[Illustrative Draft That is Still in Process]

Anticipated Fraud at UDF

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 1st lien loans were lent at a 13% average interest rate to apparently well-capitalized developers, despite market average 1st 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