

Message

From: Farley Dakan [/O=MACKPAZZ/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=FDAKAN]
Sent: 9/24/2015 2:06:31 AM
To: James Weissenborn [/O=MACKPAZZ/OU=First administrative group/cn=Recipients/cn=jweissenborn]; Todd Zelek [/O=MACKPAZZ/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=TZelek]
Subject: FW: RE Debt Opportunity
Attachments: Real Estate Distressed Debt Opportunity Fund (Draft 9.23.15) v2.pptx

Jim/Todd,

Meeting with the Hayman team at 7:30amCT to go through this. This is 95% complete and going to Kyle after my morning meeting with Parker/Dan. I am going to Video Conference with Kyle (he's in San Francisco) and the investment team at 11:30amCT to walk him through the strategy and discuss next steps.

Moving quickly. Once we get through tomorrow I should have a better sense of the next steps to finalize the terms/agreement and when we can all get together.

FD

From: Parker Lewis [mailto:PL@haymancapital.com]
Sent: Wednesday, September 23, 2015 6:48 PM
To: Dan Babich; Farley Dakan
Subject: RE: RE Debt Opportunity

I added a slide to illustrate the type of capital structures and assets we will target within the structures, everything else is unchanged



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From: Parker Lewis
Sent: Wednesday, September 23, 2015 6:00 PM
To: Dan Babich <DB@haymancapital.com>; 'Farley Dakan' <fdakan@mackinacpartners.com>
Subject: RE Debt Opportunity

Dan/Farley – attached is the revised presentation. Let's plan to meet at 7:30am to discuss; we are scheduled to present to Kyle and a few other Hayman team members at 11:30am so I will be able to make any last minute changes prior to that



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Real Estate Distressed Debt Opportunity

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Disclaimer [to be edited]



PLEASE READ THE FOLLOWING IN CONJUNCTION WITH YOUR REVIEW OF THIS PRESENTATION

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Texas

Real Estate

Distressed,
Secured Debt



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Opportunity Overview

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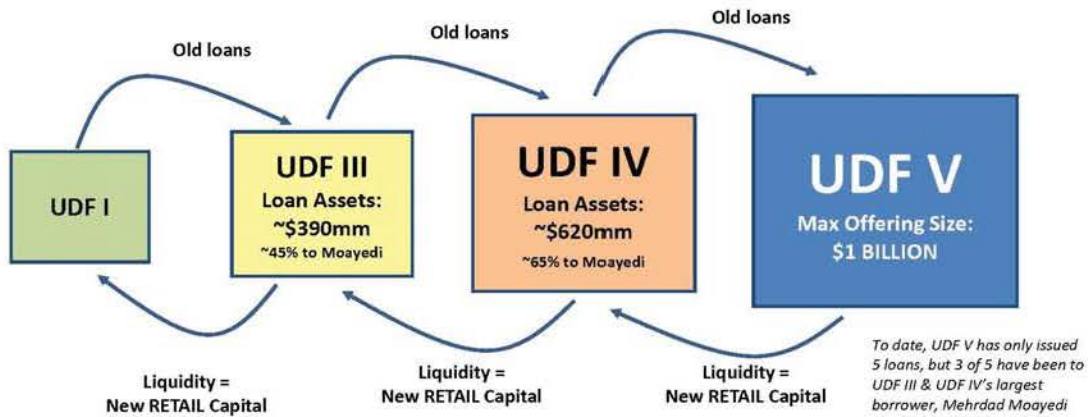


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Once Upon a Time, There Was a Ponzi-Scheme in Texas



Real estate securing by bad loans was passed from old fund to new fund and the mountain of debt grew as unassuming retail investors were continually sold a false (and larger) bill of impaired goods.



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It Started by Putting Too Much Debt on Real Estate



Imagine the consequences of holding too much debt on real estate (primarily on tract developments in North Texas) in and around the financial crisis.



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Now Imagine Bad Actors That Tried to Keep the Dream Alive



Retail Capital

Unsuspecting, unsophisticated retail investors



Someone to Raise the Capital

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



Brokers/RIAs



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



Architects

Unregulated lender and a complicit borrower with disclosure issues at best but more likely committing fraud.



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



Mehrdad Moayedi
CEO and Founder
Centurian American
Real Estate – Developer

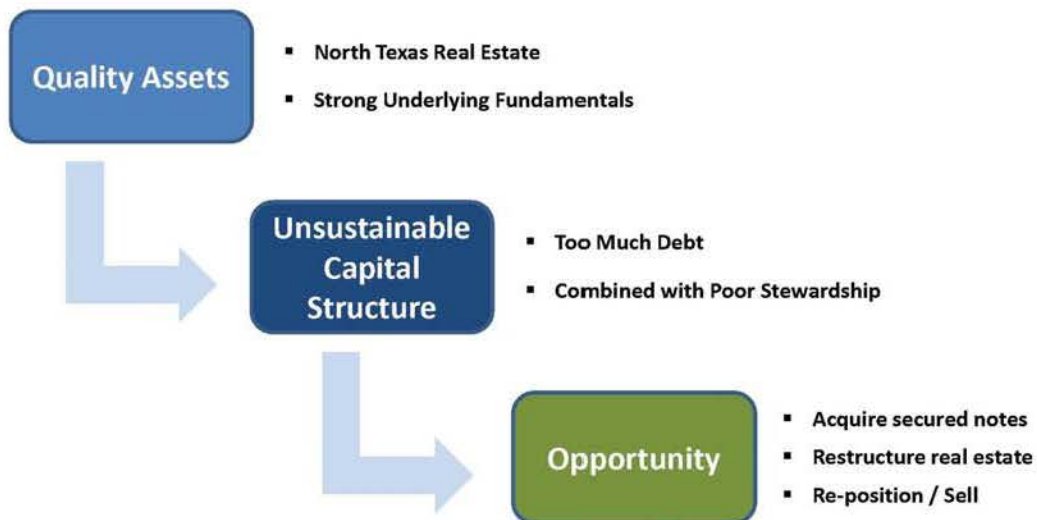
United Development Funding (UDF) has raised over \$1bn across 4 different public entities; RCS Capital (RCAP) raised the capital for UDF IV and is currently raising capital for UDF V, representing ~60% of equity raised to date.

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One Man's Trash is Another Man's Treasure



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Strategy Overview



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- Structure Expert
- Capital Partners

- Real Estate Workout
- Operational Expertise

- Market Expert
- Nationwide Reach

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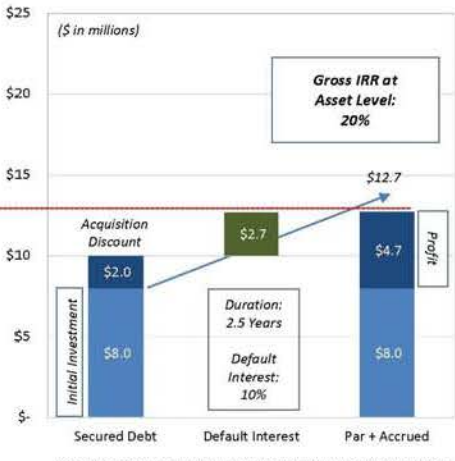
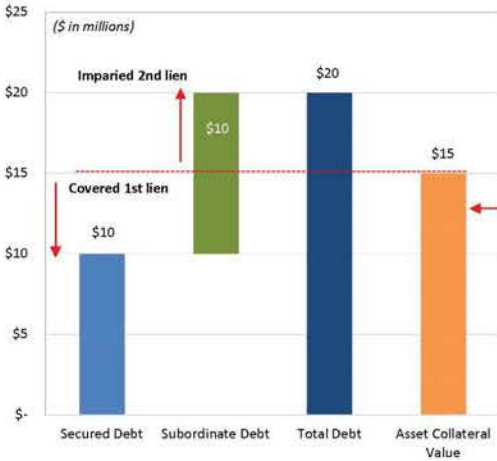
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The Investment Strategy – Buying Distressed Loans



Acquire over-secured 1st lien loans on real property at a discount

Workout Loans, Accrue Default Interest, Re-position, Sell (Profit = OID + Default Interest)



Note: Default interest and IRR assume interest accrues to balance of loan (non-current pay) and par + accrued is repaid upon exit.

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Why a Bank Will Sell An Over-Secured Loan At a Discount



- Regulated lending institutions will not want to keep troubled loans on books due to 1) **headline risk**, 2) **reputational risk** and 3) associated risks of **uncertainty**.
- Provides immediate **liquidity** and a **timely resolution**
- 'Loss-given-default' reserved on troubled assets – threshold prior to incremental losses
- Hard **cost and time** required to **workout** – lending banks **DO NOT** typically have workout groups in place to resolve troubled assets
- Potential to resolve **multiple troubled loans** at same time with one counterparty
- Lender liability and indemnifications
- **Market timing and execution risk**

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Oversecured Creditor Default Interest is Key to Returns



Section 506(b) of the Bankruptcy Code provides that an oversecured creditor (i.e., a creditor whose claim is secured by collateral of a value that is greater than the amount of the claim) is entitled to "interest on such claim, and any reasonable fees, costs, or charges provided for under the agreement or State statute under which such claim arose."

Key Considerations:

- The statute does not specify at what date the overcollateralization is determined nor how to calculate it, nor the rate of interest.
- The key issue will be the rate of post-petition interest; the legal principle is that a debtor has a refutable right to contractual default interest rate and that the debtor has the burden of proof to prove that the result is inequitable.
- The finance documents should contain language which enables us to roll up legal fees into our secured claim.

Key Precedent (Southland Case, 5th Circuit of Appeals 97-10474):

- This is the key case in the 5th Circuit which affirms the right to post petition interest for an oversecured creditor at contractual rates subject to "the equities of the case".
- In re W.S. Sheppley & Co., 62 B.R. 271, 277 (Bankr. N.D.Iowa 1986) lays out what the typical equities are, although the 5th circuit has held that these are not all inclusive. Below is a list of the typical "equities" that will be considered:
 - Is default rate of interest a penalty?
 - Will unsecured creditors be harmed? Will equity holders be hurt?
 - Is the spread small, i.e. (2-3)%?
 - Is the default rate an attempt to prevent filing bankruptcy
 - Is it legal under state law? (i.e., usury laws)
 - Is the only default a bankruptcy ipso facto clause?

The Hayman / Mackinac Competitive Advantage



Knowledge of Complex Structure	First Mover Advantage with Scale	Workout & Operational Expertise	Key Relationships in Relevant Market(s)	Playbook from Past Special Situation
<p>12 months of diligence on the complex UDF structure which provides a unique understanding of:</p> <ul style="list-style-type: none"> - The various UDF entities (III, IV, V, etc.) - The lenders to UDF - The assets securing each loan to UDF - The developers to whom UDF has lent - The banks that have lent to developers at the asset level - Security interests and priority at asset level 	<p>Advanced diligence, fund formation and well planned strategy will allow us to be a first mover:</p> <ul style="list-style-type: none"> - Priority opportunity set already identified - Preliminary diligence on asset values largely complete - Expect to engage bank lenders within first two weeks of news about UDF breaking - Disciplined but flat investment process will allow us to act quickly, moving to acquire loans in first 45 days - Our scale will be attractive to key lenders with multiple loans in structure 	<p>Combination of workout/restructuring capabilities, structuring & operational expertise will be key:</p> <ul style="list-style-type: none"> - Lending banks do not have workout groups - Understanding of incentives/priorities of lenders to act - Ability to navigate 'in' and 'out-of-court' restructurings - likely multiple bankruptcies - Ability to negotiate/structure DIP loans. - Ability to preserve, protect and enhance collateral value - Ability to take possession of asset and effectively monetize to maximize value 	<p>Relationships with local lenders, developers, land brokers and bankruptcy trustees is a differentiator:</p> <ul style="list-style-type: none"> - Relationship with Land Advisors will provide access to market data to support diligence as well as enhance ability to divest assets at maximum values. - Relationships with local law firms and potential trustees will allow us more clarity and insight into resolution of the assets we plan to own. - Relationships with current lenders and area developers will aid in acquisition of notes and divesting of real estate. 	<p>Mackinac's experience in a past, almost identical special situation, provides us with a unique playbook:</p> <ul style="list-style-type: none"> - Who to call at lending banks and how best to engage for best execution. - Key decision points of lenders; leverage in negotiations when acquiring notes. - Key risks to factor in underwriting assets, negotiating discounts. - Developing asset by asset business plans. - Effectively and efficiently facilitating a significant number of processes in parallel, minimizing cost.

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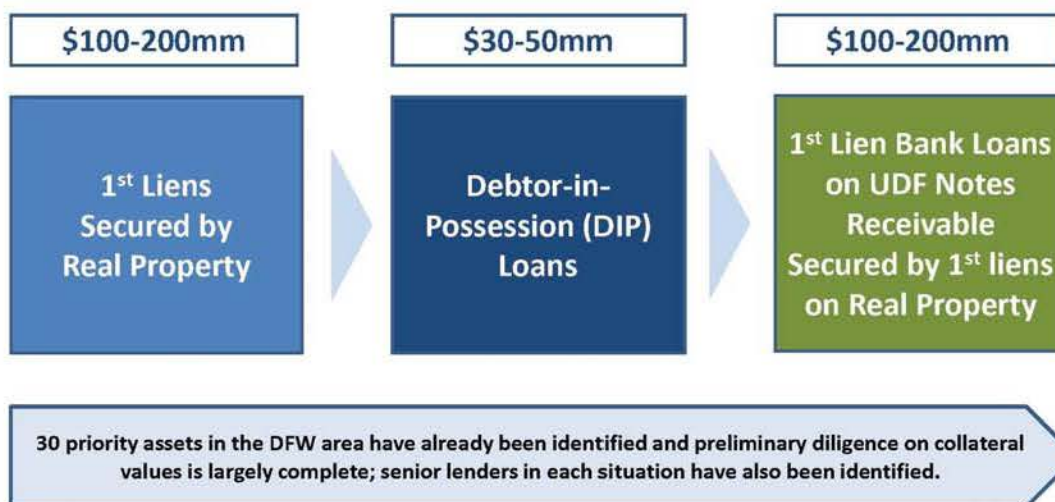
The Competition and Capabilities



	Traditional Distressed Funds	High Net Worth Individuals and/or Insiders	Local Developers and Homebuilders	Main Competition Beal Bank	Hayman / Mackinac
First Mover / UDF Structure Knowledge	✗	✗	✗	✗	✓
Scale of Individual Investments	✗ (too fragmented)	✓	✓	✓	✓
Local Real Estate Expertise	✗	✓	✓	✓	✓
Workout/Special Situation Experience	✓	✗	✗	✓	✓
Credit Experience / Scale	✓	✗	✗	✓	✓
Lowest Cost of Capital	✗	✗	✗	✓	✗

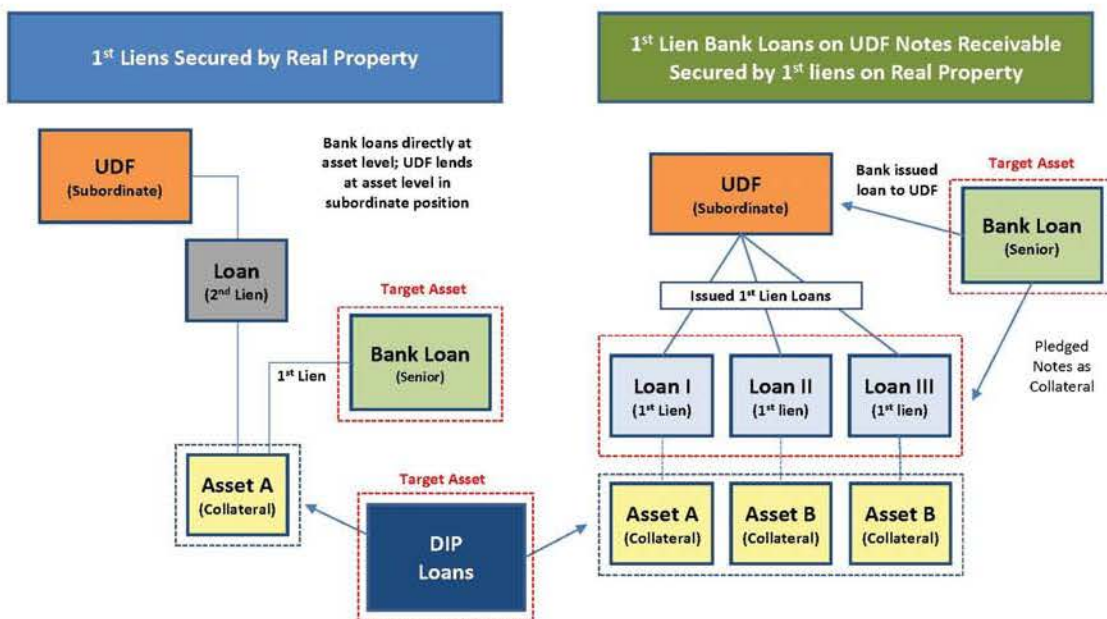
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Identifying the Opportunity Set

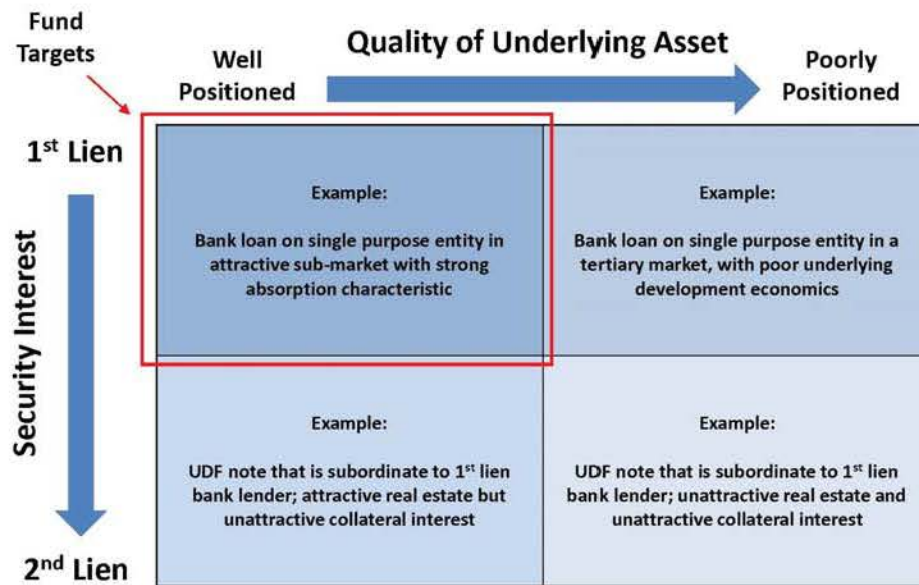


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Illustrative Structures / Loan Assets to Target

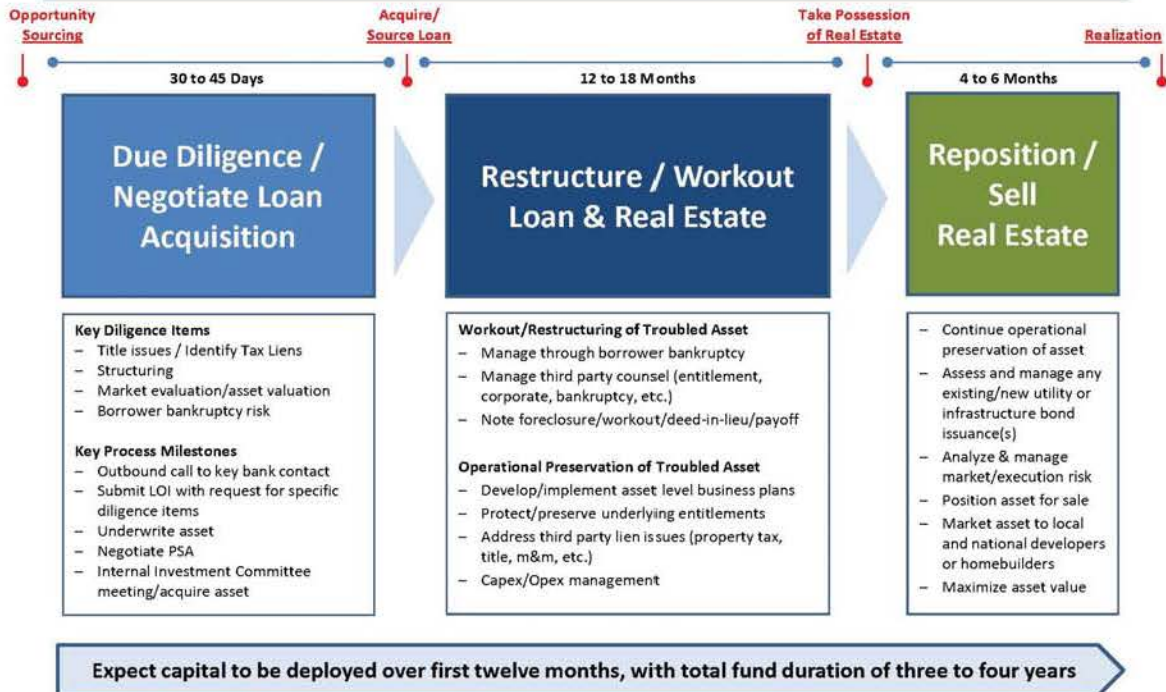


Narrowing the Universe of Opportunities



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Investment Scope and Horizon – Playbook for Success

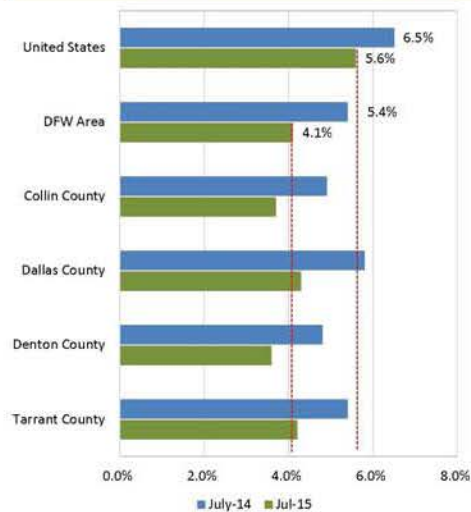


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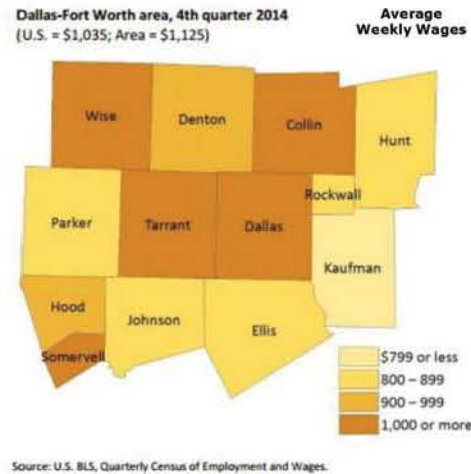
Well Positioned Assets – DFW Economic Overview



Lower Unemployment than National Average



Higher Wages than National Average



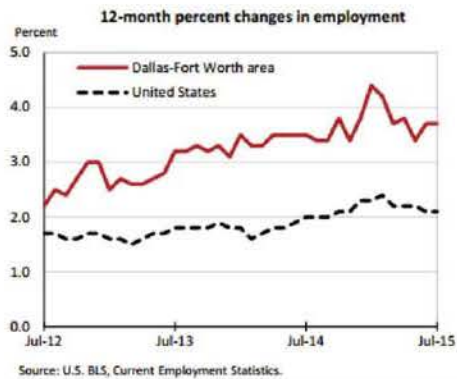
Diverse economy with strong underlying fundamentals supporting stable, steady growth

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Well Positioned Assets – DFW Economic Overview (continued)



Faster Employment Growth than National Average



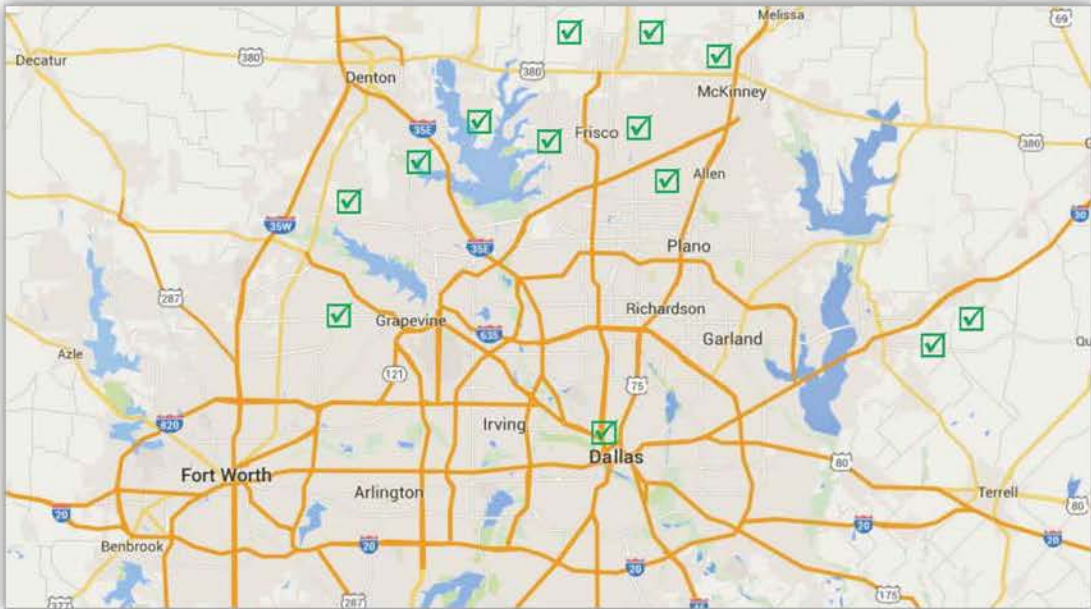
Large, Diversified Economy

Dallas-Fort Worth area employment (numbers in thousands)	Jul. 2015	Change from Jul. 2014 to Jul. 2015	
		Number	Percent
Total nonfarm	3,390.0	121.7	3.7
Mining, logging, and construction	197.1	0.2	0.1
Manufacturing	260.4	-2.8	-1.1
Trade, transportation, and utilities	709.1	27.7	4.1
Information	81.4	-1.4	-1.7
Financial activities	275.6	8.1	3.0
Professional and business services	567.0	28.7	5.3
Education and health services	421.2	24.4	6.1
Leisure and hospitality	364.1	24.9	7.3
Other services	120.5	2.7	2.3
Government	393.6	9.2	2.4

Source: U.S. BLS, Current Employment Statistics.

Diverse economy with strong underlying fundamentals supporting stable, steady growth

Well Positioned Assets – Example DFW Locations



Concentrated portfolio in DFW submarkets, with potential opportunities in Austin and San Antonio

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Manager Overview

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James Weissenborn

Principal

Contact Information:

Bloomfield Hills Office

Office: 248-258-6900

jweissenborn@mackinacpartners.com



Professional Experience

- Jim has more than 25 years of business experience including positions of Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer of several major national and international, public and private corporations
- His experience spans various industry sectors including vacation ownership, banking and financial services, real estate, entertainment, and investment banking. He has extensive capital markets experience and has raised more than \$5 billion in capital
- Jim served as the interim President and Chief Executive Officer of one of the world's largest vacation ownership companies. He guided this \$400 million publicly traded company through an out-of-court restructuring and tender offer for all of the company's shares, valued at \$750 million
- Prior to founding Mackinac Partners, Jim held executive positions in several prominent capital restructurings including a private holding company (Detroit Tigers' stadium financing and Little Caesars Pizza Corporation) and National Mortgage Corporation
- Jim was a senior officer at Pulte Corporation, where he oversaw the company's financing segment and the restructuring of its international homebuilding ventures

Education & Certifications

- Cum laude graduate of the University of South Florida
- MBA from the University of Texas at Austin

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Farley Dakan

Principal

Contact Information:

Dallas Office

Mobile: 512-921-0950

fdakan@mackinacpartners.com



Professional Experience

- Farley has 17 years of real estate experience and has completed valuation, advisory, and asset management engagements on behalf of Diamond Resorts International, Lone Star Funds, Fortress Investment Group and Goldman Sachs for assets valued in excess of \$5 billion. Including NPLs, PLs, REO, bank holding companies and several real estate operating companies.
- He is currently leads the asset management efforts of RE Loans, LLC which consummated emergence from Chapter 11 bankruptcy in 2012. He is currently overseeing the disposition of a portfolio of REO and loans with an aggregate unpaid principal balance of over \$700 million, located in 15 states.
- Farley began his career in the real estate advisory practice of Ernst & Young Kenneth Leventhal. While at EYKL, Farley was involved in providing financial advisory, operations consulting, and M&A valuation, transaction, and integration advisory services to several Fortune 500 real estate companies. Former client engagements included KB Home, Lewis Homes, The Rouse Company, The Howard Hughes Corporation, Terrabrook (now Newland Communities), Equity Office Properties and Centex.

Education & Certifications

- Bachelor's in Business Administration in Finance from Baylor University
- Member of the Urban Land Institute and Habitat for Humanity
- Member of American Enterprise Institute

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Ronald Rakunas

Principal

Contact Information:

Southern California Office

Mobile: 949-274-0044

rrakunas@mackinacpartners.com



Professional Experience

- Ron has over 25 years of experience in US domestic and international real estate investment, development, finance and restructuring. In addition to being a Principal in Mackinac Realty Capital Management, he is a Managing Director with Mackinac Partners where he co-manages the firm's real estate practice and his responsibilities include financial advisory, restructuring and asset management. Most recently involved with the restructuring, bankruptcy advisory and asset management of a lender, including a \$700 million portfolio of notes and REO throughout the US.
- Ron is currently acting as the CRO for the largest Mexican homebuilder (GEO SAB).
- Previously he was the founder and Managing Partner of Rybel Holdings, LLC, a private real estate investment and asset management company. Involved with the asset management and disposition of the Southern California portion of \$500 million portfolio of assets owned by two hedge funds and a private equity group.
- Ron has also held senior management positions at public homebuilders Lennar Corp and Pulte Corporation. As Regional Vice President for Lennar in Los Angeles and Ventura Counties he managed several divisions representing a combined \$500 million balance sheet and was responsible for the operational, financial and strategic planning for Lennar's homebuilding activities for the company's 30,000 unit Newhall Ranch master planned community.
- At Pulte Corporation he was Chief Financial Officer of Pulte International, Corporate VP Finance & Operations and Division President. Ron was directly involved with more than \$5 billion of both corporate and land acquisitions, including Pulte's \$1.8 billion acquisition of Del Webb. As Division President in Southern California, he restructured and quickly established the operation as a consistently high performing division with annual revenues in excess of \$700 million, \$80 million of pre-tax income, 1,700 closings and control of 20,000 lots.
- His commercial real estate investment and development experience includes Kearny Realty Investors, an operational subsidiary of the Morgan Stanley Real Estate Fund, and The Koll Company, a large private development company based in Newport Beach, CA.

Education & Certifications

- MBA from Columbia University, JD from the University of Southern California, BA from UCLA.



Special Situations Case Study

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Mackinac Partners Case Study: RE Loans





R.E. LOANS LLC
MORTGAGE FUND




Industry	Real Estate (Raw land, hotels, industrial, partially complete MF and SF)
Capital Structure	\$65mm Senior Facility (WFCF), \$700mm Junior Note Holders
Assets	48 Secured Loans/REO in 15 states (97% non-performing)
Responsibilities	Dispositions, foreclosure, litigation, loan modifications, debtor bankruptcies
Strategy	Value preservation by obtaining control and implementing asset specific strategies

Transaction Background

- Mackinac Partners (MP) was initially engaged as a financial advisor and subsequently became the Chief Restructuring Officer of R.E. Loans LLC ("REL"), a senior secured high yield lender, based in the Bay Area of California.
- MP navigated the enterprise through a successful bankruptcy and restructuring.
- Upon emergence from bankruptcy, MP was engaged as asset manager on behalf of the liquidating trust to maximize value of the remaining assets.
- Over the past 30 months MP has managed the workout and disposition of a portfolio comprised primarily of negative carry assets throughout the United States.
- MP developed a strategy for each individual asset including the capitalization, risk management, and execution of that strategy.
- MP has successfully managed through 26 non-performing notes and REO

Company Background

- REL was setup as a high yield, "hard money", lender and typically originated loans secured by senior mortgages or deeds of trusts on real property.
- In July 2007, the Company obtained a working capital senior secured debt facility from Wells Fargo Capital Finance formerly known as Wells Fargo Foothill. REL defaulted on the Original Loan agreement and entered into a series of amendments and forbearance agreements from January 2010 through August 2011.
- On September 13, 2011, REL filed for Chapter 11 protection and on June 29th 2012, RE Loans successfully confirmed a Plan of Reorganization and secured an exit financing facility from WFCF.

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Potential Return Profile

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Key Return Profile Assumptions



▪ Default Interest Rate	9% to 11%
▪ Acquisition Discount to Par	20% to 30%
▪ Capital Invested	\$100 million
▪ Management Fee	1.25%
▪ Preferred Return	6.5%
▪ Upside Profit Share (LP/GP)	70% / 30%

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Investment Return Sensitivities



We expect that we will be able to deploy ~\$100mm of capital; based on this amount of capital invested, we expect gross returns of \$50 to \$90 million and an unlevered IRR range of 13%-19%, assuming a time horizon of 3 to 4 years.

Expected Gross Returns on \$100mm of Invested Capital

(\$ in millions)

		Discount Assumed on Acquisition of Loans				
		0.0%	10.0%	20.0%	30.0%	40.0%
Average Default Interest Rate	8.0%	\$ 20.2	\$ 34.2	\$ 51.6	\$ 74.1	\$ 104.1
	9.0%	\$ 23.8	\$ 38.1	\$ 56.1	\$ 79.2	\$ 110.0
	10.0%	\$ 27.4	\$ 42.1	\$ 60.6	\$ 84.3	\$ 116.0
	11.0%	\$ 31.1	\$ 46.3	\$ 65.2	\$ 89.6	\$ 122.2
	12.0%	\$ 34.8	\$ 50.4	\$ 69.9	\$ 95.0	\$ 128.5

Limited Partner IRRs

		Discount Assumed on Acquisition of Loans				
		0.0%	10.0%	20.0%	30.0%	40.0%
Average Default Interest Rate	8.0%	6.3%	9.2%	12.5%	16.6%	21.7%
	9.0%	7.1%	9.9%	13.3%	17.4%	22.6%
	10.0%	7.8%	10.7%	14.1%	18.3%	23.5%
	11.0%	8.5%	11.4%	14.9%	19.2%	24.4%
	12.0%	9.2%	12.2%	15.8%	20.0%	25.4%

Fund Structure [TBD]

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[Fund Name] Master Fund, LP Structure [TBD]



- Administrator: [SEI]
- Auditor: [Deloitte & Touche LLP]
- Legal: [Morgan, Lewis & Bockius LLP]
- Custodian: [Bank of New York Mellon]
- Minimum Investment: [\$xx million]
- Commitment Period: [5 years]
- Limited Partner Preferred Return: 6.5%
- General Partner Fees:
 - Management Fee: 1.25% of AUM (quarterly in advance)
 - Performance Fee: 30% (paid on realization)

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