

*HAYMAN CAPITAL DISCLOSES SHORT POSITION IN UDF ON WEBSITE



From: Katheryn E. Mueller

Sent: Friday, February 5, 2016 9:11 AM

To: J. Kyle Bass <k@haymancapital.com>; Brandon Osmon <bo@haymancapital.com>; Dan Babich

<DB@haymancapital.com>; Chris Kirkpatrick <CK@haymancapital.com>; Juneau Lee <JL@haymancapital.com>; Debby

LaMoy <dl@haymancapital.com>; Henry Becker <HB@haymancapital.com>; Tai-Li Chang <tlc@haymancapital.com>;

Parker Lewis <PL@haymancapital.com>; Davis Hostetter <dh@haymancapital.com>

Cc: Hayman Investor Relations <ir@haymancapital.com>

Subject: Business Insider: Kyle Bass is going to war with his latest short target

BUSINESS INSIDER



Julia La Roche   

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Kyle Bass is going to war with his latest short target

exan hedge fund manager J. Kyle Bass has stepped out as the anonymous short-seller going after United Development Funding IV, a Texas-based real-estate-investment trust (REIT).

Bass, who runs Dallas-based Hayman Capital, launched a website on Friday that alleges the company is operating a "Ponzi-like real estate scheme."

He also published the following letter:

Dear Reader:

At Hayman Capital, we attempt to identify market inefficiencies and invest around opportunities created by those inefficiencies. Last year, we took a short position in United Development Funding (UDF) IV. Our research showed that UDF exhibited characteristics consistent with a Ponzi scheme, the size and scope of which exceeded a billion dollars.

The Securities and Exchange Commission (SEC) describes a Ponzi scheme, in part, as "an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors."

This is consistent with, in many ways, how UDF operates:

- UDF is using new investor money to pay existing investors. When UDF's first fund faltered, UDF used money from a second entity – a public affiliate, registered with the SEC – to bail out the first fund. UDF management has been trying to cover its tracks ever since, by perpetuating a Ponzi-like real estate scheme across multiple funds.
- UDF management is misleading investors. UDF management has been distorting its poor track record and the financial condition of its public SEC-registered affiliates dating back to the financial crisis.
- UDF management is preying on "Mom and Pop" retail investors, using the complexity of real-estate backed loans and a UDF-controlled web of related entities to obscure the fact that UDF is using new investors' money to make payments to existing investors, and thereby perpetuating the scheme.

After years of mismanagement, the UDF structure has begun to implode. Evidence of UDF's dire situation includes a series of defaults, bankruptcy petitions, lawsuits, key resignations – including that of UDF's audit firm, a key UDF director, and the CFO of UDF's largest borrower – followed by UDF's own overdue admission that it has been the subject of an SEC investigation since April 2014.

Today, as a consequence of mismanagement and concealed losses, UDF faces significant bankruptcy risk, which would leave its shares virtually worthless.

The research on this website exposes how a Texas real estate developer built a billion dollar house of cards and why it is now on the verge of collapse. If you take the time to review the facts on this site, we believe you will come to a similar conclusion.

Sincerely,

J. Kyle Bass
Chief Investment Officer and Principal
Hayman Capital Management L.P.

Back in December, UDF's stock plummeted after an anonymous short-seller using the pseudonym "Investor For Truth" published a report on an investing website Harvest Exchange. At the time, value-investing blog ValueWalk speculated that the short-seller was Bass. It was never publicly confirmed until now.

Shares of United Development Funding, a nontraded REIT, have fallen more than 41% since that initial report. On Friday, the stock was last trading 4.4% around \$9.75 per share.

Bass' thesis is that the low-interest-rate environment for the past six years has been the main driver of growth in the nontraded REIT asset class. In 2015, the Securities and Exchange Commission named nontraded REITs as one of the five most serious problems affecting retail investors.

Message

From: Parker Lewis [PL@haymancapital.com]
Sent: 2/4/2016 5:29:19 PM
To: J. Kyle Bass [k@haymancapital.com]
Subject: RE: Pls send UDF update with website and press strategy!

Ok. Just spoke with Edelman. They discussed internally and their official proposal is to either go back to Faber to have him tweet on Monday OR they have politico lined up to run a story this afternoon. After deliberating internally, they came around to your view that tomorrow is not ideal. Instead the two paths are: either go today or Monday. If we go this afternoon, we have all day tomorrow to push the story.

Thoughts on these two paths?

Parker Lewis
Hayman Capital Management, L.P.
2101 Cedar Springs Road Suite 1400
Dallas, TX 75201

214.347.8043 Direct
512.699.7480 Mobile
PL@HaymanCapital.com

-----Original Message-----

From: J. Kyle Bass
Sent: Thursday, February 04, 2016 11:20 AM
To: Parker Lewis <PL@haymancapital.com>
Subject: Re: Pls send UDF update with website and press strategy!

If you want to go tomorrow, the release needs to happen at 8am. I am game for that. Not later in the day.

Let's do it. Edelman has had plenty of time to devise the recipient list and to purchase key words...lets get going first thing tomorrow morning. I will be in the air for the next 4 hrs but available via email if they email you the plan.

J. Kyle Bass
Chief Investment Officer
Hayman Capital Management

> On Feb 4, 2016, at 12:15 PM, Parker Lewis <PL@haymancapital.com> wrote:

>
> Don't disagree, I just don't like the fact that the website is just sitting out there to be found and leaked by a blog at any time, we partially lose control in that environment. But if you want to wait until Monday, we will wait until Monday.

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>
> Parker Lewis
> Hayman Capital Management, L.P.
> 2101 Cedar Springs Road Suite 1400
> Dallas, TX 75201

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> 214.347.8043 Direct
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> PL@HaymanCapital.com

> -----Original Message-----

> **From:** J. Kyle Bass
> **Sent:** Thursday, February 04, 2016 11:13 AM
> **To:** Parker Lewis <PL@haymancapital.com>
> **Subject:** Re: Pls send UDF update with website and press strategy!

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> I think we should move to promote and go forward Monday morning. Friday is always a bad day to launch anything.

>

> This should be our plan.
>
> J. Kyle Bass
> Chief Investment Officer
> Hayman Capital Management

> On Feb 4, 2016, at 12:10 PM, Parker Lewis <PL@haymancapital.com> wrote:

>>
>> WSJ is not running on Monday and we do not have a commitment on a day thereafter.
>>
>> I spoke with the WSJ's real estate editor last night (requested by Greg); it sounds like they are looking to include the complexity of the Ponzi-like nature which Greg previously was going to stay away from - this will likely result in a delay; this would make the story more impactful but does not help our issue of timing.

>>
>> Given all of this, Edelman does not recommend that we leave the website just hanging out there (and taking down is not an option). I agree and I worry that UDF could already potentially have access to the site before it becomes widely public (time to prepare a counter). Edelman recommends that we move to promote, as early as tomorrow but want your thoughts/sign-off.

>>
>> They are sending new launch proposal shortly, will forward.

>>
>> Parker Lewis
>> Hayman Capital Management, L.P.
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>> Dallas, TX 75201

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>> -----Original Message-----
>> From: J. Kyle Bass
>> Sent: Thursday, February 04, 2016 11:01 AM
>> To: Parker Lewis <PL@haymancapital.com>
>> Subject: Pls send UDF update with website and press strategy!

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>> J. Kyle Bass
>> Chief Investment Officer
>> Hayman Capital Management