To: Whipple, David[WhippleDa@SEC.GOV]
From: Chris Kirkpatrick
Sent: Thur 11/12/2015 6:34:59 PM (UTC)
Subject: Letter to Auditors
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David:

Attached is the letter that is going to be hand delivered to Whitley Penn, the trustees and management this afternoon.

Best,

Chris

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November 12, 2015

Mr. Larry Autrey
Managing Partner
Whitley Penn LLP
8343 Douglas Avenue, Suite 400
Dallas, Texas 75225

Mr. James Penn
Mr. B. Glen Whitley
1400 West 7th Street, Suite 400
Fort Worth, Texas 76102

Gentlemen:

This letter is directed to Whitley Penn, LLP ("Whitley Penn") as the auditor for United Development Funding III, L.P. ("UDF III"), United Development Funding IV ("UDF IV"), United Development Funding Income Fund V ("UDF V"), and United Mortgage Trust ("UMT") (collectively, the "Companies"), which file periodic reports with the Securities and Exchange Commission ("SEC") and are affiliates of each other. Each of the Companies is externally managed or advised by the same principal group of related individuals. As you know, the Companies generally engage in the business of unregulated lending to residential real estate developers, primarily in North Texas and to the same group of developers. Based on a review of the Companies' periodic filings (10-Ks, 10-Qs, 8-Ks, proxy statements and offering documents) (the "Filings"), visits to numerous project and development sites, and a review of county property records (central appraisal districts and deed recordings), a number of questions are raised about (i) the legitimacy of the financial and other relationships between affiliated entities and individuals and (ii) several accounting irregularities. There are not only significant issues regarding the adequacy of the disclosures in the Filings, but there are likely material misstatements in the audited financial statements for the fiscal years ending 2012, 2013 and 2014 and the interim quarterly filings for the same periods. The questions raised about the UDF structure and the reliability of the published financial statements are detailed below.

Entity	Commission File Number	Corporate Address	Total Assets (Book Value)
United Mortgage Trust	000-32409	1301 Municipal Way, Suite 220 Grapevine, Texas 76051	$187.6 million
United Development Funding III, L.P.	000-53159	1301 Municipal Way, Suite 100 Grapevine, Texas 76051	$392.0 million
United Development Funding IV	001-36472	1301 Municipal Way, Suite 100 Grapevine, Texas 76051	$684.1 million
United Development Funding Income Fund V	333-194162	1301 Municipal Way, Suite 100 Grapevine, Texas 76051	$43.9 million
		Total Assets	**$1.3 billion**

Summary of Key Observations:

- The primary assets of the Companies are loans, and the book value of assets is likely materially overstated, either because the loans have insufficient reserves or have inadequate collateral supporting them.

- Loans accrue larger and larger balances for years (more than doubling in some cases) without ever generating any cash receipts, which lead to concerns about the accounting treatment of these loans, including how income is recognized and later capitalized to long-term asset accounts. This raises serious questions about the carrying value of the loans and the potential for materially overstated book value of assets.

- Management fees are assessed on the value of assets under management. If the book value of the Companies' assets is materially overstated, the external manager has and is improperly receiving inflated management fees.

- UDF III and UDF IV are not accruing any provision for loan losses despite a material outstanding balance of past due loans (loans that have matured without being repaid or extended).

- UDF III, UDF IV and UMT are not reserving against loans that have a high probability of being impaired (loans that remain outstanding but that have not matured).

- Loans to UDF IV's largest borrower do not appear to be arms-length transactions. These loans are typically not repaid upon maturity and UDF IV does not receive any compensation for such extensions.

- The largest borrower of UDF III represents 43% of loans. The largest borrower of UDF IV represents 66% of loans. While this concentration risk is disclosed, it is not disclosed that the largest borrower of both UDF III and UDF IV is the same.

- The largest borrower of UDF III and UDF IV is likely insolvent.

- 100% of UDF IV loans are classified as fully collectable which is likely a material misrepresentation since the largest borrower is likely insolvent.

- Material conflicts exist between executives/officers and the largest borrower which are likely negatively impacting shareholders. UDF III and UDF IV fail to disclose the business relationship between the borrower, affiliates and directors/officers as required by Auditing Standard No. 18 – Related Parties.

- There are disclosure issues regarding the percentage of loans secured by unimproved real property.

- UDF V's principal business activity involves issuing loans to entities that have (or had) loans due to UDF III and UDF IV. UDF V funds are being used to repay loans owed to UDF III and UDF IV, which, at minimum, is not disclosed to UDF V shareholders.

- UDF V loans are being issued to UDF III and UDF IV's largest borrower, and the relationship between this borrower and UDF V's affiliates is not disclosed. In fact, UDF V's Filings include statements that it will not make loans to, or participate in loans with, affiliates.

- Insiders have made loans to themselves through affiliates at interest rates below the 10-Yr US treasury rate in the form of unsecured deficiency notes and recourse obligations totaling $63 million. At the same time, the insiders lend to themselves at an interest rate of 1.75% to the detriment of shareholders while the same form of unsecured deficiency notes to non-affiliated parties bear interest at 14%.

Specific Issues and Examples

1) Loans issued by UDF IV have matured without being repaid or extended and should be considered impaired based on the disclosures provided in the 10-Qs filed for the quarters ended September 30, 2015, June 30, 2015, March 31, 2015 and the 10-K filed for the fiscal year ended December 31, 2014, which Whitley Penn audited. Despite the status of these loans, UDF IV has not accrued any reserves against the loans. How has Whitley Penn gained comfort regarding valuation of these assets in the financial statements?

2) Six UDF IV loans related to the same borrower have matured without being extended or repaid based on disclosures in the 10-Q filed for the quarter ended September 30, 2015. This borrower accounts for approximately 10% of UDF IV's total loan assets and has past due loans owed to UDF III that represent approximately 25% of UDF III's portfolio. The impact of this borrower would seem to be material as it is the second largest "non-affiliated" borrower of both UDF III and UDF IV. Has Whitley Penn questioned management about why UDF IV has not reserved against these loans or disclosed that its affiliate, UDF III, has significant exposure to the same borrower and also has loans that are similarly past due. Has Whitley Penn considered whether the circumstances of these loans and this borrower are material to the financial conditions of UDF III and UDF IV?

3) Most lending institutions typically accrue a provision for loan losses in the normal course of business based on historical loss rates. UDF III and UDF IV regularly accrued provisions for loan losses through the fiscal year ended December 31, 2014. Based on the 10-Qs filed for the quarters ended March 31, 2015, June 30, 2015, and September 30, 2015, UDF III and UDF IV have not recorded any provisions for loan losses in the consolidated statement of income for the first nine months of 2015. They have not accrued even the "normal course" provision for loan losses despite having a significant balance of outstanding loans come due without being extended or repaid. Has Whitley Penn questioned management regarding (i) why UDF III and UDF IV have not accrued provisions for loan losses in 2015 or (ii) whether UDF III and UDF IV are adequately reserved in light of the significant balance of loans that came due without being repaid or extended?

4) A material number of UDF IV loans accrue interest, do not generate any cash (according to company disclosures – not current pay) and are repeatedly extended upon maturity. Based on disclosures in the 10-Ks for the fiscal years ended December 31, 2012, December 31, 2013 and December 31, 2014, the outstanding balances of some of these loans have doubled during the 3-5+ year periods that they have been outstanding ***without ever generating any cash***. None of the loans that share these characteristics have been reserved against according to UDF IV's financial disclosures for these periods. This is evidenced by the fact that the ending balance of the "allowance for loan losses" for loans individually evaluated for impairment was zero based on the disclosures in UDF IV's 10-Q filed for the quarter ended September 30, 2015. How has Whitley Penn gained comfort with UDF IV's stated value of these loans at the accrued balance given the pattern of non-payment? Has Whitley Penn considered whether loans of this nature should be reserved against?

5) The CEO of UDF IV was added to the "Dallas Regional Board" of the UDF IV's largest creditor bank in January 2014 according to a press release by the bank. Has the effect of this insider relationship been questioned or discussed with management? Has Whitley Penn considered whether this relationship should be disclosed to shareholders?

6) Three loans issued to UDF IV by banks had matured without being extended or repaid as of the filing of its 10-Q for the 2nd quarter 2015. These loans were owed by UDF IV to two banks, including the bank that UDF IV's CEO was on the Dallas Regional Board. At the time of the 2nd quarter 10-Q filing, UDF IV disclosed that it was "currently negotiating an extension." These loans were extended at some point in the 3rd quarter 2015 according to the 10-Q filing. Understanding that Whitley Penn does not (and did not) audit the 2nd quarter financials, does Whitley Penn have any reason to believe that UDF IV was, at any time, in technical default or otherwise not in compliance with its credit facilities? Do any of the other publicly-traded companies that Whitley Penn audits (and that are in good financial standing) typically allow maturity dates of credit facilities to pass without either repaying the loan, receiving a waiver in advance or entering into a loan modification in advance? Is Whitley Penn aware of any material facts related to the negotiation of the extension of the credit facilities that would have resulted in the delay of UDF IV receiving extensions? Does Whitley Penn believe that UDF IV adequately disclosed the facts as it relates to the status of its credit facilities?

7) UDF III had $390mm of assets and $10mm of debt as of the quarter ended June 30, 2015, and it consistently discloses that it has not made payments on its debt in a timely manner. As disclosed in the 10-Q filed for the quarter ended June 30, 2014, UDF III obtained a waiver "for the late payment in July 2014 of the June 2014 required principal payment and will resume making the quarterly principal payments in accordance with the terms of the Term Loan in September 2014." In the subsequent 10-Q filed for the quarter ended September 30, 2014, UDF III disclosed that it "obtained an extension . . . for the September 2014 required principal payment to December 21, 2014 and will resume making the quarterly principal payments in accordance with the terms of the Term Loan at that time." Continuing this pattern, in the 10-Q filed for the quarter ended March 31, 2015, UDF III disclosed that the lending bank had "waived any default in connection with the late payment of the required principal payment on March 21, 2015." Why does UDF III struggle to make $1.25mm quarterly amortization payments on its debt if it has $390mm of assets in the form of interest bearing loans? Does Whitley Penn have any reason to believe that UDF III is not in good financial standing? Does Whitley Penn have any reason to believe there is doubt about the entities ability to continue as a going concern?

8) The largest borrower of both UDF III and UDF IV is the same. This borrower accounts for 43% and 66% of the total loan balances for UDF III and UDF IV, respectively, according to 10-Qs for the quarter ended June 30, 2015. This borrower defaulted on a 2nd lien loan owed to UDF IV in June 2015 as well as a 1st lien owed to a senior lender according to deed records filed with Denton County. The appointment of substitute trustee was executed June 10, 2015, and was filed in Denton County. This document outlined that "Default has been made in the payment of the indebtedness secured by the Deed of Trust" and that "Beneficiary hereby requests the Substitute Trustee to sell the property described in the Deed of Trust." The senior lender effectively moved to enforce the deed and sell the land in order to be repaid by the proceeds of the sale. Given the materiality of this borrower to the financial condition of UDF III and UDF IV, has Whitley Penn questioned management about the solvency of this borrower and the implications to UDF III and UDF IV if this borrower is or becomes insolvent? If the borrower is insolvent, assets are likely materially overstated in the financial statements.

9) Why has the full extent of the relationship between UDF III and UDF IV's largest borrower not been disclosed to their shareholders as required by Auditing Standard No. 18, Related Parties? Below are examples that highlight the relationship between borrower and lender that are outside the typical relationship of a borrower and lender:

   a. The CEO of UDF III and UDF IV and the CEO of the largest borrower at one time (if not currently) jointly owned an entity that owned a private jet. Public records show that both, in the past, were members of the Texas limited liability company G-III N77BT, LLC. ***This was not disclosed in UDF III or UDF IV's Filings.***
   b. UDF I's 2014 financials, which were attached as an exhibit to UMT's 10-K filed with the SEC for the fiscal year ended December 31, 2014 (exhibit 99-2), disclosed that there was a 50/50 partnership formed between UDF I and an entity controlled by UDF III and UDF IV's largest borrower for the purpose of acquiring "finished home lots in Lakeway, Texas." ***This was not disclosed in UDF III or UDF IV's Filings.***
   c. The largest borrower and a private affiliate of UDF III and UDF IV, United Development Fund Land Opportunity Fund (UDF LOF), have a partnership through which a Dallas high-rise condominium building (The Stoneleigh) is owned. UDF IV has also issued a loan to the same entity that owns the high-rise. While it was disclosed that UDF IV issued a loan to an affiliate and that that affiliate is partially owned by UDF LOF, ***it was not disclosed in UDF III or UDF IV's Filings that UDF III and UDF IV's largest borrower also owns an economic interest in the high rise.*** The borrower's website suggests this and a search of the legal entity, Maple Wolf Stoneleigh, LLC, on the Texas Comptroller of Public Accounts website confirms that an entity controlled by UDF III and UDF IV's largest borrower is one of the members of the LLC.

While these are just a few examples that have been identified through public records, it appears that the relationship between lender and borrower goes far beyond that of a typical lender and borrower. Is Whitley Penn aware of these outside business dealings? If so, why have the full facts regarding the relationship between lender and borrower not been disclosed to the shareholders of UDF III and UDF IV? ***This borrower accounts for 43% of outstanding loans issued by UDF III and 66% of outstanding loans issued by UDF IV as of June 30, 2015, accounting for outstanding indebtedness owed by this borrower to UDF III and UDF IV of approximately $585 million combined.*** In Whitley Penn's opinion, has this relationship affected the decisions to extend this borrower's loans without compensation being paid to the relevant funds or how assets have been marked as fully collectable?

10) UDF IV issued a loan to its largest borrower during the fiscal year ended December 31, 2011. The primary intended use of the loan proceeds was to acquire two loans that UDF I, itself, had defaulted on according to the loan agreement between UDF IV and its largest borrower (see Exhibit 10-1 to UDF IV's 10-Q for the quarter ended September 30, 2011). Following the issuance of the UDF IV loan, this borrower agreed to pay $8 million to UDF I as part of a "profits interest agreement" in consideration for "advisory services and assistance" with the property securing UDF IV's loan. The payments were made by UDF IV's borrower, and UDF I recognized the income during the fiscal years ending December 31, 2011, and December 31, 2012. These disclosures were made in UDF I financials that were included as an exhibit to United Mortgage Trust's 10-K filed for the fiscal year ended December 31, 2012 (see Exhibit 99-2). When UDF I originally defaulted on the two loans, a substitute trustee was appointed to enforce the deed; however, while the loans were in default, the substitute trustee never foreclosed. The substitute trustee filed two "Substitute Trustee's Deed and Bill of Sale", the first on November 1, 2011, and the second on February 7, 2012, evidencing both the amount for which the Substitute Trustee sold the defaulted notes and the entity to which the notes were sold in the public records of Rockwall County, Texas. The amount that UDF

IV lent to its largest borrower was far in excess of the amount required to buy the notes from the Substitute Trustee. The excess amount was, however, ***more than sufficient to cover the amount paid by UDF IV's borrower to UDF I. Based on UDF I and UDF IV's disclosures as well as the public property records, it appears that UDF IV funds were in essence used to pay UDF I and its private limited partners.*** The loans which UDF I originally defaulted on were significantly impaired, the lending bank failed and the FDIC was appointed as receiver. Why were the details of this insider transaction not fully disclosed? Whitley Penn audits United Mortgage Trust and UDF IV and as a result, had access to all of this information. Why were the details of this insider transaction not disclosed to UDF IV shareholders? Is Whitley Penn aware of whether UDF IV funds were used to pay UDF I and not disclosed? Did Whitley Penn review the profits interest agreement? Was this an arms-length transaction? What "advisory services" and "assistance" were provided to justify the payment? If the same individuals manage UDF I and UDF IV, how was it determined that UDF I provided the services rather than UDF IV? Why did this payment accrue to the benefit of UDF I and its private limited partners rather than to UDF IV and its public shareholders, in general, but also specifically considering that UDF I could not repay the original lending bank on the loans in question?

11) As disclosed in the 10-K filed for the fiscal year ended December 31, 2014, UDF IV issued a loan to a homebuilding group, the proceeds of which were used to acquire a separate homebuilding group. The acquiring homebuilding group that received the loan was 75% owned by directors and officers of UDF IV (as disclosed). As such, directors and officers of UDF IV are now creditors of UDF IV via the loan to the homebuilding group which the directors and officers own. The directors and officers who own the homebuilding group also owe deficiency notes to United Mortgage Trust (an affiliate of UDF IV) through UMT Holdings (UMTH). According to SEC disclosures, a deficiency note arises "if the borrower or the Company [United Mortgage Trust] foreclosed on property securing an underlying loan, or ***if the Company foreclosed on property securing a purchased loan, and the proceeds from the sale were insufficient to pay the loan in full***, the originating company had the option of (1) repaying the outstanding balance owed to the Company associated with the underlying loan or purchased loan, as the case may be, or ***(2) delivering to the Company an unsecured deficiency note in the amount of the deficiency***." This appears to imply that a deficiency note is a realized loss, but is not extinguished and continues to remain an obligation of the original counterparty, in this case UMTH, an affiliate of UMT. UMTH is owned by 10 limited partners according to UMT disclosures in its 10-K filed for the fiscal year ended December 31, 2014. The same directors and officers of UDF IV that own a majority of the homebuilding group (previously mentioned) also own a majority of UMTH according to disclosures in UDF IV's 10-K filed for the fiscal year ended December 31, 2014. UMTH's principal asset is the fee stream generated by UDF IV (and UDF III, UDF V and UMT) to the respective external management entities. ***The unsecured deficiency notes (e.g. realized losses) bear interest at 1.75% (to the benefit of UMTH insiders and to the detriment of UMT shareholders) while the 10-year US Treasury currently yields 2.32%.*** In contrast, similar UMT deficiency notes owed by non-related parties to UMT bear interest at 14%. Why do insiders borrow at 1.75% when third parties borrower at 14%? Given Whitley Penn is the auditor of both UDF IV and UMT, it should be aware of both arrangements with the insiders. Has Whitley Penn considered whether the full extent of insider lending relationships between directors and officers and affiliates should be disclosed in accordance with Auditing Standard No. 18, Related Parties? Has Whitley Penn determined that these lending relationships do not create conflicts of interest that otherwise would need to be disclosed?

12) Several loans are secured by undeveloped land, that remains undeveloped land years after these loans were issued (2, 3, 5, 10 years in some cases). UDF IV discloses in its 10-K filed for fiscal year end December 31, 2014, that, while it ***may*** invest in loans secured by unimproved real property, it ***has not*** invested in loans secured by unimproved real property. Unimproved real property is defined by UDF IV as land that has no construction in process or no development or construction on such land is planned in good faith to commence within one year. If there are loans that are secured by unimproved real property 3 and 5 years after the loan was originated, how is this not materially misleading? ***These loans do not generate any cash, but do accrue larger and larger balances each quarter***. How is income being recognized for loans of this type that share these characteristics? Do the loans have PIK features where interest is capitalized into the loan balance? If so, are these activities treated as financing activities in the Statement of Cash Flows and are the non-cash transactions appropriately disclosed? Further, the loans in question are typically 2nd lien loans (presumably development loans) that are subordinate to 1st lien bank loans (presumably acquisition loans). If there are 1st lien bank loans and 2nd lien UDF IV loans secured by the same property and there is not any horizontal or vertical development, where did the tens of millions of dollars that were originally lent go? Is Whitley Penn aware of loans of this nature? Is Whitley Penn concerned at all that loan proceeds may have been misappropriated? Has Whitley Penn questioned management about the status of the underlying collateral, and why such collateral remains raw land and has not been improved multiple years after receiving loans that bear interest at 13%?

13) The theme of loans secured by unimproved property is a consistent one. When these loans are sold by and between affiliates, it should raise a significant red flag for any auditor, especially in light of Auditing Standard No. 18, Related Parties, which was issued in June of 2014. According to a disclosure in UDF IV's 10-K for the fiscal year ended December 31, 2014, UDF IV acquired a "participation interest . . . in a 'paper' lot loan from UDF III" to the largest borrower of UDF III and UDF IV on June 30, 2010. The UDF IV disclosure explains that the paper lot loan is secured by a pledge of equity rather than a real property lien, effectively subordinating UDF IV's loan to all real property liens. As UDF III was the initial originator of this loan, it also has a disclosure regarding the same loan. The UDF III disclosure in the 10-K for the fiscal year ended December 31, 2014 explains that UDF III originated an $8.1 million loan to its largest borrower in September 2009 and the loan bears interest at 15%. UDF III also discloses that it no longer holds any economic interest in the loan that it originated to the borrower. ***While UDF IV discloses that it acquired a "participation interest" in UDF III's loan, UDF IV does not disclose that UDF IV acquired 100% of the loan from its affiliate.*** Whitley Penn is the auditor for UDF III and UDF IV and should have had access to all of this information. Has Whitley Penn questioned management about why this loan was sold by UDF III to UDF IV, and why it has not been disclosed to UDF IV shareholders that UDF IV acquired 100% of the loan? How was it determined that this loan was an appropriate investment for UDF IV shareholders, but no longer an appropriate investment for UDF III shareholders? How was the market value of the loan determined at the time of the affiliate transaction? Did the external manager (management) receive origination fees for the origination of the same loan twice, once through UDF III and once through UDF IV? According to UDF IV's 10-Q filed for the quarter ended September 30, 2015, the outstanding balance of this loan is $17.8 million (vs. $8.1 million original principal balance when UDF III originated the loan). The underlying collateral is described as 401 acres (undeveloped) and 10 finished lots (developed) in Rockwall County, Texas. As such, the collateral appears to be almost exclusively undeveloped land ***six years after the loan was originally issued after the loan balance has more than doubled and after the loan was transferred between affiliates (with different public shareholder groups).*** All the while the loan has continued to accrue interest at 15%. The loan has been modified and extended four times. Has

Whitley Penn reviewed the facts and circumstances of this loan or opined on management's determination that full collectability of this loan is considered probable? How has Whitley Penn gained comfort that the carrying value of this subordinate loan is supportable? ***UDF IV has recognized $5.4 million of cumulative current income*** related to this loan for the fiscal years ending December 31, 2013 and December 31, 2014 as well as the nine months ended September 30, 2015. ***UDF IV has disclosed less than $1 million of cash receipts attributable to this loan implying that the vast majority of all income recognized is non-cash.*** Is Whitley Penn comfortable that the loan assets and related income are not misstated? Periodically, the accrued interest receivable balance is transferred to loan balance, which is mechanically how the loan balance has doubled. Is this reflected as a financing activity in the Statement of Cash Flows? Is the non-cash transaction appropriately disclosed? As a REIT, UDF IV is required to distribute at least 90% of its taxable income to shareholders in order to maintain its taxable status as a REIT. Conceptually, given that a significant number of loans increase in size, but do not generate cash, has Whitley Penn considered how UDF IV funds the required distributions to its shareholders since a large portion of the current income is non-cash?

14) ***UDF I originated a 2nd lien loan to the largest individual borrower of UDF III and UDF IV*** (current as of September 2015) in 2004 according to deed records filed with Denton County, Texas. This loan was secured by land in Denton County. ***UDF III originated a 2nd lien loan in 2007 to the same entity, secured by the same piece of land*** (verified by comparing the legal description of the land in the respective deeds filed with the county). The financial (and housing) crisis and the great recession followed over the years subsequent to the origination of the UDF III loan. Throughout this period, the land securing the loan was never developed. The loan was modified and increased by UDF III in 2009, 2012, and 2014, throughout the recession and into the recovery. The land remained undeveloped throughout this period, and the borrower's own website describes the status of the development as "raw land." ***In June 2015, UDF V originated a new loan to the same borrower, secured by the same land.*** The proceeds of the UDF V loan were used to repay the loan owed to UDF III according to the borrower's statement that was filed with the deed of trust in Denton County. UDF V filed an 8-K on June 11, 2015 announcing that it had originated this loan, which it disclosed was subordinate to a senior loan that remained outstanding. Seven months following the origination of the new UDF V loan that bears interest at 13%, ***there are still no signs of construction at the development site***. UDF V did not disclose that the entity receiving the loan was the single largest borrower of both UDF III and UDF IV or that UDF III had a loan outstanding to the same entity at the time the new loan was issued by UDF V. Whitley Penn is the auditor of both UDF III and UDF V. Has Whitley Penn considered whether this information would be relevant to an investor in UDF V and whether it should be disclosed as required by Auditing Standard No. 18, Related Parties? Has Whitley Penn questioned management as to why the collateral for a 2nd lien development loan remains undeveloped land 10 years after UDF I originated a loan and 8 years after UDF III originated a loan? Does Whitley Penn consider whether transactions such as this loan are arms-length, market transactions when forming its opinion as to the accuracy of financial statements and marking of assets? How has Whitley Penn gained comfort that the carrying value of this loan is not overstated?

15) As has previously been discussed, UDF III has had issues making small $1.25 million quarterly amortization payments on its lone $15 million credit facility that has $10 million outstanding. A portion of the credit facility is a term loan with the remaining portion structured as a line of credit. According to disclosures in UDF III's 10-Q filed for the quarter ended March 31, 2015, the "line of credit matures on June 21, 2015". According to disclosures in UDF III's 10-Q filed for the quarter ended June 30, 2015, UDF III entered into a loan modification and extension

agreement with its lender in June 2015 which "extended the due date of the June 21, 2015 quarterly principal payment to September 10, 2015 . . . the Line of Credit, as amended, matures on September 21, 2015." The end result was an extension of both principal amortization payments on the term loan and the maturity of the line of credit from June 2015 to September 2015. Given UDF V originated a loan in June 2015 that was used to repay the loan owed to UDF III by UDF III's largest borrower, is Whitley Penn at all concerned that UDF V funds were used by UDF III directly or indirectly to make payments due on its credit facilities? As the independent registered public accounting firm for both UDF III and UDF V, Whitley Penn should have had access to all of this information and financial activity.

16) In continuation of the previous set of questions, UDF V specifically discloses in its S-11, filed with the SEC on February 26, 2014, that it "will not make loans to, or participate in real estate investments with, or provide credit enhancements for our affiliates or affiliates of our co-sponsors, our advisor entities or our asset manager, including other United Development Funding funds." ***Based on its disclosures, UDF V has only issued seven loans to date; it is not disclosed that of the seven loans, four have been issued to UDF III and UDF IV's largest borrower.*** A search for the entities that have received loans from UDF V on the website for the Texas Comptroller of Public Accounts (taxable entity search) shows that this is the case. Further, not only have the loans been issued to UDF III and UDF IV's largest borrower, but each of the four loans was issued to an entity that previously (and at the time of issuance) had a loan outstanding due either to UDF III or UDF IV. In the specific loan example detailed above, the public records actually show that UDF V funds were used to repay UDF III. It appears that this is also the case for the other loans to UDF III and UDF IV's largest borrower based on the fact patterns. As such, it appears that the principal function of UDF V, to date, has been to provide loans to repay UDF III and UDF IV for older loans at the expense of UDF V shareholders. Whitley Penn is the auditor for UDF III, UDF IV and UDF V. As such, Whitley Penn should be familiar with the entities that have received loans from multiple UDF entities. In its review, does Whitley Penn question whether these are arms-length transactions? Is Whitley Penn aware of UDF V loan proceeds being used to repay UDF III and UDF IV loans? Has Whitley Penn questioned management as to the accuracy of the UDF V disclosure that states that UDF V will not make loans to or participate in investments with affiliates or whether its actions are consistent with the spirit of the disclosure? Has Whitley Penn considered whether not disclosing the relationship of this borrower to its affiliates (UDF III and UDF IV) is a material omission from UDF V's financial statements? Does Whitley consider this to be a concentration issue that needs to be disclosed?

cc: [redacted]

Phillip K. Marshall, Independent Trustee, Chairman of Audit Committee, United Mortgage Trust
J. Heath Malone, Independent Trustee
Steven J. Finkle, Independent Trustee
William M. Kahane, Trustee
Eustace W. Mita, Independent Trustee
Bobby Ray, Trustee
Charles M. Gillis, Independent Trustee
Michele A. Cadwell, Independent Trustee
Roger C. Wadsworth, Independent Trustee
Leslie J. Wylie, Independent Trustee
Hollis M. Greenlaw, Chairman of the Board of Trustees and CEO UDF IV

Todd Etter, Chairman and Partner UDF IV
Michael Wilson, Executive Vice President, Director and President UDF IV
Cara Obert, Chief Financial Officer, Partner UDF IV
Ben Wissink, President, Partner UDF IV
Melissa Yougblood, Partner UDF V
Stacy Dwyer, Chief Operating Officer UDF IV
Dave Hanson, Chief Accounting Officer UDF IV
Brandon Jester, Director of UMTH Land Development
T. Stuart Ducote, President and CFO, UMT