Letter from Kyle Bass

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.