

## Anticipated Fraud at UDF

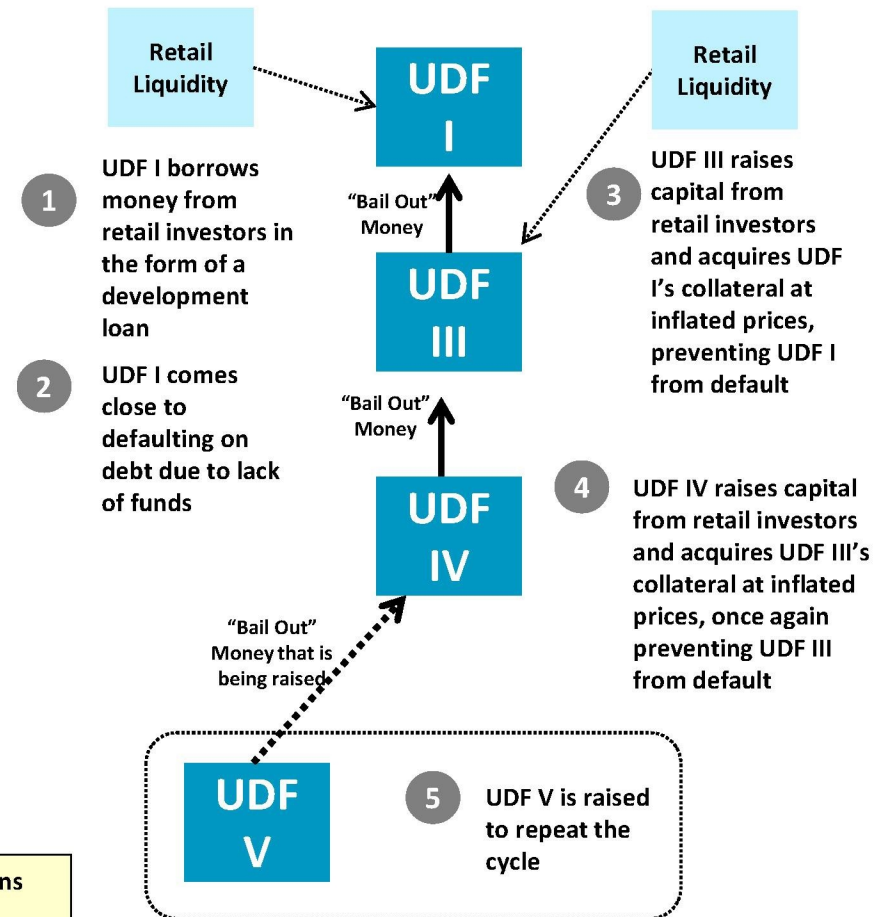
# [Illustrative Draft That is Still in Process]

**Hayman believes that UDF is a “Ponzi scheme” due to a history of inter-company loans between concentrated borrowers at double the market rate where in many cases the loans are secured by undeveloped land that has remained undeveloped for years.**

- ▶ A circular history of inter-company loans have caused Hayman to declare that UDF is a “Ponzi scheme” (See chart on the right discussing the steps of UDF’s prospectively fraudulent structure)
  - UDF Fund I (“UDF I”), the first fund to UDF, was a developer. UDF I nearly defaulted on its loans. UDF Fund III (“UDF III”), a successor fund, used proceeds from issued debt to buy the underlying collateral from UDF I’s default at par. This effectively allowed UDF I to be repaid
  - Then, UDF Fund IV (“UDF IV”) buys the asset from UDF III
  - This is an example of multiple lending processes to an entity to buy out an asset from one another
  - Old loans are transferring collateral from fund to fund, while retail capital is tied up in the structure
- ▶ Borrower concentration is irregularly high
  - Each public entity is in the same business as its predecessors (real estate lending) and lends to the same borrowers, markets and developments
  - The top 3 borrowers, including related parties as a group, account for ~90% of both Fund III and Fund IV loans
  - In UDF IV, the largest borrower is 65% of the loan book (Centurion American, a real estate developer in the Dallas Fort Worth area that does single family tract developments)
- ▶ Senior lenders are borrowing at double the market rate
  - Hayman discovered that senior secured 1<sup>st</sup> lien loans were lent at a 13% average interest rate to apparently well-capitalized developers, despite market average 1<sup>st</sup> lien debt being issued at 6-7% interest rates
- ▶ Hayman reports that at least 10% of development loans do not pay cash, have extension options and are secured by undeveloped land that has remained undeveloped for years

**Discovery of fraud at UDF could catalyze dislocation among higher quality UDF loans secured by tangible development properties.**

### Illustrative Steps of UDF’s Prospectively Fraudulent Structure



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