documents evidencing, securing or governing the Subordinate Loan are referred to collectively herein as the "Subordination Loan Documents."

C. As a condition precedent to the Bank extending the Bank Loan to Borrower, the Bank has required Subordinate Creditor to enter into this Agreement with respect to the Subordinate Note and Subordinate Deed of Trust.

EXECUTED as of December 28, 2007.

SUBORDINATE CREDITOR:

UNITED DEVELOPMENT FUNDING, L.P.

By: [Signature]

A Nevada limited partnership

BANK:

PARK CITIES BANK

By: [Signature]

Borrower:

UDF NORTHPOINTE, LLC, a Texas limited liability company

By: [Signature]

Source: Collin County, Texas Public Records.
UDF NORTHPOINTE, LLC ACQUIRED BY CENTURION – DEC 2008
UDF III FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2015

- UDF III’s SEC filings disclose that “in December 2008, [UDF] Northpointe, LLC was purchased by an unrelated third party which assumed the UDF NP Loan.”
- The Secretary of State website indicates that the registered agent for UDF Northpointe, LLC is Mehrdad Moayedi, the principal executive of Centurion American.

<table>
<thead>
<tr>
<th>UDF NORTHPOINTE, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Taxpayer Number</td>
</tr>
<tr>
<td>Mailing Address</td>
</tr>
<tr>
<td>Right to Transact Business in Texas</td>
</tr>
<tr>
<td>State of Formation</td>
</tr>
<tr>
<td>Effective SOS Registration Date</td>
</tr>
<tr>
<td>Texas SOS File Number</td>
</tr>
<tr>
<td>Registered Agent Name</td>
</tr>
<tr>
<td>Registered Office Street Address</td>
</tr>
</tbody>
</table>

Source: Secretary of State website.

In December 2007, we originated a $6.0 million UDF NP Loan to Northpointe LLC. In December 2008, Northpointe LLC was purchased by an unrelated third party which assumed the UDF NP Loan. In May 2009, Northpointe LLC assigned its obligations associated with the UDF NP Loan and its interests in the collateral by special warranty deed to Northpointe II, a subsidiary of UDF I. Concurrent with this assignment, Northpointe LLC entered into a contract for deed with Northpointe II whereby Northpointe LLC agreed to make payments to Northpointe II for all debt service payments in consideration for Northpointe II transferring ownership and possession of the collateral back to Northpointe LLC. The UDF NP Loan bears interest at a rate of 12% per annum and was initially collateralized by a second lien deed of trust on 251 finished lots and 110 acres of land in Texas. As of September 30, 2015, the UDF NP Loan is secured by a first lien deed of trust on 1 finished lot in Collin County, Texas and a pledge of equity interests in a non-related entity that owns 259 acres of residential land in Collin County, Texas.

Source: UDF III SEC Filings (Form 10-Q).
UDF NORTHPOINTE, LLC SELLS TO UDF NORTHPOINTE II, L.P.
MAY 8, 2009 – CENTURION AMERICAN SELLS NORTHPOINTE CROSSING LAND BACK TO UDF

SPECIAL WARRANTY DEED WITH VENDOR'S LIEN

THE STATE OF TEXAS
COUNTY OF COLLIN

THAT UDF NORTHPOINTE, LLC, a Texas limited liability company ("Grantee"), for
and in consideration of the sum of $10.00 cash in hand paid by UDF NORTHPOINTE II, L.P., a
Delaware limited partnership ("Grantee"), whose address is 1301 Municipal Way, Suite 200,
Grapevine, Texas 76051, and other good and valuable consideration, the receipt and sufficiency
of which are hereby acknowledged by Grantee, and the further consideration of Grantee’s
assumption of:

(a) that certain Promissory Note dated December 28, 2007 (the “Senior
Note”) from Grantee to Park Cities Bank (the “Bank”); in the original principal amount of
$4,195,750.00, the payment of the Senior Note being secured by that certain Deed of Trust (with
Security Agreement and Assignment of Rents) effective as of December 28, 2007 (the “Senior
Deed of Trust”) to Thomas R. Youngblood, as trustee for the benefit of the Bank, and recorded
as Document No. 20080109000035320 in the Real Property Records of Collin County, Texas;

(b) that certain Secured Promissory Note dated December 28, 2007 (the
“UDF III Note”) from Grantee to United Development Funding III, L.P. ("UDF III"), in the
original principal amount of $6,000,000.00, the payment of the UDF III Note being secured by
that certain Subordinate Deed of Trust, Security Agreement and Fixture Filing (Financing
Statement) dated December 28, 2007 (the “UDF III Deed of Trust”) to Todd Euter, as trustee for
the benefit of UDF III, and recorded as Document No. 20080109000035350 in the Real Property
Records of Collin County, Texas;

EXECUTED as of the 8th day of May, 2009.

GRANTOR:

UDF NORTHPOINTE, LLC,
a Texas limited liability company

By: Centamart Terras, L.L.C.,
a Texas limited liability company,
Member

By: CTMGT, LLC,
a Texas limited liability company,
Manager

By: Mehrdad Moayedi,
Solo Member/Manager

By: CTMGT, LLC,
a Texas limited liability company,
Member

By: Mehrdad Moayedi,
Solo Member/Manager

Source: Collin County, Texas Public Records.
UDF NORTHPOINTE II “SELLS” BACK TO UDF NORTHPOINTE
MAY 8, 2009 – UDF SELLS NORTHPOINTE BACK TO CENTURION BUT DEED IS NOT TRANSFERRED

CONTRACT FOR DEED

THIS CONTRACT FOR DEED (the “Contract”) is made as of the 8th day of May, 2009 (the “Effective Date”) by UDF NORTHPOINTE II, L.P., a Delaware limited partnership (“Seller”), and UDF NORTHPOINTE LLC, a Texas limited liability company (“Purchaser”).

RECEITAS:

Subject to the terms and conditions contained in this Contract, Seller shall own and have the sole and exclusive right to occupy and use the Property (hereinafter defined) beginning upon the Effective Date and ending upon the Final Payment Date (hereinafter defined), unless Purchaser’s rights are terminated sooner pursuant to the terms of this Contract.

AGREEMENT:

NOW THEREFORE, for and in consideration of the mutual promises and covenants contained in this Contract, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, Seller and Purchaser agree as follows:

1. CONVEYANCE. Subject to the terms and conditions contained in this Contract, Seller hereby sells and conveys to Purchaser and Purchaser hereby purchases and accepts from Seller, the real property described on Exhibit A together with all improvements, fixtures, equipment and appurtenances attributable thereto (the “Property”).

2. NOTES:

(a) In consideration for the transfer of ownership and possession of the Property from Seller to Purchaser, Purchaser agrees to pay to Seller all amounts due and payable by Seller to the payees named below under the following two notes (collectively, the “Notes”) at least two business days prior to the date such amounts are due and payable under the Notes:

(i) that certain Promissory Note dated December 28, 2007 from Purchaser to Park Cities Bank (“the Bank”), in the original principal amount of $4,195,750.00, which was assumed by Seller pursuant to that certain Loan Assumption and Modification Agreement by and among Purchaser, Seller and the Bank dated as of May 8, 2009 (as modified and assumed, the “Senior Note”), which Senior Note is secured by the Property pursuant to that certain Deed of Trust (with Security Agreement and Assignment of Rents) effective as of December 28, 2007 (as modified and assumed, the “Senior Deed of Trust”) to Thomas R. Youngblood, as trustee for the benefit of the Bank, recorded as Document No. 20081099000035320 in the Real Property Records of Collin County, Texas; and

(B) that certain Promissory Note dated December 28, 2007 from Purchaser to United Development Funding III, LP (“UDF III”), in the original principal amount of $6,000,000.00, as modified by that certain First Note and Loan Modification Agreement dated effective as of December 4, 2008 (as modified and assumed as described below, the “Subordinate Note”) which Subordinate Note was assumed by Seller pursuant to that certain Assumption Agreement dated May 8, 2009 and is secured by the Property pursuant to that certain Subordinate Deed of Trust, Security Agreement and Fixtured Filing (Financing Statement) dated December 28, 2007 (as modified and assumed, the “Subordinate Deed of Trust”) to Todd Etter, as trustee for the benefit of UDF III, recorded as Document No. 20081099000035350 in the Real Property Records of Collin County, Texas.

SELLER:

UDF NORTHPOINTE II, L.P., a Delaware limited partnership

By: UDF NP II Manager, LLC,
a Delaware limited liability company,
Its general partner

By: 

Name: Bev Wendel
Title: CEO

Notice Address:
1301 Municipal Way, Suite 200
Grapevine, Texas 76051

PURCHASER:

UDF NORTHPOINTE, LLC

UDF NORTHPOINTE, LLC,
a Texas limited liability company

By: Contarrara Terra, L.L.C.,
a Texas limited liability company,
Member

By: CTMG, LLC,
a Texas limited liability company,
Manager

By: Methdad Mosayedi,
Solo Member/Manager

Source: Collin County, Texas Public Records.
$9 MILLION LOAN FROM UDF III (ON ~36 LOTS IN ANNA, TX)
DEED OF TRUST RECORDED MARCH 26, 2014 BUT EFFECTIVE JULY 29, 2011?

UDF III increased its loan commitment to UDF Northpointe II, L.P. on July 29, 2011 from $6 million to $15 million (increase of $9 million); the legal description of land securing the loan was approximately 36 lots in Northpointe Crossing.

**Approximately 36 lots in legal description**

Lots 28 and 29, Block A, Lots 1, 3-10, 14, 15, 18 - 27, Block D, Lots 5 - 16, Block E, Lot 2, Block G, and Lot 9, Block EE, Northpointe Crossing, Phase 1 North, an addition to the City of Anna, Collin County, Texas, according to the map or plat thereof recorded in Volume 2006, Page 819, Map Records of Collin County, Texas.

EXECUTED and delivered on the date set forth hereto to be effective as of July 29, 2011.
1ST LIEN LENDER ENTERS INTO EXTENSION AND MODIFICATION
DECEMBER 15, 2011 – 8% INTEREST ON 1ST LIEN LOAN, SIX MONTH EXTENSION

LOAN RENEWAL, EXTENSION AND MODIFICATION AGREEMENT

STATE OF TEXAS §

COUNTY OF COLLIN §

KNOW ALL PERSONS BY THESE PRESENTS.

THIS LOAN RENEWAL, EXTENSION AND MODIFICATION AGREEMENT (this "Agreement") is executed to be effective as of December 15, 2011, by and between UDF NORTHPOINTE II, L.P., a Delaware limited partnership ("Debtor"), and PARK CITYS BANK ("Lender").

INTRODUCTORY PROVISIONS

The following provisions are a part of and form the basis for this Agreement:

A. UDF NORTHPOINTE, LLC, a Texas limited liability company ("Original Borrower") executed and delivered that certain Promissory Note dated as of December 28, 2007 (the "Note"); payable to the order of Lender in the stated principal amount of $4,195,750.00, evidencing a commercial real estate loan (the "Loan") of like amount governed by that certain Loan Agreement dated of even date with the Note (the "Loan Agreement"), executed and entered into by and between Original Borrower and Lender.

1. The parties hereto hereby acknowledge that, as of the date hereof, the outstanding principal balance of the Note is $2,398,750.00. Contemporaneously with the execution hereof and as a condition precedent hereof, Debtor shall (i) pay all accrued but unpaid interest as of the date hereof, and (ii) pay or cause to be paid to Lender, a principal reduction payment in the amount of $300,000.00, and upon such payment, Borrower shall be entitled to the release of the Travis County Lots upon the terms and condition set forth in the Loan Documents, but without further consideration.

2. The Note is hereby renewed, extended and modified as follows:

   (a) The term and maturity of the Loan and the Note are hereby extended from December 15, 2011, to June 15, 2012 (the "Extended Maturity Date"), and Borrower hereby renews and extends, but does not extinguish, the Note and the Lien and security interests created by the Loan Documents;

   (b) From and after the date hereof, principal outstanding under the Note shall accrue interest at a rate equal to the lesser of the Maximum Legal Rate (as defined in the Note), or a fixed rate of interest equal to eight percent (8.0%) per annum;

   (c) A payment equal to $35,000.00 plus all accrued but unpaid interest shall be due and payable on March 15, 2012; and

   (d) On the Extended Maturity Date, all and all unpaid principal, together with all accrued but unpaid interest thereon, shall be immediately due and payable, unless earlier accelerated pursuant to the terms of the Note or of any of the Loan Documents.

Source: Collin County, Texas Public Records.
1ST LIEN LENDER EXTENDS LOAN (AGAIN)
JUNE 12, 2012 – 10% INTEREST ON 1ST LIEN LOAN, 12 MONTH EXTENSION

LOAN RENEWAL, EXTENSION AND MODIFICATION AGREEMENT

STATE OF TEXAS

COUNTY OF COLLIN

THIS LOAN RENEWAL, EXTENSION AND MODIFICATION AGREEMENT (this "Agreement") is executed to be effective as of June 15, 2012, by and between UDF NORTHPOINTE III, L.P., a Delaware limited liability company, ("Borrower"), and PARK CITIBANK ("Lender").

INTRODUCTORY PROVISIONS:

The following provisions are a part of and form the basis for this Agreement:

A. UDF NORTHPOINTE III, L.P., a Texas limited liability company ("Original Borrower") executed and delivered to certain Promissory Note dated as of December 26, 2007 (the "Note") payable to the order of Lender in the stated principal amount of $4,185,750.00, evidencing a commercial real estate loan (the "Loan") of like amount, governed by that certain Loan Agreement dated of even date with the Note (the "Loan Agreement"), executed and entered into by and between Original Borrower and Lender.

D. Lender and Borrower previously executed and entered into (i) that certain Loan Modification Agreement dated September 15, 2009, modifying the terms of the Loan, (ii) that certain Loan Modification Agreement dated September 25, 2012; and (iii) that certain Loan Modification Agreement dated December 15, 2011, which among other things, extended the maturity of the Loan.

1. The parties hereto hereby acknowledge that, as of the date hereof, the outstanding principal balance of the Note is $2,050,450.00.

2. The Note is hereby renewed, extended and modified as follows:

(a) the term and maturity of the Loan and the Note are hereby extended from June 15, 2012 to June 15, 2013 (the "Extended Maturity Date"), and Borrower hereby renew and extend, but does not extinguish, the Note and the Loan and security interests created by the Deed of Trust;

(b) From and after the date hereof, principal outstanding under the Note shall accrue interest at a rate equal to the lesser of the Maximum Lawful Rate (as defined in the Note), or a variable rate of interest (hereafter, the "Floating Rate") equal to six and three quarters percent (6.75%) in excess of the "prime rate" as announced, published and so designated in the Money Rates Section of the Wall Street Journal from time to time; provided, however, that the Floating Rate shall not exceed ten percent (10.0%) per annum;

(c) On January 15, 2013, Borrower shall pay all accrued but unpaid interest plus a principal reduction payment of $126,010.00;

(d) A payment of all accrued but unpaid interest shall be due and payable on March 15, 2013; and

(e) On the Extended Maturity Date, any and all unpaid principal, together with all accrued but unpaid interest thereon, shall be immediately due and payable, unless earlier accelerated pursuant to the terms of the Note or of any of the Loan Documents.

BORROWER:

UDF NORTHPOINTE III, L.P., a Delaware limited partnership

By: UDF NP II MANAGER, LLC, a Delaware limited liability company, General Partner

Hollie M. Greenlaw, President

Address:
1301 Municipal Way, Suite 200
Grapevine, Texas 76051

GUARANTOR:

UNITED DEVELOPMENT FUNDING, L.P., a Delaware limited partnership

By: UNITED DEVELOPMENT FUNDING INC., a Delaware corporation, General Partner

By:

Hollie M. Greenlaw, President

Address:
1301 Municipal Way, Suite 206
Grapevine, Texas 76051

Source: Collin County, Texas Public Records.
1ST LIEN (10% INTEREST) IS FINALLY REPaid AND RELEASED
JULY 31, 2013

RELEASE OF LIEN

STATE OF TEXAS
COUNTY OF TRAVIS

Know all men by these presents that:

Holder of Lien:
Park Cities Bank.

Holder's Mailing Address:
5307 E. Mockingbird Lane, Suite 260
Dallas, Texas 75206

Description of Indebtedness owing to Holder:

Date: December 28, 2007
Original principal amount: $4,915,750.00
Borrower: UDF NORTHPOINTE, LLC
Lender: Park Cities Bank
(as it may have been amended, the “Note”).

EXECUTED this 31st day of July, 2013.

NOTE HOLDER:
Park Cities Bank

By: [Signature]
Name: [Name]
Its: [Title]