

AFFIDAVIT OF HOLLIS M. GREENLAW

STATE OF TEXAS

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COUNTY OF TARRANT

BEFORE ME, the undersigned authority, on this day personally appeared Hollis M. Greenlaw, known to me to be the person whose name appears below, who upon being duly sworn, deposes and states the following:

1. My name is Hollis M. Greenlaw. I am over eighteen (18) years of age. I have never been convicted of a felony. I am of sound mind, and I am fully competent to make this affidavit. I have personal knowledge of the facts stated herein, which are true and correct.

My Background and Qualification to Make This Affidavit

2. I received a Bachelor of Arts degree from Bowdoin College in 1986, where I was a James Bowdoin Scholar and elected to Phi Beta Kappa. I received my Juris Doctorate from Columbia University School of Law in 1990, and I am currently a member in good standing of the Texas, District of Columbia and Maine (inactive member in Maine) Bar Associations. After I graduated law school, I practiced business and taxation law at Williams & Connolly in Washington, D.C.

3. I am a Director of United Development Funding, Inc. ("UDF Inc."), which is the general partner of Plaintiff United Development Funding, L.P. ("UDF I"), and a Director of United Development Funding II, Inc. ("UDF II Inc."), which is the general partner of Plaintiff United Development Funding II, L.P. ("UDF II"), and I have served continuously in those roles since the formation of UDF Inc. and UDF II Inc. in 2003-4. I am a founder of (i) UMT Holdings, L.P. ("UMTH"), (ii) UMT Services, Inc. ("UMT Services"), which is the general

partner of UMTH, (iii) UMTH Land Development, L.P. ("UMTH LD"), which is a subsidiary of UMTH and which manages the UDF Funds (as defined below) and (iv) UMTH General Services, L.P. ("UMTH GS") which is a subsidiary of UMTH that provides services for the UDF Funds. I have served as an officer of UMT Services (President or Chief Executive Officer) continuously since its inception in 2003. UMTH LD is the general partner of Plaintiff United Development Funding III, L.P. ("UDF III"), and UMT Services is the general partner of UMTH LD. I am Chief Executive Officer and chairman of the board of trustees of Plaintiff United Development Funding IV ("UDF IV") and have served continuously in those roles since its formation in 2008. I am the Chief Executive Officer and chairman of the board of trustees of Plaintiff United Development Funding Income Fund V ("UDF V") and have served continuously in those roles since its formation in 2013. I am the Chief Executive Officer of UDF Land GP, LLC, which is the general partner of UDF Land GenPar, L.P., which in turn is the general partner of Plaintiff United Development Funding Land Opportunity Fund, L.P. ("UDFLOF LP") and the managing member of Plaintiff United Development Funding Land Opportunity Fund Investors, LLC ("UDFLOF LLC"), and these Plaintiffs are also managed by UMTH LD. UMTH GS is the advisor to United Mortgage Trust ("UMT"). Throughout this affidavit, I will refer to Plaintiffs collectively as "UDF Funds" or "UDF."

4. The UDF Funds are externally managed, a common practice also utilized by other real estate investment funds, such as those under the umbrella of industry giant Starwood Capital Group.

5. Throughout this affidavit I refer to certain facts regarding UDF's business. Unless otherwise indicated, these facts all apply to UDF's business as of December 10, 2015, the date of Defendants' initial anonymous attacks.

UDF's Business Model

6. The UDF Funds are based in Grapevine, Texas. I, along with Todd Etter, founded UMTH, which manages the assets for the UDF Funds, in 2003. Mr. Etter and I identified an opportunity to build a family of companies that would offer a full suite of debt and equity capital solutions to leading developers and homebuilding companies. Our plan was to assist, through capital and debt, the creation of new finished lot and housing inventory to serve markets in Texas. Our business plan included supporting developers and homebuilders in all phases of development and evolved to include financing the construction of single-family homes, from the acquisition of land and the development of finished lots to the construction of single-family homes.

7. The UDF Funds (other than UMT) primarily concentrated their investments in Texas. The UDF Funds concentrated their investments in Texas because we believe the Texas real estate markets, although temporarily weakened in 2007 by the financial crisis, remain healthy due to strong demographics, economies and job growth, balanced housing inventories, stable home prices and high housing affordability ratios. Texas has favorable residential real estate market characteristics that help mitigate housing risk. For example, Texas exhibits positive fundamentals in the primary factors affecting new home sales: home price stability; home affordability; balanced housing supply and demand; job growth; the relative strength of the economy and consumer confidence; household formations and population growth. Texas also has structural protections that mitigate housing risk as evidenced by Texas' relatively stable performance in the housing bubble and subsequent crash during 2007-2009.

8. At the end of 2014, Texas was the largest single-family homebuilding market in the country measured by single-family building permits. Houston and Dallas/Fort Worth (DFW)

were the first and second largest markets in the country, and Austin was the sixth largest. At the end of 2014, Texas had the 12th largest Gross Domestic Product in the world. Fifty-two of the Fortune 500 companies were headquartered in Texas as of 2014, 21 of which were in DFW.

9. Data that UDF analyzes regularly from Metrostudy (a leading provider of market information to the housing and residential construction industry), Residential Strategies, Inc. (another leading provider of market information in selected Texas markets to the housing and residential construction industry), the Department of Housing and Urban Development, the Real Estate Center at Texas A&M University and other data providers has consistently illustrated that Texas homes have higher affordability than the national average.

10. While the creation of jobs and the formation of new households in Texas has increased the demand for housing in Texas over the past several years, the Great Recession (the sharp decline in economic activity around 2007-2009, with continuing effects thereafter) and the ensuing global credit crisis drastically reduced the available funding for finished lot development and home construction. Despite strong fundamentals in housing, local and regional Texas banks remained unable or unwilling to lend to developers and homebuilders at previous levels, particularly in early-stage land acquisition and development loans. Substantially all land development is undertaken by private developers and over 70% of new homes in the United States are sold by private homebuilders. Thus, without alternative funding sources for new development and the construction of homes, the demand for housing would far exceed the supply of finished lots and houses and dramatically drive up prices in Texas.

11. This confluence of events – strong growth in demand for Texas homes and a supply constraint after the Great Recession of capital to support much-needed housing development – allowed the UDF Funds to create a successful business as “non-bank” finance

companies to step in and support residential real estate development and home construction in Texas.

12. In 2014, UDF IV began expanding its lending activities outside of Texas, following the housing recovery into the states of North Carolina, South Carolina and Florida. UDF IV acquired new clients, including a public homebuilder, the largest private homebuilder in the country and the developer associated with the largest private homebuilder in the Charlotte, North Carolina market.

UDF's Executives and Employees

13. UDF's management team and principals include seasoned real estate professionals, with over 175 years of collective real estate experience. For example, prior to co-founding UMTH, Todd Etter had over twenty-nine years of experience in both the Texas and the United States real estate industries, including experience in homebuilding, land development and real estate finance. Stacey Dwyer, the Chief Operating Officer of UDF IV, worked 22 years for D. R. Horton, Inc. a leading national homebuilder (including serving in the roles of Executive Vice President and Treasurer) before joining UDF in 2014. Ms. Dwyer was also an auditor with Ernst and Young in Fort Worth. Brandon Jester, the Director of Asset Management at UMTH Land Development, worked as the Senior Land Administrator of Highland Homes, one of the largest regional homebuilders. Ben Wissink, President of UMTH LD and Chief Operating Officer of UMT Services previously worked as the Controller and analyst for the DFW land division of the national homebuilder Lennar Corporation. Melissa Youngblood, Chief Operating Officer and Vice President of UMTH LD and Executive Vice President of UMT Services, practiced law for 18 years before joining UDF. UDF also employed six asset managers, all of whom had significant real estate experience prior to joining UDF, including management

positions with David Weekley, Toll Brothers, Inc., Grand Homes, Buffington Capital Holdings, Walton Development and Management USA, Wilbow Corporation and Beazer Homes USA. UDF also has a Senior Collateral Manager, Stephanie Andreatta, who had over 11 years of banking experience including loan administration, branch operations, branch management, consumer lending, managing loan operations and managing interim construction financing.

14. Prior to Defendants' attacks on UDF's business, UMTH had 67 full-time employees. This included a 21-person accounting department, including six Certified Public Accountants, all of whom reported to our Chief Financial Officer Cara Obert. The remaining employees assisted in the day-to-day operations. On December 31, 2017, as a result of Defendants' attack on UDF, UMTH had 45 employees. The employee count has been reduced by 22 employees as a direct result of Defendants' attack.

The Development Process and UDF's Role

15. The activities of a developer in the single-family residential development process involve several steps during its lifecycle. These include purchasing the land, designing and engineering the subdivision, including the utilities and streets to be installed and any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including water, sewer and drainage facilities, as well as telephone and electric service), in some cases establishing municipal reimbursement districts for the reimbursement of costs associated with public improvements, and selling improved lots to builders, developers or other third parties.

16. Larger residential developments are usually developed in multiple phases, which means that it is common for a large residential development project to have a life of 6-10 years or sometimes even longer, depending upon economic, market or other conditions.

17. The UDF Funds provide developers and homebuilders with a diverse range of capital sources including equity investments, joint venture participations, senior loans, subordinated loans and credit enhancements. Generally, credit enhancements allow our borrowers to obtain a bank loan at a more favorable loan rate than they would otherwise be able to obtain, because UDF provides a loan guarantee. Prior to Defendants' attack, UDF was able to provide this credit enhancement because the banks viewed UDF as strong credit. UDF is paid a credit enhancement fee by the borrower as compensation for providing this service.

18. Prior to investing in a project or funding a loan, UDF applies a rigorous underwriting review, including a multi-step project evaluation. UDF conducts site visits and prepares an economic feasibility study to determine if the developer or builder can justify the project assumptions and estimates and if the project can support the cost of the UDF loan over time. UDF performs an engineering due diligence, which generally includes a review of project plans, civil engineering, the availability of utilities, permits and reimbursement districts and a review of costs. UDF reviews the lot purchase contracts, home sales data, market absorption data, current economic conditions, trends and projections in housing starts and risk analysis.¹

¹ UDF monitors the economic fundamentals in each of the markets in which it operates by analyzing demographics, household formation, population growth, job growth, migration, immigration and housing affordability. UDF also monitors movements in home prices and the presence of market disruption activity, such as speculator activity that can create false demand and an oversupply of homes in a market. UDF also analyzes new home starts, new home closings, finished home inventories, existing home sales, existing home prices, foreclosures, absorption, prices with respect to new and existing home sales, finished lots and land and the presence of sales incentives or discounts in a market. The data sources UDF monitors and

UDF also analyzes the exit strategies, identifying potential alternative buyers and uses for lots as well as various pricing models to facilitate sales in the event the market changes.

19. Once an investment is made or a loan is funded, UDF's asset managers are responsible for monitoring site improvements, senior draws, application of funds and administration of development contracts. UDF also monitors lot sales and corresponding debt repayment rates. A UDF asset manager is responsible for monitoring the performance and payment of the assets they are monitoring. Asset managers meet frequently (often weekly) with UDF's developer and homebuilder clients, and UDF holds periodic asset management meetings to review and discuss the progress of assets in UDF's portfolio.

20. UDF's receipt of payment on its loans follows different processes and timing depending upon whether the loan is an acquisition and development loan or a home construction loan. Home construction loan interest is generally paid by the borrower to UDF monthly, while the principal is repaid when a home is sold to a consumer. In acquisition and development loans, UDF provides cash to purchase the land and complete development. The note accrues interest while the borrower develops the property. It is common in the industry that interest accrues on the acquisition and development loan until there are liquidity events associated with the collateral.

21. For example, there are several liquidity events that may provide cash from a development. For example, a borrower may work with another lender to obtain a senior loan at a

utilizes in its investment decisions includes: SEC Public Disclosures, U.S. Census Bureau, National Association of Realtors, National Association of Homebuilders, Federal Housing Finance Agency, Freddie Mac, Fannie Mae, Federal Reserve Banks, Corporate Debt Rating Agencies, Investment House Proprietary Data, Industry/Analyst Presentation Materials, State and University Real Estate Divisions, Public Homebuilder Earnings Calls, Financial News Sources, Proprietary Industry Knowledge and proprietary independent market studies from Residential Strategies, Inc. and Metrostudy.

lower cost of capital, which will generally result in a partial payment to UDF. A developer will frequently subdivide the land into several phases and develop those phases one at a time, rather than developing the entire property at once. After the developer has done entitlement and engineering work the value of the land generally increases and the developer can sell a phase (which is referred to as a “pod”) to a homebuilder or another developer and use those proceeds to make a partial payment to UDF or other lenders. After development of a phase is complete and finished lots are ready for home construction, the value of the lots generally increases again, and the developer will sell the finished lots to a homebuilder. These sales may happen as bulk sales of many lots at once or over time according to a pre-planned schedule. Generally, any lot purchase contracts are pledged as additional collateral for the UDF loans.

22. Additionally, a developer may also pay down a loan with funds received as reimbursements of development costs under agreements with districts and cities, for example a Municipal Utility District (“MUD”). A MUD is a political subdivision of the State of Texas authorized by the Texas Commission on Environmental Quality. The purpose of the MUD is generally to provide various services such as water, sewer and drainage and other utility-related services within its boundaries. A developer can obtain reimbursements from the MUD for expenses incurred to develop such services. UDF generally has a lien on MUD proceeds pledged by a borrower for a specific project, and MUD proceeds are used to make a partial repayment to UDF. Information regarding MUDs is publicly available in the real property records and at the website for the Texas Commission on Environmental Quality, including date of formation, status and bonding capacity.

23. The UDF Funds’ loans are generally secured by real property collateral. The assets securing the UDF Funds’ loans are generally in desirable locations with positive supply

and demand fundamentals. UDF's loans are generally secured by one or more of the following: development projects, finished lots and lot purchase contracts, pledges of equity interest, homes under construction and MUD reimbursements. As the projects progress through the development phases, the collateral correspondingly increases in value.

The Developers UDF Works With

24. UDF attracts and concentrates its acquisition and development lending activities with seasoned and accomplished land developers. UDF looks for developers that have a track record of successfully identifying multi-year, multi-phase single-family residential communities. Our developer clients have established relationships with state and local governments and have experience designing communities and receiving approvals. Our developers have good relationships with banks, allowing them to secure financing and refinancing opportunities. Our developer clients also have good relationships within the developer and homebuilding community, giving them the ability to sell pods and finished lots.

25. UDF considers the prior performance of the developer, whether the developer has relationships with homebuilders on the local, regional and national level, whether the developer has homebuilding vertically integrated into its business structure, and whether the developer has relationships within the financial community.

26. UDF developer clients provide finished lots to publicly-owned homebuilders, such as D.R. Horton, Inc., Lennar Corporation, Pultegroup, Inc., KB Home, Meritage Homes, LGI Homes, Inc., Beazer Homes USA, Inc., Toll Brothers, Inc., AV Homes, Inc., Taylor Morrison Home Corporation, M/I Homes, Inc. and Century Communities, Inc., as well as large regional homebuilders such as David Weekley Homes, First Texas Homes, True Homes, Megatel Homes, Gehan Homes, Brohn Homes (now part of Berkshire Hathaway), Ashton

Woods, NewLeaf Homes, Bella Vista Homes, Liberty Home Builders, Perry Homes, Drees Homes, Highland Homes, Pacesetter Homes, Colina Homes, Historymaker Homes, RSI Communities, Scott Felder Homes, Wilshire Homes, Sitterle Homes, Darling Homes (now part of Taylor Morrison Home Corporation), Centerra Homes, Bloomfield Homes, American Legend Homes, Crescent Signature Homes, Buffington Homes and Scott Homes.

27. UDF's largest group of borrower entities, including CTMGT, LLC and its subsidiaries, are affiliates of Centurion American, L.P. ("Centurion"). Centurion has a strong track record as a developer. Centurion has extensive experience with many Texas municipalities and local governments, and generally gets their support in entitling Centurion's projects. Centurion routinely gets the entitlements needed from the government, including the desired density to make projects profitable. Centurion routinely obtains municipal reimbursements and other support that Centurion needs from municipalities to bring projects to fruition. Centurion has a long track record of being able to put together MUDs and Public Improvement Districts (PIDs). Centurion was the first developer in the state of Texas to create a PID. A PID is a district put together by a city, whereby the city raises bond funds and advances money to the developer during the development process to pay for water, sewer, and public improvements. In contrast, a MUD provides reimbursement after the municipal tax base has been increased by substantial home construction in the development and after the developer provides documentation of the development dollars incurred, which may be months or even years after the developer has incurred the development costs. Centurion has relationships with the top management at some of the largest production home builders, such as D.R. Horton, Inc. and Lennar Corporation. Production home builders are important to developers because they purchase lots to construct homes at a more rapid pace than custom homebuilders.

28. Founded in 1990, Centurion has successfully developed almost 25,000 single-family lots in dozens of premier communities surrounding North Texas. Centurion is currently developing over seventy master-planned communities in Texas and also redeveloped the historic Statler Hilton Hotel. Centurion has received over forty awards during the almost thirty years it has been in business, including Chamber of Commerce Business of the Year (2008), the John Harbin Visionary Award (2013), Greater Fort Worth Builder's Association Developer of the Year (2013) and Dallas Home Builders Community of the Year (2014). Centurion has won multiple awards for its developments, including many that were for UDF-financed projects.

29. A December 26, 2017 article written by a long-time real estate editor for the Dallas Morning News shows the high regard for and reputation of Centurion and CEO Mehrdad Moayedi in the DFW community. The article is titled "*Dallas Developer Mehrdad Moayedi lands on his feet with deal after deal.*" The article covers a long list of Centurion's successful developments and concludes Moayedi "may be the most resilient real estate player I've encountered in almost 40 years of writing about the business...Moayedi is on my list of nominees for Dallas developer of the year." A true and correct copy of the article is attached hereto as Annex I.

30. UDF's homebuilding clients are generally larger regional homebuilders, and have included Megatel Homes, Buffington Homes, Crescent Signature Homes, NuWay Homes and Colina Homes.

Our Investors

31. The UDF Funds have primarily funded their operations by raising equity capital through FINRA-member independent broker-dealers. The UDF Funds had raised more than \$1.0 billion from over 30,000 investors from inception until the Defendants' attacks.²

32. The majority of UDF's investors are small retail investors. In return for the higher (fully disclosed) risk of a real estate investment, they have the opportunity to receive a higher rate of return.

Other Sources of Capital - Banks

33. Prior to Defendants' attack, UDF also utilized credit facilities with various banks and other institutions as additional sources of capital to lend to developers and homebuilders. Banks considered UDF Funds to be a good credit risk and generally lent to UDF on favorable terms. Thus, UDF was able to borrow from the banks at low interest rates and lend this capital to its clients at higher rates. Prior to Defendants' attack, UDF had credit facilities of over \$200 million. At the time of Defendants' attack, UDF had outstanding loans and lines of credit with Legacy Texas Bank, Bank SNB, Origin Bank (formerly Community Trust Bank), Independent Bank, Capital Bank of Texas, American Momentum Bank, Texas Capital Bank, Prosperity Bank, Affiliated Bank, Southwest Bank and Veritex Community Bank.

² UDF, like other alternative investment real estate sponsors such as Dallas-based Highland Capital Realty ("Highland"), raises capital through blind pool offerings structured as non-traded public REITs and limited partnerships. Like UDF, Highland charges sales commissions (e.g. dealer manager fees and broker dealer/rep sales commissions) to investors, although Highland has set up an affiliated entity to serve as dealer manager and retain the dealer manager fees, whereas UDF's dealer manager fees were paid to an unaffiliated dealer manager to distribute its offerings (UDF IV, UDF V and UDF LOF).

The Relationship Between the Various UDF Funds

34. The different UDF funds may focus on different phases of development. For example, UDF I, II, III and V focused their investments on the acquisition and development phase, whereas UDF IV provided acquisition and development loans but also offered finished lot loans, finished lot banking and home construction loans. The decision as to which funds will invest in which project and each phase of the project is governed by the applicable Allocation Policy Agreement and/or Participation Agreement by and among the funds. Such agreements are publicly filed by UDF. A true and correct copy of such agreements from UDF V's June 6, 2014 S-11/A Registration Statement filed with the SEC, and UDF IV's August 5, 2008 S-11 Registration Statement are attached hereto as Annex 2. Generally, the decision is based upon the cash available in each fund, and each fund's particular investment parameters.

UDF's Success and Continued Growth Before Defendants' Attack

35. The UDF funds have collectively funded over \$2.7 billion in equity investments and loans to our clients. These investments have resulted in the creation of over 200 residential communities, containing thousands of single family homes.

36. UDF has participated in the capital structure of many award-winning communities, including The Villages of Woodland Springs, Sendera Ranch, Trophy Club, Williamsburg, Verandah, The Residence at the Stoneleigh and The Dominion.

37. From inception through September 30, 2015, the UDF Funds received over \$1.3 billion in repayments and returned over \$493 million to investors through cash distributions, dividend reinvestment programs (DRIPs) and redemptions. Since the beginning of Defendants' attack on December 10, 2015, UDF has made repayments of over \$211 million on the notes

payable and lines of credit that were outstanding. UDF's assets as of September 30, 2015 were over \$1.4 billion. At the time of the attack, the two largest funds were UDF III and UDF IV.

38. From its inception in 2005 to December 2014, UDF III had originated 62 loans totaling over \$600 million, and approximately two-thirds of the loans had been repaid in full. As of September 30, 2015, UDF III had assets of approximately \$391 million. Net income for the nine months ended September 30, 2015 totaled approximately \$31.2 million. From inception through September 2015, UDF III distributed approximately \$264 million to its investors through cash distributions and DRIP and repurchased \$12 million of its limited partnership interests.

39. As of December 31, 2014, UDF IV had originated or purchased 171 loans totaling over \$1 billion, 40 of which had been repaid in full. UDF IV's assets grew from \$336.5 million in 2012 to \$570.9 million in 2013 and to \$682.2 million in 2014. During that same time period, its revenue grew from \$27.6 million to \$87.9 million while net income grew from approximately \$13.9 million to approximately \$50.1 million. From inception through September 30, 2015, UDF IV distributed approximately \$164 million to its investors through cash distributions and DRIP and repurchased approximately \$41 million of its shares.

40. On June 4, 2014, to create liquidity for its shareholders and to gain access to capital markets to facilitate future growth, UDF IV listed its common shares on Nasdaq under the ticker symbol "UDF." From its listing on Nasdaq until December 10, 2015 (the beginning date of Defendants' attack described herein), UDF IV had been a consistently strong performing commercial mortgage REIT, with its shares trading in a range of \$16.02 to \$19.95, and virtually always at a premium to book value. In June 2015, UDF IV's market capitalization qualified it

for inclusion in the Russell 2000 Index. Attached hereto as Annex 3 is a true and correct copy of the UDF IV stock price chart through October 31, 2016.

41. UDF IV had performed very well in comparison to its peers and was a high performer right up until Defendants' attacks. For example, an October 23, 2015 Weekly Commercial Mortgage REIT Update published by investment bank Keefe, Bruyette & Woods reports that UDF IV's share price of \$17.99 equated to 1.09 times the most recent quarter book value, and was yielding a 9.1% dividend. Starwood Property Trust, Inc., a well-known REIT that is nine times larger than UDF IV, was trading at 1.18 times most recent quarter book value and was yielding a 9.4% dividend. Likewise, the December 4, 2015 report shows UDF IV trading at 1.05 book value, and yielding a 9.4% dividend, the same yield as Starwood. True and correct copies of the relevant pages of reports are attached hereto as Annex 4.

42. UDF V, our most recent fund, sought to sell 37,500,000 common shares of beneficial interest for \$20 per share and 13,157,895 common shares of beneficial interest pursuant to our distribution reinvestment plan for \$19 per share for total offering proceeds of \$1.0 billion. Prior to Defendants' attack, UDF V had been steadily selling shares in the fund. UDF V's assets grew from \$23 million as of December 31, 2014 to \$55 million as of September 30, 2015. During that same time, its revenue grew from \$152,000 in calendar year 2014 to \$3.1 million for the nine months ended September 30, 2015. From inception through September 30, 2015, UDF V distributed approximately \$1.6 million through cash distributions and DRIP to its investors.

43. As part of its growth strategy, in 2015, UDF IV was also working on a finished lot securitization and was in the rating process with Standard and Poor's for this finished lot securitization, which would have raised approximately \$75-100 million. UDF IV was also

preparing to place a \$125 million to \$175 million general obligation credit facility just before Defendants' attack.

44. These new capital raises were expected to support projects our clients had presented to UDF for potential future financing (pipeline). As of December 2015, before Defendants' attack, our clients had submitted proposals for hundreds of millions of dollars in future projects.

Interactions with J.Kyle Bass Prior to Defendants' Attacks

45. Prior to Defendants' attack on UDF, I was aware that J. Kyle Bass ("Bass") managed a hedge fund based in Dallas. I was also aware that Bass was involved in Texas real estate investments beginning in at least 2008. Bass was involved in various real estate development entities with Jonas Woods ("Woods"), a Dallas real estate investor who acquired distressed properties.

46. In 2008, plaintiff UDFLOF LP became a limited partner in a residential development fund managed by Bass and Woods called Hayman Woods Residential Strategies Fund, L.P. ("Hayman Woods"). The stated strategy of the fund was to "acquire, hold, maintain, operate, develop, lease, sell, manage, improve, mortgage, encumber and otherwise use for profit, direct or indirect interests in Real Property Interests, or to provide capital (whether debt, equity or both) to owners, managers and developers of Real Property Interests, whether office, warehouse, retail, land, multi-family residential or hotel properties." UDFLOF LP originally planned to invest \$2 million in Hayman Woods' fund.

47. The first investment Hayman Woods made was a participation in a development loan for a condominium project in Florida. The interest rate was 12% with an additional 2% exit fee, as well as other fees. Consistent with the practice in the industry, the Hayman Woods' loan

provided for the accrual of interest on the loan. A true and correct copy of the correspondence from Hayman Woods is attached hereto as Annex 5.

48. The second set of investments Hayman Woods intended to make was for lot development projects in South Phoenix. I wrote to Bass, explaining our concerns about South Phoenix as an investment at that time due to foreclosures, broken communities, bankrupt homebuilders, excessive supply, declining demand and no clear exit strategy. I also expressed my concern that Bass was pushing undesirable deals, because his fund had excessive overhead and no attractive transactions or deal sources. I was also uncomfortable with and had objected to the fund's practice of charging management fees on the unfunded portion of capital contributed as opposed to fees based on invested assets. I told Bass that UDFLOF LP had originally invested with Hayman Woods out of deference to Bass, but that I was now uncomfortable with that path, given what I had seen of his planned investment strategy. I told Bass we wished to exit Hayman Woods. Bass' response suggested to me that he was upset with my comments and UDFLOF LP's desire to exit his fund. However, I could not in good conscience continue to invest funds with Bass' Hayman Woods. A true and correct copy of our correspondence is attached hereto as Annex 6.

49. In 2009, UDFLOF LP withdrew its investment with Hayman Woods.

50. In 2009, Hayman Woods made a bid in a bankruptcy proceeding to purchase Stoneleigh Residences, a partially built luxury condominium building in uptown Dallas that had fallen victim to the financial crisis and ended up in bankruptcy. Hayman Woods lost its bid to Centurion. A true and correct copy of the bankruptcy court order awarding the bid to Centurion over Hayman Woods is attached hereto as Annex 7.

The Prelude to Defendants' Attack on UDF-Defendants Take a Large Short Position in UDF IV and Send an Anonymous Letter to UDF's Accountants

51. In 2015, I noticed that the short interest in UDF IV (UDF's one publicly-traded fund) had been growing. Prior to that time, there had been very little short interest in UDF IV. Short interest was 208,016 shares as of January 15, 2015, less than 1% of outstanding shares. It increased throughout 2015, to over 1 million shares in February 2015, over 2 million shares by May 2015, and by November 30, 2015, short interest was 4,175,642 shares. Attached hereto as Annex 8 is a chart of UDF IV's short interest from the time it began publicly trading until the end of 2016. UDF obtained this data from Nasdaq.

52. On November 24, 2015, UDF IV filed an 8-K stating that its public accounting firm, Whitley Penn, would not stand for reappointment following the expiration of the current audit engagement period, but that there were no disagreements between UDF IV and the accountants and no reportable events found by Whitley Penn. The 8-K also stated that the 2013 and 2014 UDF IV financials Whitley Penn had prepared "did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, scope or accounting principles" and that for those fiscal years and the interim period from January 1, 2015 through September 30, 2015 "there were no disagreements between [UDF IV] and Whitley Penn on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure . . ." A true and correct copy of that filing is attached hereto as Annex 9. The statements contained in the 8-K were true and accurate.

53. The November 24, 2015 8-K also contained Exhibit 16.1, a letter from Whitley Penn to the Securities and Exchange Commission ("SEC") concurring with the statements made

in the 8-K regarding its firm. See, Annex 9. UDF IV's stock price did not respond negatively to this filing.

54. On December 7, 2015, Jeff Lawlis, the audit partner for UDF IV from Whitley Penn, informed UDF that Whitley Penn had received an anonymous letter. A true and correct copy of Mr. Lawlis' email forwarding the letter is attached hereto as Annex 10. The purpose of the letter appeared to be to induce Whitley Penn to change its position about the validity of UDF's financials and its confirmation that Whitley Penn had no disagreements with UDF. The letter falsely accuses Whitley Penn of being a conspirator with UDF and disseminating false information to investors and the public. UDF and Whitley Penn have never conspired to disseminate false information.

55. Whitley Penn had been UDF's public accounting firm since its inception in 2003. Whitley Penn is one of Texas' most distinguished public accounting firms. Recent accolades include being named one of the top 11 accounting firms in Dallas. (Award available at <https://www.advisoryhq.com/articles/top-accountants-in-dallas/>).

The First Public Attack - False Statements in the December 10, 2015 Posts

56. On December 10, 2015, I became aware that on December 9, 2015, an anonymous blogger created a profile and page on the investment website www.hvst.com ("Harvest") under the name "Investors for Truth" ("IFT"). The profile states that "Ernest Poole" is its creator. "Poole" describes his page as "A Community for Anonymous Diligence Sharing amongst Institutional Investors." "Poole" states that his community is "open to any institutional investor or asset manager with greater than \$250mm in aggregate [assets under management]." Attached hereto as Annex 11 is a true and correct copy of IFT's page on the Harvest website.

57. On Thursday, December 10, 2015, I also became aware of a posting on “Ernest Poole’s” IFT web blog on the Harvest website regarding UDF. “Poole” published an article on IFT’s web page entitled “A Texas-Sized Scheme Exposing the Darkest Corner of the REIT Business, United Development Funding (UDF).” The post stated that UDF had characteristics emblematic of a “Ponzi scheme” and described UDF’s business in a manner that was designed to support “Poole’s” false statement that UDF was a “Ponzi scheme” (p.2 of the December 10, 2015 post). The post asks “[h]ow could a real estate lender in Dallas be underwater six years into a steady recovery?” The post further stated that there were “sinister” explanations for UDF being “underwater,” that there were “cracks in its façade starting to appear” and that retail investors were “gullible” “victims” of UDF’s business practices (p.3). The post contained multiple additional false statements as set forth below, and the article as a whole created the false impression that UDF was a worthless, fraudulent business on the verge of collapse.³ A true and correct copy of the December 10, 2015 post is attached hereto as Annex 12.

58. On page two of the December 10 post, “Poole” asserted that UDF (referring to the entire family of funds) was “one of the most egregious cases” of non-traded REITs, stating: “In the most egregious circumstances, a business model that was flawed to start (and made worse by bad stewardship) evolves into something that looks *more like a Ponzi scheme than a real estate business* as poor investments are masked by additional capital raises. Bad business decisions

³ I am citing to and quoting some of the false statements in the posts referenced throughout my affidavit. The posts repeat these statements in substance multiple times, stated in different ways. I have selected representative statements to address in this affidavit. All of the similar statements in the post are also false for the same reasons stated here in my affidavit. The overall thrust of all of the articles and the website— that UDF’s business was a deceptive Ponzi scheme predicated on purported fictitious returns such that it was worthless, is also false for all of the reasons set forth in this affidavit.

beget more bad business decisions *and ultimately devolve to the point where maintaining the scheme overcomes efforts to generate legitimate returns.*" [emphasis added].

59. "Poole" asserted that UDF's returns were not legitimate returns. "Poole's" posting conveyed that UDF was generating non-legitimate, fictitious, purported returns to "maintain the scheme," i.e., a Ponzi scheme.

60. The posting's conveyance of the overall premise that UDF was a worthless fraudulent business on the verge of collapse was false. Additional, individual statements contained in Defendants' December 10, 2015 post were also false. UDF is a legitimate business and it is not a Ponzi scheme. UDF is not "underwater." The returns generated by UDF represent bona fide returns, not "purported returns." UDF generates real income from genuine loans and other legitimate business activity. UDF's loans are generally secured by residential real estate assets.

61. Defendants state that, to further the Ponzi scheme, investor money from one fund is being used to pay off investors in earlier funds. This is false. The purpose of the new loans from other UDF entities is not to transfer money from one fund to another in order to cover up misappropriation of money from the earlier fund. Rather, the new loan is a completely different loan to a legitimate borrower, though still connected to the same borrower and project.

62. For example, UDF III may provide funds for the acquisition of a parcel of land, and for the entitlement phase of a project. Then, the developer will need additional funds to begin development of the property or a phase of the property, which may be lent by a different UDF fund. This loan was not designed to funnel money from one fund to another to cover up a fraud, but rather to respond to the much larger capital needs of the developer to undertake a new stage of project development.

63. On page three of the post, “Poole” stated that UDF was a real estate lender which was “underwater” after six years into a steady recovery because of a “sinister” explanation, i.e.: there was no development for numerous UDF loans. “Poole” implied that UDF must have stolen the money, as would be the case in a Ponzi scheme, by asking the rhetorical question: “Where did all the money go if not to developments?” As stated two sentences earlier, the explanation had to be “sinister.” The “victims,” as stated a paragraph later, are “the most gullible money of all—retail investors and retirees.” These statements were all false. UDF was not underwater. As of September 30, 2015, UDF had a portfolio of over \$1.4 billion in loans and investments and debt of less than \$380 million. UDF is not a Ponzi scheme and never stole any money. UDF is a legitimate business, and the development of UDF-financed projects was taking place for each particular development in accordance with economic, market and other business conditions.

64. “Poole” falsely asserted that UDF was a sinister company whose intentional business plan was to set up and maintain a Ponzi scheme by diverting investor funds and thus fleecing gullible “victims” while paying them fictitious returns. None of UDF’s returns were fictitious, UDF was not involved in any unlawful fraudulent scheme to generate fictitious returns, and investor money was not misappropriated but rather used in furtherance of legitimate business opportunities generally secured by bona fide real estate, as more fully described in paragraphs 6 to 44 above.

The False Statements in the Whitley Penn Letter Attached to the December 10, 2015 Post

65. “Poole” also attached, and thereby made public, the anonymous letter previously sent to UDF’s former auditor and accounting firm, Whitley Penn.

66. In the first paragraph, the letter recites UDF’s statement in its 8-K filed on November 24, 2015 that “there were no disagreements between the [Companies] and Whitley

Penn on any matters of accounting principles or practices” and that “there were no ‘reportable events’ as that term is defined in Item 304(a)(1)(v) of Regulation S-K.”⁴ The letter references Whitley Penn’s letter to the SEC in which Whitley Penn acknowledged and agreed with UDF’s statements in its 8-K. The letter implies that Whitley Penn had not been truthful in these “representations to shareholders and the public market that there were no ‘disagreements between the [Companies] and Whitley Penn’ and no ‘reportable events.’” (p.1). On page 4, the letter again questions the “veracity” of Whitley Penn’s representations. The letter conveys that there is a conspiracy to hide such a disagreement from the investors. (See, e.g., p.4). All of these statements and implications are false. As stated in UDF’s 8-K filed November 25, 2015, UDF and Whitley Penn did not have any disagreements on any matter of accounting principles or UDF practices. The statements contained in UDF’s SEC filings, which includes Whitley Penn’s letter to the SEC, were all true.

67. The letter asserts accounting irregularities and details various “red flags,” further implying that Whitley Penn was either intentionally deceived by UDF and failed to catch the accounting irregularities and red flags or was actively conspiring with UDF to deceive investors. These statements and implications are all false. UDF never intentionally deceived Whitley Penn and UDF never conspired with Whitley Penn to deceive investors.

68. The letter also attacks UDF’s relationship with its largest group of borrower entities, Centurion, as being improper and part of an overall scheme to misappropriate money from shareholders.

⁴ Under this regulation, codified at 17 CFR 229.304, a company has a disclosure obligation to report disagreements between the company and the auditor that lead to auditor resignation or termination.

69. The letter states there are “[m]aterial conflicts between executives/officers and Centurion, which appear to be negatively affecting UDF Shareholders.” (p. 2). The letter asserts: “Loans to UDF IV’s largest borrower, Centurion, do not appear to be arm’s-length transactions.” (p. 2). The letter further claims there are alleged “disclosure” issues regarding Centurion loans. All of these statements and implications are false.

70. Loans to Centurion have always been arm’s length. UDF’s loan terms with Centurion are generally the same as loan terms with our other borrowers. The UDF/Centurion loans are negotiated and underwritten under the same standards as other UDF loans, the terms are reviewed by asset managers using the same criteria as other UDF loans, and the loans are approved under the same standards applied to other UDF loans.

71. UDF’s standard maturity dates are common in the non-bank lending industry. These shorter maturity dates benefit the lender. When a loan comes up for renewal, our investment committee reviews the status of the asset and determines whether to extend the loan and on what terms. Also, many of the senior lenders are likewise renewing their loans on the same asset on one-year terms. As to extension fees, generally UDF does not charge extension fees because the underwriting looks at the return on the loan in the beginning of the loan and provides for an acceptable return without an extension fee.

72. The extensions are sometimes entered into after the original loan term has expired, due to the timing of the investment committee meetings and review. This does not necessarily reflect a default on a loan, or an inability of our borrowers to pay, as Defendants claim.

73. Other non-bank lenders provide loans to Centurion on similar terms. For example, Trez Capital is another non-bank lender utilized by Centurion. They lend to Centurion

on similar terms as UDF. The Trez Capital loan is equivalent to over a 12% annual rate. The Trez Capital loan also allows Centurion to accrue interest rather than paying interest out of its available cash. Just like UDF's loans to Centurion, it is a one-year term, and no extension fee is charged. Likewise, the Hayman Woods' loan discussed in paragraph 47 was for a one-year term with a right to extend, with 12% interest, 2% exit fees and other fees, and interest also accrued on the loan.

74. Contrary to the letter's assertions, UDF's business relationship with Centurion has positively affected UDF's shareholders. Centurion's payment of principal and interest on its loans has been beneficial to investors.

75. The letter also states that Centurion is insolvent, not creditworthy and does not have the ability to pay its UDF loans: "The largest borrower of each of UDF III, UDF IV and UDF V may be insolvent." (p.3). This statement is based upon the letter's assertion of "the apparent inability of the borrower to service \$585 million in debt" owed to UDF III and UDF IV "as well as approximately \$75 million of contractually obligated annual interest expense." (p. 3). The letter also states: "100% of UDF IV loans are classified as fully collectable, which is likely a material misrepresentation if the largest borrower is insolvent." (p.3).

76. These statements are all false. To the best of my knowledge, Centurion was not insolvent, and Centurion had the ability to service its debt and interest expense. UDF's assets managers are generally in Centurion's offices every week, reviewing the status of existing projects and they understand Centurion's overall business. To the best of my knowledge, senior lenders, including commercial banks, regularly extend Centurion credit and would review Centurion's financials in the ordinary course of business, and Centurion has access to alternative

sources of financing. In fact, Centurion is such a creditworthy and desirable borrower that other lenders were competing with UDF to make loans to Centurion.

77. The Centurion loans from UDF were regularly evaluated and expected to be collectable, and Centurion has repaid hundreds of millions of dollars to UDF. I believe Centurion also has repaid other lenders. Centurion is the developer of the Statler Hotel development, for which the Tax Increment Finance Grant Revenues Bonds (Statler Hilton & Dallas Central Library), Series 2016, received an investment grade “Baa3” rating from Moody’s for bonds issued to fund the development. I believe Centurion has not been viewed in the market as a credit risk.

78. The letter also claims there was “potential misappropriation” of loan proceeds to Centurion, implying that the proceeds of the purportedly non-arm’s length and uncollectable loans to Centurion were being misappropriated. (pp. 3-4). This was false. To my knowledge no proceeds of Centurion loans have been misappropriated.

79. The letter states that these issues raise “[f]urther questions” “about whether these red flags may have been willfully or otherwise ignored, whether deficient audits may have been conducted, and whether professional audit standards may have been violated.” The letter also claims there were additional “accounting irregularities.” These statements are false.

80. The letter also makes false statements regarding cash flow from UDF loans: “Loans appear to accrue larger and larger balances for years (more than doubling in some cases) without ever generating any cash receipts, which lead to questions 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.” UDF loans generated actual cash over

the life of the loan from both the repayment of principal and of accrued interest upon sale of land pods, the sale of developed lots, receipt of utility reimbursements, refinance of a property and/or the sale of a home, as fully described in paragraphs 20-22. Additionally, UDF's public filings show cash receipts which were applied to principal and interest repayments. For example, UDF IV's SEC filings showed that it was generating significant amounts of cash, and, in fact, its generation of cash had been steadily increasing. Pages 57-59 of UDF IV's 2014 10-K contain a table listing each outstanding loan and the cash receipts that were applied to principal (which includes compounded interest). UDF IV disclosed that its 2012 cash receipts for its outstanding loan portfolio were approximately \$26 million, which increased to approximately \$100 million in 2013 and then to approximately \$152 million in 2014. However, this table only shows a subset of UDF IV's total cash receipts since it does not include cash receipts on loans that were repaid in full during 2012, 2013 and 2014. Total cash receipts applied to principal of approximately \$45 million in 2012, \$135 million in 2013 and \$173 million in 2014 are shown in the Consolidated Statement of Cash Flows on page F-7 of UDF IV's 2014 10-K. Annex 13 is a true and correct copy of the cited pages of those public filings. Public records (which Bass swears he researched) also show recorded UDF lien releases from pod, lot and home sales that generally resulted in cash payments to UDF. Defendants also ignored the parts of UDF's business, finished lot loans and homebuilding loans, that generate current cash. Defendants only focused on the part of UDF's business that naturally consumes cash – acquisition and development loans.

81. Various financial websites put out press about the Harvest posts the same day they appeared. On December 10, 2015, Seeking Alpha published at 2:43 p.m. "*Ponzi scheme alleged at United Development Funding*" based wholly upon Defendants' anonymous posts.

That same day at 2:45 p.m., ValueWalk posted an article about Defendants' anonymous post about UDF, which suggested Bass was the author, and referred to it as a thesis "on why the stock is a zero." ValueWalk also tweeted that Bass thinks UDF "is a total Ponzi scheme and is trying to get the FBI/SEC/DOJ etc. to shut it down – he sent them an 80 pg document earlier this yr." At 3:08 p.m. that same day, Citron Research circulated Seeking Alpha's article with Citron's title "*\$udf ponzi Can Go to 0*," again based solely upon Defendants' anonymous posts. At 3:12 p.m. that same day, StreetInsider published the Seeking Alpha and Citron Research tweets under the title "*UDF (UDF) Can Go to \$0 – Citron Research*." A true and correct copy of each of these posts is attached hereto as Annex 14.

82. As Defendants' December 10, 2015 post was widely publicized, the reaction was immediate and severe. Beginning on December 10, 2015, UDF's investors, financial advisors, banks, other lenders, clients and journalists started calling and emailing UDF regarding the allegations in the anonymous post. UDF's phones were ringing off the hook regarding the post beginning on December 10, 2015.

83. The December 10, 2015 post caused investor panic and sell-off. Prior to the December 10, 2015 attack, UDF IV's shares had consistently traded in a narrow range on low volume. On December 10, 2015, UDF IV's shares fell 35% – from \$17.20 to \$11.15. Trading volume was over a million shares—over ten times the normal average. There were no other events or news that day that would have caused this unprecedented drop in UDF IV's stock price.

84. Brokers that were selling UDF V and United Residential Home Finance (a wholly-owned subsidiary of UMT) halted sales as early as the end of day December 10, 2015 because of the allegations in the posts. Attached hereto as Annex 15 are true and correct copies

of correspondence from Berthel Fisher, Calton and Nationwide Planning on December 10 and 11, 2015, evidencing the halting of such sales.

85. The allegations in the anonymous Harvest posts had such a widespread impact, that by the next day (December 11, 2015), over 500 registered representatives who had clients invested in UDF participated in a UDF conference call to address the allegations. A true and correct copy of the list of attendees for the call is attached hereto as Annex 16.

86. By Sunday, December 13, 2015, Plaintiffs' class action law firms had already signed up Plaintiffs to sue several of the UDF funds based upon the statements in the posts. The first in a series of such suits was filed on December 21, 2015.⁵

⁵ Shareholder suits based upon the allegations in Defendants' posts began being filed in less than two weeks after the first posts. (*Michael Carter v. United Development Funding IV, Hollis M. Greenlaw, and Cara D. Obert*, Case No. 3:15-cv-04030-C, filed on December 21, 2015 (the "Carter Action"); (ii) *The Charles G. and Rose M. Fairbanks Living Trust v. United Development Funding IV, Hollis M. Greenlaw, and Cara D. Obert*, Case No. 3:15-cv-04055-C, filed on December 23, 2015 (the "Fairbanks Action"); and *James and Jennifer Anderson v. United Development Funding IV, Hollis M. Greenlaw, and Cara D. Obert*, Case No. 4:16-cv-00009-Y, filed on January 7, 2016 (the "Anderson Action"). Additional suits were filed in 2016. A class action shareholder suit was filed in the Northern District of Texas on March 8, 2016 under the Texas Securities Act and subsequently amended on June 8, 2016 – *Mark Hay & Paul Brown vs. UDF IV, UDF V, UMT Services, Inc., UMTH General Services, L.P., UMTH Land Development, L.P., et al.*, Case 4:16-cv-00188-O ("Hay Action"). A derivative and class action shareholder suit was filed in the Court of Chancery of the State of Delaware on July 7, 2016 – *Fannin vs. UDF III, et al*, Case No. 12541 ("Fannin Action"). Derivative actions were also filed March 7, 2016, *Floreale vs. UDF IV, et al*, District Court, Tarrant County, Cause No. 342-284220-16 ("Floreale Action"); March 4, 2016, *Richard Evans vs. UDF IV, et al*, Northern District of Texas, Case 3:16-cv-00635N ("Evans Action"); September 26, 2016, *Ted Frey vs. UDF IV, et al*, District Court, Tarrant County, Cause No: 096-287723-16 ("Frey Action"); July 20, 2016, *Kenneth Knoll vs. UDF IV, et al*, District Court, Tarrant County, Cause No: 048-286-599-16 ("Knoll Action"); December 2, 2016, *Headley vs. UDF V, et al*, District Court, Tarrant County, Cause No: 017-289273-16 ("Headley Action"); September 13, 2017, *Baxter and Ostlund vs. UDF IV, et al*, Northern District of Texas, Case 3:17-cv-02433. Each complaint mirrors Defendants' posts. The Plaintiff's certification in the Fairbanks Action was signed December 13, 2015, three days after the first of Defendants' posts.

87. The posts triggered swift and harsh reactions from UDF's banks that ultimately resulted in virtually all of UDF's banks pulling UDF's credit lines, denying routine extensions, increasing interest rates and fees on existing credit lines, terminating commitments for new credit lines, accelerating repayment on UDF's loans and otherwise restricting UDF's credit. UDF's access to credit markets was immediately eliminated. The posts also triggered an almost immediate and negative change in UDF's relationships with its developer clients.

88. The specific details of UDF's losses are described fully below in the section of this affidavit addressing causation and damages.

Defendants Published More False Statements in Their December 11, December 14 and December 15, 2015 Posts

89. It was UDF's belief that the anonymous posts were part of an illegal short and distort attack by Kyle Bass and his affiliated hedge funds. On December 11, 2015, UDF issued an 8-K alerting investors to its belief that an anonymous short-seller was seeking to drive down its share price.

Defendants' December 11, 2015 Post

90. On December 11, 2015, "Poole" published a new anonymous post on his Investors for Truth web page titled "United Development Funding (UDF), One Example of Many: How the Scheme Works, from One UDF Fund to the Next." A true and correct copy of the post is attached hereto as Annex 17.

91. The post at page two analogizes UDF's "Scheme" to "Enron, Madoff, and Stanford." Again, these statements are all false. UDF is not a Ponzi scheme, and its business is not analogous to the fraudulent schemes of Enron, Bernie Madoff or Stanford. UDF is a legitimate business with real assets and legitimate returns.

92. To reinforce its attack on UDF's business as a purported Ponzi scheme, the December 11, 2015 post purported to provide an example of UDF business dealings with Centurion "One Example of Many" (page one) that was like "*many other examples...* within the UDF structure (UDF III, UDF IV and UDF V) (page eleven)." Using this "example," known as "Shahan Prairie," the post noted that Centurion had owned the land for over 10 years and falsely stated "there is no sign of development activity" (page five) and that "the collateral is still raw, undeveloped land 11 years after the initial acquisition" (page eleven). The posting attached a photo of Shahan Prairie (page six) that appeared to have been taken from a car purporting to prove the lack of development activity. The clear implication of the post is that UDF and Centurion were not engaging in bona fide real estate development but had sham developments as part of their "scheme."

93. These statements and implications are false. Shahan Prairie was a bona fide real estate development. There had been development activity at Shahan Prairie, it was not an "example" of the "scheme," and it was not raw, undeveloped land. To begin, the post's street view photo showed only a tiny fraction of the 102 acre site. In truth, publicly available aerial images showed road cuts and mass grading that reflected the development work that had been done. A true and correct copy of such photos, which I obtained from Google Earth maps are attached hereto as Annex 18. Such images were publicly available at the time the posts were published. In addition to being available on Google, they were also available through a link on Centurion's website.

94. The Denton County records, which Defendants admit they reviewed and purport to summarize in their post (see Annex 17 at page seven and Appendix 1, noting Defendants' source as "Denton County Land Records"), contain a great deal of material showing bona fide

development. Those records show the recording of documents forming the water district, which created up to approximately \$16 million of municipal reimbursements for Centurion for the development of Shahan Prairie.⁶ These records also show an assignment of these municipal reimbursements to UDF V as collateral for its loan. A true and correct copy of such record is attached hereto as Annex 20.

95. The Denton County records Defendants reviewed also show that DRHI, Inc. (a subsidiary of D. R. Horton, Inc., one of the largest and most reputable homebuilders in the country) had entered into a contract with Centurion on May 5, 2014 to purchase 201 finished lots, and that Megatel Homes, another large homebuilder, had entered into a contract with Centurion on June 2, 2014 to purchase 110 finished lots. These records also showed such contracts were collaterally assigned to UDF III for its loan to Centurion. A true and correct copy of such record is attached hereto as Annex 21.

96. The “Poole” post also compared Shahan Prairie to the adjacent development, Wildridge, which the post called “A Real Development and Direct Competitor.” (See Annex 17 at p. 5). The post created the false impression that Wildridge was developed in only a few years. The post states that the “primary piece of land (250 acres) was acquired in 2012,” that there was a groundbreaking ceremony on July 9, 2014, and that the first finished lots were delivered in 2015. *Id.* The post contrasts this development schedule with Centurion’s, stating “Centurion has owned the adjacent land...for over 10 years and there is no sign of development activity.” *Id.*

⁶ The creation of Shahan Prairie’s Water Control Improvement District (a type of MUD) was also readily observable from other public sources. (See Annex 19, which is a true and correct copy of a page from the website of the Texas Commission on Water Quality, <http://www14.tceq.texas.gov/iwud/dist/index.cfm?fuseaction=DetailDistrict&ID=89038&command=list&name=OAK%20POINT%20WCID%203>, which shows the creation of the district).

97. Besides misrepresenting the lack of development activity by Centurion, the post falsely portrayed the timeline and speed of the Wildridge development, which in reality closely paralleled Centurion's development of Shahan Prairie. Taylor Duncan Interests ("Taylor Duncan") purchased the Wildridge property in 2004, not 2012, as the post falsely stated. This fact was readily available to Defendants from Taylor Duncan's own website.

98. The Taylor Duncan website contains a March 18, 2015 *Dallas Business Journal* article, which was posted on that same day on the website, which quotes Taylor Duncan partner Larry Taylor as stating: "We bought the property in 2004 and we were planning on developing it back then, but because of the real estate downturn we put the plans on the shelf and waited for the infrastructure to grow...The popularity of the area has soared and, now, the timing couldn't have been better." That same article notes Taylor Duncan brought in a capital partner in 2012 to fund the finished lot phase of the development and noted that "[a]fter five years of in-depth planning," they planned "to officially break ground on those homes next week." A true and correct copy of this article, which was located at <http://taylorduncan.com/taylor-duncan-crescent-communities-start-335m-master-planned-community/> is attached hereto as Annex 22.

99. The Denton County public records, which Defendants admit they reviewed, further confirm that Taylor Duncan purchased the property in 2004. Attached hereto as Annex 23 are true and correct copies of the public records showing the purchase of the Wildridge property on October 8, 2004 by Taylor Duncan, through the entity Prairie Oaks, Ltd. True and correct copies of public documents establishing Taylor Duncan's affiliation with Prairie Oaks, Ltd. are attached hereto as Annex 24.

100. Thus, Taylor Duncan purchased the adjacent property the same year Centurion purchased Shahan Prairie, not eight years later as the post falsely stated. Taylor Duncan, like

Centurion, did not deliver the initial phase of finished lots until over 11 years later (mid-2015). Taylor Duncan, like Centurion, also brought in additional capital later in the development cycle to finance such development.

101. The truth is that Centurion's development of Shahan Prairie, when compared to the development of Wildridge (which the post called a "real development"), establishes that Shahan Prairie was also a "real development," not an "example" of a "scheme" as Defendants stated. Indeed, both Taylor Duncan's statements and UDF's public filing (described below at paragraph 195) are consistent in noting that much of the delay was actually caused by Taylor Duncan. Centurion created the MUD on September 20, 2004 and completed engineering and recorded the plat (signed by Merhdad Moayedi on behalf of our borrower) in February of 2007. Centurion then began mass grading and road cuts on approximately half of the property. All of this information was publicly available but was omitted by Defendants. Centurion was then hampered from further development until a Cost Sharing Agreement for Water and Wastewater Facilities and Roads was executed with the adjacent property owner effective January 13, 2015.

102. Defendants' additionally stated and implied that the refinancing of the project with later UDF entities was evidence of a Ponzi scheme. (See Annex 17 at pp. 7-11). This too was false. As set forth above in paragraph 34, the decision of which fund will invest in which phase is governed by a publicly disclosed Participation Agreement and Allocation Policy Agreement among the funds. UDF I originated the loan to fund the land acquisition in 2004. When the developer sought additional funding to fund the commencement of development in 2007, UDF I had completed its capital raising activities and its capital was fully invested. In accordance with the participation agreement between the UDF funds, UDF III originated a subordinated development loan in 2007 to the borrower to fund excavation on 211 of the 402

planned lots. UDF I was repaid by the borrower at this time and the UDF I collateral was released. Mass grading was completed and a plat for these 211 lots was prepared. Upon completion of the off-site improvements, the borrower sought financing for the completion of the development. At this time, UDF III had completed its capital raising activities and its capital was fully invested. In accordance with the allocation policy agreement between the UDF funds, UDF V provided a subordinated development loan in June 2015 to the borrower for the completion of 402 lots. As a result, the borrower repaid the UDF III loan and the UDF III lien was released. These facts were publicly disclosed in UDF's SEC filings. (See Annex 25).

103. Similar to the three loans from UDF, Taylor Duncan borrowed at least \$27.85 million in loans beginning in 2004 through 2016 from at least three different lenders to support its different phases of development. See Annex 23. In sum, funding by different UDF entities had valid business purposes and was not part of a scheme.

104. Centurion ultimately sold the project to a subsidiary of D.R. Horton, Inc., America's largest public homebuilder. Consistent with Centurion's creditworthy track record, it has paid in full all of its UDF Shahan Prairie loans, including all accrued interest.

105. The post also falsely implied that there were "many other examples just like Shahan Prairie." It was a viable project under development, where commencement of the construction of finished lots had been unusually slow for several site-specific reasons, including delays caused by what Defendants called the "real developer" (Taylor Duncan), who was the adjacent landowner.

106. On December 11, 2015, UDF IV's share price dropped further, to \$8.55, now down almost 50% from the \$17.20 trading price two trading days earlier.

Defendants' December 14, 2015 Post

107. On December 14, 2015, UDF released another 8-K responding to the attacks. UDF provided a detailed response rebutting the post's allegations about UDF's business including addressing Defendants' statements concerning Shahan Prairie. Attached hereto as Annex 25 is a true and correct copy of UDF's December 14, 2015 filing.

108. As to Shahan Prairie, this public filing confirmed Taylor Duncan's statements about their development timeline and confirmed that the adjacent Taylor Duncan property was acquired and developed on the same time schedule as Shahan Prairie, as well as confirming there was development at the site. The filing states that starting in 2004 "the owners of Shahan Prairie and the owners of the adjacent property were working jointly on development agreements and contracts to bring offsite roads, water and sewer to both properties." The filing notes that these agreements were completed in 2007, and that then "[m]ass grading was completed and a plat for...211 lots was prepared." "After this point, the adjacent property underwent several ownership changes over the next few years, which delayed the completion of offsite improvements." "The owner of Shahan Prairie continued to add value to the property by obtaining enhancements to the entitlements associated with the 102 acres." The filing notes the off-site improvements were completed, and that "all 402 lots in Shahan Prairie are currently under option contracts to two builders – a national homebuilder and a large regional homebuilder." I had knowledge of these facts and all of these statements were true and correct.

109. In response, on that same day, "Poole" anonymously posted on the Investor's For Truth website "A Recap of Recent Posts on UDF." "Poole" listed all of their previous postings, and provided links to those postings. A true and correct copy of the December 14, 2015 "A Recap of Recent Posts on UDF" is attached hereto as Annex 26.

Defendants' December 15 Post

110. The next day, Defendants went further in responding to UDF's 8-K. On December 15, 2015, "Poole" posted an extensive new article titled "Reaching Across the Aisle of Your Private Jet Does Not Equal An Arms' Length Transaction, United Development Funding (UDF)." A true and correct copy of this post is attached hereto as Annex 27. Page one of the post accused UDF of misleading its investors: "Management has been misleading investors for years, and its response continues further down the path of deception." These statements are false. UDF did not deceive its investors in its December 14, 2015 SEC filing. UDF management has not misled or deceived investors at any point in time.

111. That post also continues to falsely state that Centurion was not a legitimate developer, that UDF's relationship with Centurion was inappropriate, and that investor funds were being misappropriated. (Annex 27 at pages 3-7). Responding to UDF's December 14, 2015 SEC filing where UDF noted Centurion was a "seasoned and accomplished developer," the post stated that the 13% interest Centurion paid on UDF loans could not be market-rate interest and that Centurion was not acting as a legitimate developer would act: "Actual, seasoned and accomplished developers in Dallas-Fort Worth (one of the hottest sub-markets in the country) finance developments with a combination of debt with interest rates below 5% and equity—equity which Centurion does not appear to have." (Annex 27, page five). These statements were false. In truth, Centurion was a seasoned and accomplished developer paying market rate interest on comparable acquisition and development loans.

112. It is commonplace and well-known in the real estate industry that acquisition and development loans from sources other than commercial banks involve higher interest rates, and 13% rates are within a normal range in the non-commercial bank market, even for seasoned and accomplished developers. Developers enter into loans at various rates depending upon the nature

of the development project, the availability of capital and other factors. Defendants also again state that the fact UDF does not charge Centurion extension fees supports Defendants' statement that these loans were not arm's length. Defendants state "[l]oans to Centurion regularly...are extended without any extension fees (try that one with a bank)." (Annex 27, page seven). But UDF's banks regularly extended its loans without any extension fee, as discussed below in paragraph 231.

113. The post also falsely states that the development project would be unsustainable at 13% interest. (See Annex 27 at p. 6). In truth, it is the value of the development opportunity, not the rate of interest standing alone, that determines sustainability. Furthermore, Defendants misleading statements make it look as if Centurion had been paying 13% on the maximum loan amount of all of its UDF loans related to Shahan Prairie since 2004. In reality, the maximum loan amount of a loan is typically more than the principal balance (funded amount) of the loan, and here also, the bulk of Centurion's debt on Shahan Prairie was lent beginning in 2015. Thus the carrying cost of the interest is less than Defendants' misleading statements make it appear. The post also failed to account for the increasing value of the collateral. The borrowed money may be used to acquire the land, obtain entitlements, engineer improvements, create reimbursement districts and develop finished lots. These actions add significant value to the collateral. This is in addition to the price appreciation of the land over time. Indeed, Centurion successfully managed and profited from the very project the post stated was unsustainable under the loan terms.

114. By again falsely contrasting Centurion with an "seasoned and accomplished developers," (see Annex 27 at page five), the post stated that Centurion was not a legitimate developer and that UDF was lying when it stated Centurion was a seasoned and accomplished

developer. These statements are false. It is public knowledge that Centurion is one of the most seasoned and accomplished development companies in Texas. This is detailed above in paragraphs 27-29. Today, Centurion continues to start and complete significant development projects with a variety of debt providers, even though Defendants inflicted damage upon UDF, which has limited UDF's ability to provide additional funding to Centurion.

115. As to Shahan Prairie in particular, the December 15, 2015 anonymous post reiterated the false statements that the Shahan Prairie development was not an arm's-length, legitimate development and that there was "simply no development" (Annex 27, page six) and rhetorically questioned: "Are investors (and the authorities) really going to believe that loans that behave in this manner are arm's length?" (page seven). As previously detailed above, the implication that the loans were not arm's length and the statement there was no development were false.

116. By December 15, 2015, the short interest in UDF IV had climbed to over 4.8 million shares, and UDF IV's share price had dropped almost 50% from December 9, 2005, causing a decrease in market cap on 30.67 million shares outstanding of approximately \$230 million. Annexes 3 and 8.

On February 4, 2016, Defendants Launch "UDFEXPOSED.COM"

117. On February 4, 2016, I became aware of a new website called www.udfexposed.com. Upon further research, I was informed that the domain name was first registered to Defendants on January 8, 2016.

118. On the website, Bass identified himself as the creator of the website and the author of its contents. The website was published in the name of "Hayman Capital Management LP," with a picture of Bass displayed prominently on the home page.

119. The site includes a letter from Bass and has sections labeled “Myth vs. Reality,” “News and Research,” and “Take Action” – a section where readers are urged to “submit tips to the SEC” and to join in pending class actions against UDF IV, with contact information for the law firms that had filed lawsuits in response to Defendants’ earlier anonymous postings. True and correct copies of the www.udfexposed.com home page and letter from Bass posted on the website are attached hereto as Annex 28. The website in its entirety creates the false impression that UDF was a worthless fraudulent scheme.

False Statements in the “UDF Exposed” Home Page and Letter from Kyle Bass

120. On the home page, Bass refers to UDF as a “Billion Dollar House of Cards” that he is “exposing.” The “Letter from Kyle Bass” dated February 5, 2016 states that Hayman Capital Management LP (“Hayman”) is shorting UDF IV shares based on Hayman’s “research” that shows UDF is a “Ponzi scheme, the size and scope of which exceeded a billion dollars.” Bass also refers to UDF as an “investment fraud.” Bass states that UDF was “preying on ‘Mom and Pop’ investors.” Bass states that UDF IV faces “significant bankruptcy risk,” which would render its shares “virtually worthless” and that UDF’s business was on the “verge of collapse.”

121. All of these assertions were false. UDF’s business was never an investment fraud. UDF never based its distributions to investors on fictitious returns and was never a house of cards or Ponzi scheme. UDF IV was not facing “significant bankruptcy risk.” Prior to Defendants’ attack on UDF, UDF IV was not at risk of filing bankruptcy. Even if it had such risk (which it didn’t) and a bankruptcy were to occur, UDF IV’s shares would not have been “virtually worthless.” UDF IV’s assets were primarily income-generating loans generally secured by residential real estate assets. Even a bankruptcy would result in substantial

distributions to investors such that the shares could not be considered in any way “virtually worthless.”

122. Defendants’ assertion that the investment by different UDF Funds in a single development was evidence of a Ponzi scheme was also false. (See Annex 28 at p.3, 5). As set forth in paragraph 34 and the attachments referenced therein, the investments by more than one UDF Fund throughout the lifecycle of a development were by design and had nothing to do with a fraudulent scheme to cover up a fraud by using new investor money to pay off prior investors.

The False Statements In the “Myth v. Reality” Link on the “UDF Exposed” Home Page

123. On the home page of “UDF Exposed,” there is a prominent link titled “Myth v. Reality.” After clicking on the link the first paragraph states that Hayman had conducted a “thorough examination of SEC filings, county records and various court documents” and “[b]ased on Hayman’s research and knowledge” Hayman has concluded that “UDF has been misleading investors for years” and that “statements made by UDF are inaccurate or otherwise misleading.” A true and correct copy of this portion of the website is attached hereto as Annex 29.

124. Defendants repeated their claim that UDF’s transactions with Centurion were not “arm’s length transactions.” (Annex 29, pages four and five). Defendants repeated their statement that “loans owed by Centurion typically do not generate any actual cash income.” (*Id.*) Defendants stated that Centurion was in “financial distress.” (*Id.* page three) These statements were all false. As previously discussed in paragraphs 70-76, loans to Centurion were arm’s length and Centurion was not in financial distress.

125. Many loans to Centurion generated actual cash from both the repayment of principal and of accrued interest, as fully described in paragraph 80. Additionally, UDF’s public

filings show the repayment of principal and interest from Centurion. See, e.g. Annex 13, UDF IV's December 31, 2014 financials, showing cash receipts from Centurion. Public records (which Bass claims he researched) would also show recorded UDF lien releases from lot sales that resulted in cash payments to UDF. Defendants also ignored the parts of UDF's business – finished lot loans and homebuilding loans – that typically generate current cash. Defendants focused on the part of UDF's business that naturally consumes cash – acquisition and development loans.⁷

False Statements in “The Case Against UDF IV” Link on the “UDF Exposed” Home Page

126. The website also contains links to a section called “The Case Against UDF IV.” A true and correct copy of this section of the website is attached hereto as Annex 30. Defendants stated on page four of this post that UDF shareholders were being “victimized” by UDF's “scheme” and that “[t]he combination of near-term debt maturities and the financial distress of major debtors creates significant bankruptcy risk for UDF IV; a bankruptcy would leave its shares virtually worthless.” These statements were false.

127. In truth, there was no significant bankruptcy risk for UDF IV and shares were not “virtually worthless,” nor could they be, given the extensive loan portfolio generally backed by real estate collateral supporting the value of the shares. UDF was not “victimizing” its shareholders.

128. Defendants stated on page twelve of this post that Centurion was paying “two times the market rate in this low interest rate environment” when agreeing to pay 13% interest on

⁷ Even for acquisition and development loans, some cash would often be generated via MUDs and PIDs.

loans. This was false. In truth, as discussed above in paragraph 73, Centurion was paying market rate on comparable acquisition and development loans.

129. On page thirteen, Defendants stated that loans to Centurion regularly accrue balances with no cash receipts and then implied that loan money was being misappropriated, stating: “If there is no development, WHERE DID ALL THE MONEY GO?” [all caps in original]. This implication that loan money was being misappropriated by UDF was false.

130. Page fifteen of the post showed what was purported to be a “typical loan” that did not generate cash while page sixteen showed “undeveloped development sites.” The false implication was that UDF IV’s loans did not generate cash because development was not taking place. In truth, development was ordinarily taking place but would only generate cash when lots were sold or other cash-generating events occurred.

131. On page 18 of the post, Defendants again stated Centurion was in “financial distress” and warned that when Centurion is unable to repay, “UDF IV will become insolvent” at which time “these creditors/lenders will likely attempt to force UDF IV into a bankruptcy proceeding”—all of which would result in leaving UDF IV’s shares “virtually worthless.” All of these statements were false. As previously set forth, I believe Centurion was not in financial distress and was able to repay its debts to UDF. UDF IV’s creditors/lenders did not force UDF IV into bankruptcy, and UDF IV was not insolvent. Even after UDF suffered the harm of Defendants’ attack, it has repaid substantially all of its lenders and expects to pay any amounts outstanding.

The False Statements in the “News and Research” Section

132. Under the section “News and Research” of udfexposed.com, there are several materials, including the previously anonymous letter to Whitley Penn, which Bass now took

credit for, and various other materials. For each of these items, there is a “Posted” date. The website purports to have “Posted” seven items from October 30, 2015 through December 28, 2015. A true and correct copy of the list of these materials and their “Posted” date is attached hereto as Annex 31. Given that Defendants did not launch the website until February, 2016, these posting dates are necessarily false.

133. In the “News” section, Defendants republish and highlight statements by financial news media touting Bass’ ability to predict the fall of real estate companies and summarizing Bass’ false allegations about UDF. Defendants state that “[c]overage continues to roll in, helping to shed light on UDF’s Ponzi-like real estate scheme... Writing for FORTUNE, Jen Wieczner provides an overview of the position highlighting Kyle Bass’ experience with real estate investments.” Defendants then post excerpts from the *Fortune* blog with a huge, highlighted quote: “*Investors have reason to trust Bass when it comes to real estate investments. The Texas hedge fund manager is known for making big money in 2008 by betting against subprime mortgages before the housing crisis. Last year, Bass’ bets proved prescient again when he shorted biotech stocks before drug pricing concerns caused that sector to take a dive.*” The highlighted and enlarged section of the article goes on to repeat Defendants’ allegation that: “*Bass expects that the firm’s downfall will be bankruptcy, calling UDF ‘a billion dollar house of cards’ that ‘is now on the verge of collapse.’*” A true and correct copy of this portion of the website is attached hereto as Annex 32. Again, these statements about UDF are false. UDF is not a billion dollar house of cards that was on the verge of collapse.

134. Defendants also posted several tabloid-styled power-point “research” reports that essentially repeat and expand their previous false themes.

135. For example, one “report” is titled “HOW THE SCHEME WORKS,” which repeats and expands upon the false allegations about the Shahan Prairie development I have discussed previously in paragraphs 90 through 106 of this affidavit. A true and correct copy of this report is attached hereto as Annex 33.

136. Another report is titled “SHAREHOLDERS IN UDF’S PUBLIC COMPANIES ARE BEING VICTIMIZED BY A PONZI-LIKE REAL ESTATE SCHEME TO KEEP THE COMPANIES AFLOAT.” Defendants repeat their allegations that UDF’s management is perpetuating a “scheme,” and that UDF IV has a “significant bankruptcy risk,” which would render its shares “virtually worthless.” A true and correct copy of this report is attached hereto as Annex 34. As discussed previously in paragraphs 56 through 64 of this affidavit, these statements are false.

137. Another report titled “IRREGULAR PATTERNS RELATED TO UDF’S LARGEST BORROWER,” repeats the statements that “UDF management regularly misleads investors,” and that UDF’s loans “do not generate actual cash income.” A true and correct copy of this report is attached hereto as Annex 35. The summary of the report states “Hayman’s Case Study presentation demonstrates how loans to UDF’s largest borrower regularly do not generate any cash (principle or interest).” See Annex 31, page six. As discussed previously in paragraph 80 of this affidavit, these statements are false.

138. On February 5, 2016, Bass posted on hvst.com, this time as himself, not anonymously. His article is titled “How a Texas Real Estate Developer Built a Billion Dollar House of Cards.” The letter is the same “Letter from Kyle Bass” posted on udfexposed.com and directs the reader to that website for “additional research” on UDF. A true and correct copy of Bass’ February 5, 2016 post on www.hvst.com is attached hereto as Annex 36.

139. Defendants also purchased Google Ad Words to appear on UDF-related search phrases in order to drive traffic to this site. Attached hereto as Annex 37 is a true and correct copy of a screen shot showing such ads on February 5, 2016. The ad reads “UDF is Exposed by Hayman – UDFExposed.com...Learn about the Ponzi-like real estate and REIT scheme on our site.” Defendants also launched a twitter feed to bring readers to their website. Attached hereto as Annex 38 is a true and correct copy of the @udfexposed.com twitter postings.

140. News of Defendants’ new website was widely circulated in the days following its launch. The press picked up the news beginning on February 5, 2016, with headlines such as “Kyle Bass Short ‘Virtually Worthless’ UDF,” “United Development Funding Total Ponzi Scheme, Worth Zero: Hayman.” Fortune reported on February 7, 2016, that “Bass expects [UDF’s] downfall will be bankruptcy; calling UDF ‘a billion dollar house of cards’ that is ‘now on the verge of collapse.’” A true and correct copy of these articles are attached hereto as Annex 39.

141. On February 12, 2016, Bass was extensively quoted in an article in The Dallas Morning News. A true and correct copy of the article is attached hereto as Annex 40. In the article, Bass stated he and his investors made big profits shorting UDF IV. He stated that his actions prevented UDF V from accomplishing its planned billion dollar capital raise as it had in fact done. “We have saved the 20,000 or 30,000 mom-and-pops from giving \$10,000 to \$100,000 to these guys and losing it all. One of our civic duties here is to get the next billion to not invest.” That same article also reported that Bass had been sending letters to the media to get them to pick up his UDF story. Bass is also quoted as saying, in response to UDF’s statements that Bass’ allegations were false: “[i]f you were calling Bernie Madoff at the beginning of his scheme unwinding, what would he say to you? He would say no, this isn’t the case. We know

exactly what we are doing.”⁸ It was false for Bass to compare UDF’s business to Bernie Madoff’s fraudulent Ponzi scheme.

142. I recall being particularly shocked by Bass’ claim that he was helping our investors. Because of Defendants’ attack, our investors had seen the value of their UDF IV shares drop significantly. By February 12, 2016, UDF IV’s shares had dropped to \$6.67, a drop of approximately 63% since December 10, 2015. I later heard rumors that Bass had made \$60 million on his short position in UDF IV.

The FBI Raid Shortly After the UDFEXPOSED Website is Launched

143. It is my understanding and belief that Defendants had presented their false story about UDF to the authorities in an effort to get them to take action against UDF, which is confirmed in Bass’ affidavit filed in support of this motion. (See Affidavit of J. Kyle Bass, ¶¶18-21). As Bass states, this was done through Chris Kirkpatrick, Hayman’s General Counsel until mid-2016. Prior to working for Hayman, Kirkpatrick was Branch Chief of the Enforcement Division of the SEC’s Fort Worth office. Kirkpatrick also served as a trustee in SEC receiverships. It is my understanding and belief that Kirkpatrick approached the SEC, the Federal Bureau of Investigation (“FBI”) and the Department of Justice (“DOJ”). It is my understanding and belief that Kirkpatrick used his connections and friendships at those agencies to push them to take action against UDF. It is my understanding and belief that Kirkpatrick provided those agencies with much of the false material contained on Defendants’ anonymous blogs and their UDFEXPOSED website. As stated above in paragraph 81, it was also reported

⁸ In discovery, Bass admitted he made these statements. See Sommer Declaration, Ann. 3, 4 (Defendants’ Responses to Plaintiffs’ Requests for Admissions).

that Defendants had sent an 80-page document about UDF's alleged fraud to various government agencies.⁹

144. Eight days after Defendants' website was launched, the Department of Justice sent UDF a document subpoena, and that same day the FBI obtained a search warrant for UDF's offices. I have personal knowledge of this because on February 18, 2016, I was at the office when the FBI executed the search warrant at UDF's corporate offices and such warrant was dated February 12, 2016. The media appeared to have been alerted in advance, as reports began running within a few hours.

Defendants Continue Their Attack Until They Can Close Out Their Short Position

145. On February 18, 2016, trading of UDF IV was halted by Nasdaq. Because of this, Defendants could not close out their short positions and pocket their gains.

146. Over the next eight months, while Defendants still had an open short position, Defendants continued to post new negative and false materials about UDF. All of the materials continued to build on the false theme that UDF's business was a worthless fraudulent scheme and investors were being deceived.

147. From April 1, 2016 through October 12, 2016, Defendants continued to post a series of "studies" attacking UDF. On April 1, 2016, Defendants posted a report titled "Where Did UDF IV Public Shareholder Money Go?" On August 11, 2016, Defendants posted a report titled "Is UDF a Legitimate Real Estate Investment Trust?" On August 30, 2016, Defendants posted a new blog with a link to a new article titled "The Precarious Preston Manor." On September 9, 2016, Defendants posted a new blog with a link to a new article about North Point

⁹ Of course, any government action against UDF would inure to the financial benefit of Defendants.

Crossing, a UDF-funded residential real estate development. On October 5, 2016, Defendants posted a new blog with a link to an article about Alpha Ranch, a UDF-funded residential development project. On October 12, 2016, Defendants posted two articles titled “UDF IV’s Stated Financial Position vs. Reality.” Each of these blog postings and reports continued to support Defendants’ false statements that UDF’s business was a worthless Ponzi-like scheme, that investor funds were being misappropriated, etc.

148. These reports repeat the false statements already described herein. Additionally, these reports falsely used the liquidity crisis their earlier false posts had caused as purported evidence that Defendants were right all along about UDF’s business being a house of cards – i.e., a fraudulent Ponzi scheme that had no genuine real estate development supporting its business.

149. For example, in an August 30, 2016 posting entitled “The Precarious Preston Manor,” Defendants alleged that “UDF’s Ponzi-like real estate scheme continues to unravel as it tried to create liquidity through the dissipation of collateral to repay various creditors...UDF management has been trying to generate sufficient liquidity to repay its creditors and avoid bankruptcy—something it has struggled to do despite having assets (stated book value) far in excess of liabilities and notably a financial reality that does not comport with its stated financial position.” (See Annex 41 at page 1). Book value has nothing to do with liquidity and the distressed pricing caused by Defendants’ attack. Real estate assets and particularly assets under development are not immediately liquid. UDF was not struggling to repay debt because the book value of its assets was overstated, rather it was facing a liquidity crisis precipitated by Defendants’ attack that began December 10, 2015.

150. In another example, on October 12, 2016, Defendants posted a blog and an article both titled “UDF IV’s Stated Financial Position v. Reality.” Defendants asserted that UDF IV

defaulted on a \$35 million loan on March 4, 2016 “despite” reporting assets of \$684 million and \$171 million in debt in a 10-Q filing six months earlier. (See Annex 41 at page three). This is another example of Defendants falsely implying UDF is lying about the value of its assets. This is also another example of Defendants falsely using the fallout from the *liquidity crisis* Defendants caused as evidence UDF was in financial trouble all along and therefore Defendants were correct when they asserted in December 2015 that UDF’s business was a worthless house of cards, and that Centurion was insolvent. Some of Centurion’s projects, as previously explained, are long term, illiquid development projects. Likewise, as 70% of UDF’s portfolio was capital committed to land acquisition and development, the abrupt and wholesale reduction in capital by UDF’s banks in response to Defendants’ attack made it difficult for UDF to pay off the bank loans immediately. UDF’s difficulty in immediately paying off almost \$200 million in bank loans is not evidence that its assets were falsely overstated, that Centurion was insolvent or that UDF’s business was a worthless house of cards. Instead, it reflected the fact that UDF was no longer able to access bank capital as it had prior to Defendants’ attack and UDF was working with its borrowers to generate liquidity from its portfolio but could not do so too quickly. UDF IV disclosed in an 8-K filed on October 3, 2016, that it had fully repaid the \$35 million loan as of September 29, 2016.

151. Defendants also misleadingly implied that UDF’s repayment of this debt was irrelevant and that the default “does not square” with UDF’s reporting of assets and that the default was a “red flag,” before concluding that the default was evidence that UDF violated Rule 10b-5 of the securities laws. (See Annex 41 at page three). All of these assertions were false.

152. UDF was forced to accelerate repayment of its debt due to Defendants’ unlawful attack, not any flaw in its business and not because it was a Ponzi scheme and with no real

assets. UDF has repaid virtually all of its notes payable and lines of credit despite Defendants' unlawful attack. Despite Defendants' attack, UDF did not file bankruptcy and continues to do business today. This is further evidence that Defendants' statements that UDF was a worthless billion-dollar house of cards, a Ponzi scheme, on the verge of collapse, etc. were all false.

153. The October 12, 2016 postings appear to be the last new materials added to udfexposed.com. Concurrent with the lifting of the trading halt of UDF IV's shares on Nasdaq and the beginning of trading over the counter in the grey market, on October 19, 2016, the short interest in UDF IV dropped from 4,348,014 shares on October 14, 2016 to 848,658 shares on October 31, 2016. (See Annex 8, previously discussed at paragraph 51). This appears to show that Defendants closed out their short position in UDF IV during that time period, and having profited, felt no need to continue attacking UDF.

154. UDFEXPOSED.com was still a live website and all of the materials were still available as of the date of this affidavit.

Defendants Took Affirmative Acts Beyond the Web Site Postings to Attack UDF

155. It is my understanding and belief that anonymous packages were sent to city officials in Farmer's Branch, Texas that were considering zoning and planning matters that involved Centurion, containing materials designed to cause delays in Centurion projects, including some of the false statements contained in Defendants' posts. Because of the controversy, UDF was unable to participate in the developments with Centurion.

156. On December 4, 2015, Defendants sent their letter to Whitley Penn attacking UDF's business. (See Annex 10). On June 8, 2016, UDF announced it had hired the highly-reputable firm of Eisner Amper as its new accountants. Eisner Amper informed me that shortly after this announcement, it received packages containing the false information on Defendants'

website, including hard copies of the articles on udfexposed.com, first anonymously and then a second time from Kyle Bass.

157. Defendants' on-going attacks negatively affected UDF's ability to provide timely financial statements and related Form 10-K and Form 10-Q filings. UDF IV received notice on March 17, 2016 from the Nasdaq Listings Qualifications Department stating because it had not yet filed its 2015 Form 10-K with the SEC, it was not in compliance with the continued listing requirement in Nasdaq Listing Rule 5250(c)(1). In response to that notice, UDF IV appealed to the Nasdaq Hearings Panel (the "Panel"). UDF IV received written notice on July 25, 2016 that the Panel had determined to continue listing its securities on Nasdaq subject to the condition that, by September 12, 2016, UDF IV evidenced compliance with Nasdaq Listing Rule 5250(c)(1) by filing all necessary periodic reports with the SEC. UDF IV subsequently requested an extension of such September 12, 2016 filing deadline, and the Panel granted an extension of the deadline to October 17, 2016.

158. Hayman hired a "Securities & Corporate Governance" partner from the Washington, D.C. office of the giant law firm of Morgan Lewis & Bockius to send an October 4, 2016 letter on behalf of Hayman to the Nasdaq Listings Qualification Department. The letter raised questions about the viability of UDF IV, and asked Nasdaq not to grant UDF IV any further extensions of time, and to delist UDF IV. The letter copied "P. Lewis." It is my understanding and belief that "P. Lewis" is Parker Lewis, a Hayman employee. A true and correct copy of the letter is attached hereto as Annex 42.

159. UDF IV was not able to meet the filing deadline and the Panel did not grant an additional extension to UDF IV. Trading in UDF IV's shares on Nasdaq was suspended effective

October 19, 2016, and on that date UDF IV's shares began trading on the over the counter grey market.

160. Once UDF IV's shares began trading again, Defendants would have been able to close out their short position.

Defendants' Malice

161. I have read the affidavits of J. Kyle Bass and Parker Lewis filed in this case to support Defendants' Motion to Dismiss Under the TCPA. Those affidavits claim that Defendants' statements regarding UDF were supported by "extensive research" of "SEC filings, county court records, county land and deed recordings, central appraisal district websites, the Secretary of State taxable entities search records and visits to various [unnamed] sites." Lewis Affidavit ¶ 12. Bass also refers to his "over twenty-five years of industry experiences" as supporting Defendants' statements. Bass Affidavit, ¶ 16. Bass also confirms Defendants reviewed "thousands of pages of documents" from the same public sources Lewis cites. Bass Affidavit, ¶ 22.

162. The affidavits also state that Defendants' publication of statements regarding UDF was "principally guided by both the public interest and a fiduciary responsibility to Hayman's investors" and that they made their statements in "good faith." See, e.g., Lewis Affidavit at ¶ 15, Bass Affidavit at ¶ 17.

163. The public records both Bass and Lewis swear they reviewed directly contradict Defendants' statements and disprove them. Likewise, Bass' industry experiences disprove many of Defendants' statements.

164. Prior to the time Defendants claim they first started their research on UDF, the short position in UDF IV was virtually non-existent. By the time Defendants state they first

began sending their UDF stories to the SEC, the short position was over 1 million shares. After Defendants state they met with the FBI, the short position grew to over 2 million shares. At the time of Defendants' first publication, the short position was over 4 million shares. See Annex 8.

165. UDF IV became a hard to borrow stock, and that short sellers had to pay negative rebates (borrowing fees) of up to 50% annual interest rate in order to borrow the stock, making it very expensive to carry the trade.

166. Defendants have now admitted their short position was millions of shares. That means that Defendants were paying significant fees to carry that position during 2015, and incurring significant fees on a daily basis to carry the position. If UDF IV's stock price did not drop significantly, Defendants would lose money.

Defendants never spoke to UDF or any third parties prior to publishing their false statements

167. On December 10, 2015, I became aware of the anonymous blog page on www.hvst.com that had been created on December 9, 2015 and where Defendants had published their first post regarding UDF on December 10, 2015. At that time, I was not yet certain that Defendants were the publisher of the blog. As detailed above, that post falsely accused UDF of being a fraudulent, worthless Ponzi scheme on the verge of collapse. On December 11, 2015, I became aware of an additional anonymous post which continued to state UDF was a Ponzi scheme analogous to Enron, Madoff and Stanford.

168. Prior to publishing these posts, and indeed during the two years of "extensive research" Defendants state they conducted, not once to the best of my knowledge did Mr. Lewis or anyone representing Defendants contact UDF to ask a single question.

169. Hayman Capital analyst Parker Lewis was a participant in at least three UDF IV investor conference calls during the time he states he was researching UDF - March 3, May 6

and August 5, 2015. A true and correct copy of UDF IV's records of his participation in those calls, as well as the transcripts from those calls are attached hereto as Annex 43. Despite participating in these calls and having full access to those who could have answered his questions, Mr. Lewis never asked a single question.

170. Defendants' affidavits make no mention of ever making any inquiries to anyone regarding any of their research. I am not aware of any of UDF's business partners being contacted by Defendants to ask any questions, other than our lenders, Waterfall Finance 4, LLC and its affiliates. It is my understanding and belief that in late 2014 or early 2015, a researcher who worked for Defendants contacted Waterfall and asked whether they had any issues with the collateral for the Waterfall \$35 million loan to UDF IV, and that Waterfall told them they had no issues whatsoever with UDF IV or the loan collateral. The only other communications I am aware of between Defendants and UDF's business partners are the one-way communication referenced in Bass' affidavit where he states that he "share[d] the conclusions [Hayman] derived from the UDF related research."

Defendants' sources they relied upon for their research contradict their statements and showed they were false

171. The entire premise of the initial posts (December 10 and 11, 2015) as well as many supporting statements are contradicted by the public records Defendants "extensively" reviewed, as well as Bass' business experiences.

172. Defendants' premise that Whitley Penn's decision not to stand for reappointment was evidence of fraud is directly contradicted by Whitley Penn's November 24, 2015 letter to the SEC which states that its decision had nothing to do with any disagreements with UDF, and that Whitley Penn stood by UDF's financial statements that Whitley Penn previously audited. See

Annex 9. Whitley Penn has never amended its statement to the SEC, despite Defendants' anonymous letter setting forth Defendants' statements about UDF. Whitley Penn is a reputable Texas accounting firm that to my knowledge has never been accused of fraud.

173. I am aware of the publicly-available December 11, 2015 Street Watchdog article "Is Prison Time in the Cards for UDF Short Sellers" which states that the reporter contacted the managing partner of Whitley Penn and he confirmed "that while the CPA firm did not stand for reappointment, this was not a reflection of any improprieties whatsoever in UDF's financial statements." A true and correct copy is attached hereto as Annex 44.

174. Defendants state that UDF's business was not legitimate because loans accrue interest without ever generating cash receipts. But Defendants stated that they reviewed materials which would have shown Defendants that there are legitimate business reasons related to the lifecycle of development for loans to accrue interest, as well as showing the loans did in fact provide cash receipts. Parker Lewis also participated in earnings calls where this information was presented and discussed.

175. UDF's public filings routinely explain legitimate reasons for the accrual of interest on loans. UDF's public filings repeatedly and rationally explain the life cycle of development, explaining that the cash flow comes at the later stages of the project.

176. Earning calls that Parker Lewis attended also provided this information. For example, on the May 6, 2015 call, UDF IV responded to questions from another participant regarding its interest accrual on loans versus its cash receipts. Ben Wissink provided a detailed response (Annex 43 at page five of the Q1 2015 Earnings Call) (emphasis added):

We've really built out a portfolio of three types of loans. We have home construction loans, which are at current pay, they pay interest on a current basis, on a monthly basis. We have finished lot loans, which can or can't be current pay. Generally, they are

current pay. And then we have acquisition and development loans, which are generally accrual-based loans, so they're non-cash income, and we've built out the portfolio to manage the liquidity with the very liquid home construction loans and finished lot loans in conjunction with the accrual-based acquisition and development loans. As those acquisition and development loans are generating the next generation of finished lots, *so there is going to be a period of time while the land is being acquired and titled [sic] and developed that there is not liquidity event for that transaction, but when you get to a finished lot situation you have a great deal of liquidity as homebuilders are buying those finished lots as well as the great liquidity within our interim construction portfolio.*

177. Hayman Woods, Bass' prior fund, itself invested in a development loan which provided for the accrual of interest. See Annex 5.

178. As to the Defendants' claim that UDF's loans did not generate cash receipts, UDF's public filings confirm UDF loans routinely do routinely generate cash receipts. See paragraph 80, and Annex 13.

179. In the same May 6, 2015 call Parker Lewis attended, UDF IV's Ms. Dwyer discussed how for the year ending December 2014, UDF IV had "\$47.2 million in cash flow from operations and we paid distributions of \$42 million. So as we have gotten our portfolio fully invested and we have some leveraging at the portfolio, we're now generating cash flows on an annual basis that are covering the distribution [to shareholders]." Annex 43 at page five of the Q1 2015 transcript.

180. Defendants' used statements that Centurion was "insolvent" and unable to pay UDF's loans to support their assertion that UDF's business was a billion-dollar house of cards and Ponzi scheme. This is also contradicted by several publicly-available sources. UDF IV's public filings which Defendants reviewed established Centurion made significant cash payments. As set forth previously, large amounts of publicly-available information also show Centurion's repeated successes and financial strength, including its reputation in the community as one of the

most "resilient" developers in recent history. Defendants' admitted review of public records and recorded liens would have shown that Centurion had access to multiple sources of debt financing, including extensive commercial banking relationships. Defendants' admitted review of public records and recorded liens would have also shown that many homebuilders made earnest money deposits with Centurion under land or finished lot purchase contracts. As discussed in paragraph 50 above, Centurion was the winning bidder on the Stoneleigh, and it was awarded that bid by the Court.

181. Defendants state that Centurion's loans at 13% were well above market rate. But Defendants' own "reports" cite to interest rates of 12% charged by lenders unaffiliated with UDF. "The assignment to Trez Capital indicates that CTMGT Alpha Ranch, LLC repaid its original senior lender by refinancing with a different alternative, non-bank lender. Trez Capital's senior loans average approximately 12% according to a public filing." (See Annex 41 at page six).

182. Defendants state that UDF was "underwater." UDF's financials which Defendants admit they reviewed contradict this statement. (See, e.g., Annex 46 (True and correct copies of (True and correct copies of the Consolidated Balance Sheets of UDF III and UDF IV from December 31, 2014 10-Ks and of UDF III, UDF IV and UDF V from September 30, 2015 10-Qs, showing assets well in excess of liabilities)

183. Another one of Defendants' themes is that the investment by different UDF Funds in a single development over the course of its lifecycle was evidence of a Ponzi scheme. UDF's public filings contained the Allocation Agreement and Participation Agreement by and among the UDF Funds. See Annex 2. These agreements set forth a rational and reasoned basis for allocating investment capital between the funds. This contradicts Defendants' statement that

the sole purpose of investments by different UDF Funds in a single development was to funnel capital to cover up a Ponzi scheme.

184. One of the cornerstones of Defendants' fraud and Ponzi claims concerns Shahan Prairie. Defendants point to Shahan Prairie as evidence that Centurion is not a real developer and is not developing properties, but rather is part of a fraudulent Ponzi scheme with UDF where the loan money for development is being misappropriated. Defendants state repeatedly that Shahan Prairie is still raw land, and that no development has taken place there.

185. Multiple public filings which Defendants state they reviewed show that to be false because development had taken place. Defendants admit they reviewed county land and deed recordings and set forth portions of some of those recordings in their December 11, 2015 post. Those recordings disclosed the existence of the Municipal Utility District covering Shahan Prairie, which is a sign of development taking place. See Annex 20. The existence of the district is also readily confirmed on a Texas government website. See Annex 19. The recordings Defendants reviewed also show Centurion had entered into finished lot contracts with reputable builders, one national and one regional, for three-quarters of the lots. See Annex 21, and paragraph 95 above. This is also evidence of development progress – no rational builder would enter into contracts to buy finished lots that they did not believe were going to be developed and ready for sale in the near future.

186. Defendants publish in their December 11, 2015 post an excerpt from UDF V's June 9, 2015 8-K (in barely legible size) that discloses that the Shahan Prairie loan is secured by "subordinate lien deed of trust...assignments of builder lot sales contracts, assignments of developer reimbursements." See Annex 17 at p. 8. Defendants only enlarge and highlight a single sentence from this excerpt that they are relying upon, but they had to have been aware of

the section that shows the existence of the lot contracts and municipal reimbursements flowing from the creation of the MUD as they reproduced this section in their post.

187. The photograph of Shahan Prairie from the street that Defendants post to support their lack of development/misappropriation/fraud theme does not accurately show the state of development. There were readily available aerial images on Google Earth of the entire parcel that showed mass grading and road cuts on approximately half the property. Defendants chose instead to take a selective snapshot, which appears to have been taken from a car, of a tiny portion of the property at the perimeter of the development which shows an area with no such grading or road cuts. See Annex 17 at page six (Defendants' photo), compared to Annex 18 (aerial of entire site).

188. One source of the aerial images showing development was the same website Defendants cite as their source for selective items in their post. See Annex 17 at p. 4, citing their "Source" of other items as <http://centurionamerican.com/community/shahan-prairie>. That same section of Centurion's website contained a link to an aerial image of the property showing development had occurred. It has since been removed as Centurion has sold the project, but I personally viewed and observed the link to the aerial image on Centurion's website on or around December 2015, which was substantially similar to the Google Maps images contained in Annex 18.

189. Defendants stated that the property adjacent to Centurion's was developed by Taylor Duncan in less than four years – with the property being acquired in 2012 and finished lots delivered in 2015. The falsity of this statement is shown in the same Denton county deed recordings that Defendants admit they reviewed. See Annex 17, (Defendants' December 11, 2015 article at the Appendix, stating a source for their publication was "Denton County, Texas

deed records”); Annex 23 (copies of Denton County, Texas deed records showing the adjacent development was purchased in 2004). These Denton county deeds for the adjacent property establish it was acquired in 2004, not 2012.

190. The adjacent developer’s own press release, available on its website, also confirms that it purchased the property in 2004 and development took over 11 years. See Annex 22 (Taylor Duncan partner Larry Taylor quoted as stating: “We bought the property in 2004.”) Defendants include a diagram that appears to be from that same website. See Annex 17 at p. 5 (Diagram of Wildridge development containing the Taylor Duncan logo contained in Defendants’ December 11, 2015 post), and Annex 47 (enlargement of diagram to show Taylor Duncan as the source).

UDF’s December 14, 2015 8-K responding to Defendants’ posts pointed out the falsity of Defendants’ statements

191. On December 14, 2015, UDF IV filed an 8-K responding to Defendants’ first two anonymous posts. See Annex 25. UDF IV stated its belief that the posts were part of an illegal short and distort scheme intended to manipulate the market and that the posts contained misleading statements, speculation and rumors. We explained that the author of the posts either misunderstood or misrepresented many fundamentals of our business, and that a review of our public filings would show the truth about our business. Additionally, we set forth six pages of specific facts rebutting Defendants’ allegations.

192. For example, we addressed Defendants’ claim that UDF is a Ponzi scheme because it is using money raised in subsequent UDF funds to pay off earlier loans made by other funds. At page eight we explained our business reasons for such investments (which had been previously explained in multiple public filings):

UDF has underwritten and funded the development of thousands of single-family lots and the construction of thousands of homes. Under the Allocation Policy Agreement, which has been filed with the SEC, each investment opportunity (an opportunity to purchase, originate or invest in a transaction) that qualifies for the investment criteria, yield requirements, cash flow expectations, investment horizon and risk tolerances of any two or more UDF funds, shall be allocated to the UDF fund with the highest cash available percentage, which is a ratio of cash available for investment over total equity invested for the qualifying UDF funds, as defined in the Allocation Policy Agreement. The refinancing of land acquisition or earlier development stage loans by later development stage loans is an ordinary course activity in the residential single family development life cycle. Lenders, including third party lenders or UDF, may invest in different loans relating to the same development project in the ordinary course of business. Secured lenders that have made loans to borrowers during earlier development stages of a project, which may be either third-party lenders or UDF, will receive payments from the borrower in return for a partial or full release of the collateral that is proceeding through the residential development life cycle. UDF capitalizes on the advantage of investing in projects previously underwritten and actively monitored by UDF as those projects move through the development stages. Investments in later development stages benefit from UDF's earlier underwriting and portfolio monitoring activities.

193. We also addressed (page six) Defendants' claim that UDF was not a "legitimate lender" because it concentrates its lending with three borrowers:

We are primarily an asset-based lender and as such, our loans are underwritten based on collateral value. By design, we concentrate our lending to seasoned and accomplished builders and developers. Our largest group of related borrowers represents one of the largest single-family developers in North Texas. This developer does business with many of the largest homebuilders in the Texas markets. Our transactions with this group are on arms-length terms, and our loan terms with this group are generally the same as loan terms with our other borrowers.

194. As to Defendants' statements that interest accrual and loan extensions without extension fees were further evidence of a Ponzi scheme and that our collateral was worthless, we explained (pages five through six):

We evaluate each loan and its underlying collateral or business purpose on a quarterly basis. For our secured loans, we prepare detailed cash flow analyses using assumptions such as the land purchase price, projected development costs and expected cash flows from land parcel sales and finished lot sales, many of which are based on executed lot sales contracts between our borrowers and homebuilders. This information is available to our auditors for the quarterly reviews and annual audits of our financial statements. We

believe the balances on our balance sheet are properly presented. UDF IV's shareholder equity at September 30, 2015 totaled \$510.2 million, or \$16.63 per share.

Most of our loans allow for interest accrual, which causes the loan balance to increase. Some projects may start development right away, while others may have various entitlement processes to complete before development begins. The value of collateral securing our loans generally increases as projects gain entitlements and move through the development stages. In addition, many of the projects we finance are multi-phase projects that may extend for several years, with different phases moving into development at different times. Once a project generates cash flows, payments are first applied to accrued but unpaid interest and then to principal. Our underwriting considers the expected asset life and the associated financing costs. We recognize interest income and record accrued interest on the loans where full collectability is considered probable.

In the ordinary course of our business, as with other lenders, consistent with multi-phase residential development financing, the expected life of some projects is anticipated to exceed the original term of the loan. Because extensions are a normal part of our business, we generally do not charge an extension fee. When this occurs, as provided for in our business model, we evaluate the performance of the underlying collateral and determine whether to extend the maturity date of the loan. As of September 30, 2015, management has assessed all UDF IV matured loans and determined that collectability is probable. As of September 30, 2015, management has assessed all UDF III matured loans and of these 6 loans, full collectability is considered probable for 2 loans with an aggregate unpaid principal balance of approximately \$109.6 million, full collectability is considered more likely than not, but not probable, for 3 loans with an aggregate unpaid principal balance of approximately \$25.0 million, and 1 note receivable with an aggregate unpaid principal balance of approximately \$5.3 million was deemed as probable that we will be unable to collect all amounts due. In addition to the 6 loans considered impaired due to the loans remaining outstanding beyond the contractual terms of the loan agreements, UDF III had one loan with an aggregate unpaid principal balance of approximately \$11 million that was considered impaired due to the estimated value of the underlying collateral and as such, full collectability on this loan is considered more likely than not, but not probable, as of September 30, 2015.

195. As to Defendants' Shahan Prairie allegations, UDF responded as follows,

showing there was genuine development (at pages eight and nine):

Shahan Prairie illustrates the allocation of financing opportunities through the lifecycle of a single-family residential development, from land acquisition and development to the sale of finished lots to homebuilders.

Shahan Prairie consists of approximately 102 acres of land in Denton County that is being developed into 402 single family detached lots. The offsite roads, water and sewer for this project are subject to a joint development agreement with an adjacent property. In 2004, United Development Funding, L.P. (“UDF I”) originated a loan to fund the land acquisition. At that time, the owners of Shahan Prairie and the owners of the adjacent property were working jointly on development agreements and contracts to bring offsite roads, water and sewer to both properties.

Upon completion of these agreements, the borrower sought additional financing to fund the commencement of the development in 2007. At this time, UDF I had completed its capital raising activities and its capital was fully invested. In accordance with the participation agreement between the UDF funds, UDF III originated a subordinated development loan in 2007 to the borrower to fund excavation on 211 of the 402 planned lots. UDF I was repaid by the borrower at this time and the UDF I collateral was released. Mass grading was completed and a plat for these 211 lots was prepared.

After this point, the adjacent property underwent several ownership changes over the next few years, which delayed the completion of the offsite improvements. The owner of Shahan Prairie continued to add value to the property by obtaining enhancements to the entitlements associated with the 102 acres.

Upon completion of the off-site improvements, the borrower sought financing for the completion of the development. At this time, UDF III had completed its capital raising activities and its capital was fully invested. In accordance with the allocation policy agreement between the UDF funds, UDF V provided a subordinated development loan in June 2015 to the borrower for the completion of 402 lots. As a result, the borrower repaid the UDF III loan and the UDF III lien was released.

All 402 lots in Shahan Prairie are currently under option contracts to two builders – a national homebuilder and a large regional homebuilder.

196. We also responded to other points, such as Defendants’ discussion of litigation in the ordinary course of business as evidencing a financial fraud. As to Defendants’ allegations of the accountant’s complicity in the purported scheme, we reiterated (page eight) that:

As noted in the Forms 8-K filed by each Company on November 24, 2015, we have had no disagreements with our auditors, and our prior audits did not include an adverse opinion, disclaimer of opinion or a qualified or modified opinion. Each Company is presently in discussions to engage a new independent registered public accounting firm for the fiscal year ending December 31, 2015.

After reading UDF's 8-K Defendants republished their original posts without any changes and published new false posts the next day that continued to ignore the facts contained in Defendants' own research sources as well as facts contained in UDF's 8-K

197. Defendants state in their December 15, 2015 post that they were aware of UDF's December 14, 2015 8-K and that the 8-K responded to Defendants' allegations. See Annex 27 at p. 1. To the best of my knowledge, at no time did anyone representing Defendants ever contact UDF to ask any questions regarding the 8-K.

198. On December 14, 2015, after UDF published its 8-K, I observed additional posts on Defendants' Harvest page. Defendants republished in their entirety, with no changes, all of their prior posts. As detailed above, UDF's 8-K had pointed out the falsity of Defendants' prior posts, including providing information that Defendants could have easily verified themselves. However, Defendants republished the same exact false statements within hours of UDF's release of its 8-K.

199. It was particularly shocking to me that as to Shahan Prairie, UDF's 8-K confirmed the existence of a joint development agreement between Centurion and the adjacent land-owner and explained the joint history of both developments that went back to 2004. Defendants could have easily confirmed these facts through multiple public sources (see paragraphs 98 to 99). Yet Defendants immediately republished their Shahan Prairie story that relied heavily upon their false statement that the adjacent developer purchased the property and began developing it in 2012.

200. On December 15, 2015, Defendants attacked with yet another post. See Annex 27. Defendants summarily dismiss UDF's detailed explanations as to why Defendants' prior posts were false, stating: "[m]anagement has been misleading investors for years, and its response continues further down the path of deception," and later stating "UDF's management

began deceiving its fund investors essentially from the beginning.” In other words, rather than contact UDF to discuss its response to the anonymous allegations, Defendants, in another anonymous post, dismissed UDF’s explanation as lies.

201. These statements were false. UDF did not deceive its investors in its December 14, 2015 SEC filing. UDF management has not intentionally misled or deceived investors at any point in time. Whitley Penn was UDF’s public accounting firm for twelve years and has confirmed in SEC filings that it stands by its public reports.

202. UDF stated in its 8-K that Centurion is a seasoned and accomplished developer. Many facts are available in the public domain that show this to be true. (See paragraph 27-29, 209-204). Bass himself was a party to a Court proceeding where a United States Bankruptcy court awarded Centurion the purchase of a property, passing over Bass’ bid. (See paragraph 50).

203. Defendants’ sources they relied upon as the basis for their research also contains multiple publications and other information that shows Centurion is seasoned and accomplished. Defendants used Centurion’s website, as a “source” for their Shahan Prairie article. See Annex 17, at page four (citing www.centurionamerica.com as a source for information contained in their report). Defendants’ source also includes a list of over twenty-five awards given to various Centurion developments by the Dallas Builders Association, the Dallas Business Journal, DMagazine, Greater Fort Worth Builders Association, NW Metroport Chamber of Commerce and Texas Golf Magazine spanning the timeframe from 1993 to 2015. Annex 48.

204. That same website contains a list of over six website pages of news articles that Centurion posted from February 12, 2012 through November 20, 2015. Annex 49. Those items include articles regarding:

- Centurion’s award for Developer of the Year from the Fort Worth Builder’s Association

- Centurion's award for Master Planned Community of the Year in 2014
- The Dallas Business Journal's announcement of Centurion being the Largest Residential Developer in 2011, and developing four of the twenty top Largest Residential Developments from 2011-2012
- The Dallas Business Journal announcement of Mehrdad Moaydi being selected as the 2010 Merger and Acquisition Dealmaker and Deals of the Year
- Dozens of articles about Centurion's successful acquisition and development of multiple projects.

205. Defendants ignored their own research source and continued to state that Centurion was not a legitimate developer. See, e.g., Annex 27 at pages 5-6 (December 15, 2015 post) (discussing why the reader should discredit UDF's statement that Centurion was a seasoned and accomplished developer and a good credit risk).

206. Defendants state that "real" developers only pay 5% interest, and Centurion's payment of 13% was well above market. Part of Bass' "25 years experiences" he states in his affidavit that he relied upon in coming to his conclusions regarding UDF included running a real estate investment fund that provided loans to support real property developments. See paragraph 46, and Bass Aff. ¶ 16. Early stage loans in the vicinity of 13% were commonplace in the development industry and it is well-known in the real estate development world that 5% interest rates were typically not available for the type of loans being made by UDF to Centurion. Bass' own real estate fund was lending to developers at 14% comprising a one-year loan with a 2% origination fee and 12% annual interest. See Annex 5.

207. It is well-known in the industry that acquisition and development loans typically involve higher interest rates, even for seasoned and accomplished developers, because they are early stage loans with higher risk. It is also well-known that after the Great Recession banks generally avoided making such loans, preferring to focus on low-rate, low-risk, late-stage loans

and would typically not make such early-stage loans at anywhere close to 5% interest.

Defendants use a loan from Trez Capital to Centurion as a source for their story. See Annex 17 at page eighteen (containing reproduction of Trez Capital deed of trust on Shahan Prairie loan to Centurion.) The Trez Capital loan was made at a 12% interest rate plus fees. See paragraphs 73, 181.

208. Defendants repeated their attack on Shahan Prairie despite of the 8-K that UDF had just filed. Defendants again stated in their December 15 posts “there is simply no development,” that “Shahan Prairie continues to consist of undeveloped land,” stated that the “authorities” would not believe the loans to Centurion were legitimate, and that “Shahan Prairie is just one example of many to come.” See Annex 27 at pages 6-7.

209. In addition to pointing out that the adjacent developer Defendants characterized as a “real developer” had developed the property in the same time line as Centurion, UDF’s 8-K also listed the development work that had taken place at Shahan Prairie – entitlements were obtained, and subsequently enhanced, over half (211) of the lots were excavated and mass graded, a lot plat prepared, and that all lots were under contract with reputable builders. UDF also discussed the adjacent land owner and Centurion had been working jointly on development agreements and contracts to bring offsite road, water and sewer to both properties. See Annex 25 at pages seven through eight. Defendants ignored these facts.

Defendants’ February 4, 2016 through October 12, 2016 posts continue to ignore the facts contained in Defendants’ own research sources as well as the facts contained in UDF’s 8-K

210. From December 15, 2015 through Defendants’ next post on February 4, 2016, Defendants still never contacted UDF.

211. After December 15, 2015, UDF IV's stock began to rebound from Defendants' attack. The stock hit a low of \$8.55 after Defendants' mid-December posts. By December 31, 2015, the stock was \$11.00. As of January 29, 2016, shortly before Defendants' next posts the stock was trading at \$10.57 per share. As of January 29, 2016, the short interest in UDF IV's shares was over 4.3 million shares.

212. On February 4, 2016, Defendants publicly admitted for the first time that they had a significant short interest in UDF IV shares. Defendants' February 4 through October 12, 2016 posts built on their same false theme as the December 2015 posts, making the same allegations in bigger and bolder fonts and on a proprietary, sensational webpage. Defendants continued to say, in contradiction to the facts in their own research sources and UDF's 8-K (as detailed above in paragraphs 191 through 196) that UDF was a Ponzi scheme, that its business was on the verge of collapse, that Centurion was not a legitimate developer, that loans to Centurion did not generate cash receipts and were being misappropriated, that Shahan Prairie was not a "real development" and evidence of the fraudulent scheme, etc.

213. Defendants repeatedly claimed there was an impending bankruptcy that would leave UDF IV's shares worthless. Besides UDF's balance sheets showing assets that were almost a billion dollars in excess of liabilities, I have reason to believe Bass himself lives in Dallas and is an experienced real estate investor, including in the residential subdivision context. He would have been familiar with the fact that the collateral supporting UDF's loans was valuable land, that was improving in value over time due both to its development and to the fact that single-family homes were in great demand and short supply in the Texas market and land for such homes had been appreciating over time. Defendants themselves note this reality in their December 10, 2015 post. See Annex 12 at page 3 (noting "the macroeconomic arguments"

regarding “the strength of the housing recovery, the strength of the Texas economy specifically and, ultimately rising asset values that have followed” “make perfect sense.”). Yet he relentlessly pushed his theme that UDF’s business was not genuine and had no value.

214. Defendants also stated that UDF disclosed in SEC filings that it “has not invested in loans secured by unimproved real property,” and that UDF was “misleading investors” in not making that disclosure, and investors should be alarmed that “no construction is taking place” at certain properties because that was inconsistent with UDF’s disclosures. But UDF’s development was genuine. Defendants were misleadingly conflating a lack of construction with unimproved real property. Property in development is in fact improved real property, like Shahan Prairie.

215. Defendants in many of their posts point to UDF’s inability to immediately pay off over \$200 million in bank debt as evidence that UDF’s stated book value of assets in excess of \$680 million was false. Defendants would have understood, given Defendants’ “expansive industry experience in financial reporting, restructuring, accounting, and evaluating financial disclosures” (Bass Aff. ¶22) that even with a book value well in excess of debt, given the nature of the collateral, there would still be a liquidity issue in raising the funds quickly to pay off the loans. Defendants would have also understood that there would be a liquidity issue in raising the funds quickly as Parker Lewis heard this from UDF on the May 6, 2015 investor call. (See paragraph 169).

216. After Defendants published their UDFEXPOSED website, Bass is quoted in a February 12, 2016 Dallas Morning News Article, as challenging UDF to “show us where we are wrong.” See, Annex 40. Bass never contacted UDF to give them that opportunity prior to Defendants’ anonymous publications and the launch of their website. UDF did tell Bass where

he was wrong on many of his facts in our December 14, 2015 8-K. Defendants disregarded these facts, republished old allegations, published new, similar allegations and eventually launched a website.

217. As set forth in paragraph 139, Defendants purchased Google Ads and started a twitter feed to drive traffic to their UDFEXPOSED website. Defendants coached visitors to their website to file complaints with the SEC and to join in lawsuits against UDF that copied Defendants' allegations. Attached hereto as Annex 50 is a true and correct copy of that section of www.udfexposed.com.

218. Steve Kaskovich is the **business editor** of the Fort Worth Star-Telegram. On February 17, 2016, he wrote UDF and stated "I am writing about the company in the wake of the online campaign being waged by Dallas hedge fund operator Kyle Bass. I have reviewed your financial filings with the SEC and other background materials, which obviously tell a very different story than Mr. Bass alleges." A true and correct copy of that email to UDF is attached hereto as Annex 51.

The Harm Defendants' Actions Caused UDF

Internal resources and third-party costs were incurred in direct response to Defendants' actions

219. After the www.hvst.com posts first appeared December 10, 2015, investors, financial advisors, banks, other lenders and journalists immediately started calling and emailing UDF, demanding responses to the allegations. The allegations in the posts had such a widespread impact, that by the next day, 589 registered representatives dialed in for a UDF conference call specifically set to address the allegations. As new postings appeared, and then the udfexposed.com website, additional inquiries poured in by phone and email. UDF's phone

was ringing off the hook in the days after the initial posts and we were swamped with emails. From that point on, UDF's personnel had to spend significant amounts of time responding to the fallout from Defendants' attack. From December 10, 2015 through the filing of this complaint, I personally spent the majority of my time handling the fall-out from Defendants' actions. Other UDF executives also spent significant amounts of time on these matters as well.

220. The vast majority of the questions focused on the allegations that UDF was a fraudulent "Ponzi" scheme, its collateral worthless, and that UDF was at risk from having too many loans concentrated with Centurion, an insolvent borrower. Investors and sales representatives also expressed concern that such a high-profile investor (allegedly through rumor as the attack was anonymous) was attacking UDF.

221. In addition to taking up massive amounts of UDF's time, UDF was forced to hire several third parties to respond to the fallout from Defendants' actions. These include, among others: a public relations firm and attorneys to assist in responding in the media; attorneys to issue cease-and-desist letters to title companies repeating false Bass accusations; accounting experts and law firms to defend UDF and named individuals in class actions and derivative lawsuits filed based on Defendants' postings; the Thompson & Knight law firm to conduct an independent investigation of Defendants' allegations and a Big Four global accounting firm to assist with the independent investigation. UDF was forced to pay legal bills submitted by banks for the research done to confirm their collateral in response to Bass' allegations, and incurred

increased insurance and accounting expenses. Some specific examples of these costs are set forth below.¹⁰

222. UDF IV hired ICR, Inc. (“ICR”), a public relations firm on December 11, 2015 to assist in responding to Defendants’ attacks. A true and correct copy of UDF IV’s Project Agreement for services relating to “crises response,” as well as ICR’s invoices, are attached hereto as Annex 52. UDF disputed the amount of the invoices and ultimately paid ICR \$63,750.

223. In direct response to the Defendants’ December 2015 postings, UDF IV’s Audit Committee commissioned an independent investigation in December 2015 by the law firm Thompson & Knight LLP with the assistance of independent forensic accountants at a Big Four global accounting firm. The purpose of the independent investigation was to review Defendants’ allegations. A true and correct copy of UDF’s press release regarding the investigation, is attached hereto as Annex 53. UDF paid more than \$1.6 million for the independent investigation.

224. One of our lenders, Capital Bank, submitted a legal bill to UDF IV (our loan agreement required us to pay legal fees), which it paid “for legal services pertaining to the Ponzi allegations” from December 11, 2015 to February 28, 2016. A true and correct copy of that email and excerpts from the attached invoice showing the \$8,445 charge is attached hereto as Annex 55. The bank’s research confirmed there were no issues with the collateral for the UDF IV loans.

¹⁰ I have not attempted to enumerate all of the damage Defendants caused to UDF, given the sheer volume of examples of direct and specific harm and the fact that UDF has not yet had discovery in this case to determine the full extent of the harm caused by Defendants’ actions.

225. UDF was also required to reimburse one of its lenders, Origin Bank, at least \$18,000 in attorneys' fees in connection with loan modification agreements the bank required as a direct result of Defendants' attack. (See paragraphs 240-241 below).

Defendants caused UDF to lose credit

226. UDF's primary source of revenue and therefore profits is the interest earned on loans to its borrowers. UDF has two primary sources of capital to make these loans: bank credit facilities and investor equity. UDF uses this capital to issue loans to real estate developers in various stages of development. If UDF cannot maintain its existing capital and raise new capital, it loses its ability to continue to finance and to expand its business (and therefore sustain and increase its profits) through funding either existing communities or new loans to developers.

227. In response to the Defendants' posts, UDF's banks almost immediately began reducing UDF's existing credit lines and revolving credit facilities. Defendants' actions caused UDF's banks and other lenders to reduce or eliminate UDF's current and future credit, accelerate payments on existing loans and otherwise provide less capital and/or favorable terms to UDF. The banks began taking such action the first week after Defendants began their attack on December 10, 2015.

228. As of 9/30/15, the UDF entities had outstanding loans to UDF's borrowers totaling over \$1.2 billion with a weighted average interest rate of approximately 14.4%. (UMT, \$29 million, weighted average interest rate 11.2%; UDF I/II, \$133 million average return 23.9%; UDF III, \$398 million, weighted average interest rate of 13.8%; UDF IV \$626 million, weighted average interest rate 13.1%; UDF V, \$46 million, interest rate 13%; UDFLOF LP, \$19 million, weighted average interest rate 14.4%). Overall, these numbers were substantially the same as of December 10, 2015.

229. As of 9/30/15, the UDF Funds had outstanding bank loan balances and notes payable to Waterfall of \$217,366,164. The interest rates charged to UDF by banks ranged from 4.125% to 7.25%, and the Waterfall notes charged approximately 10%. The \$35 million loan from Waterfall was used to finance a tender for UDF IV shares in conjunction with its listing on Nasdaq, so it was not used to re-lend. The \$15 million loan from Waterfall was used to re-lend. UDF IV's average rate paid on its bank loans was 4.40% excluding Waterfall. These numbers were substantially the same as of December 10, 2015.

230. When UDF funds the loans with capital from banks, UDF earns the spread between the bank interest rate and the rate charged to UDF's borrowers. For example, UDF III's interest rate spread between the approximate weighted average 13.8% interest it charges to its borrowers and the bank rate of 6% was approximately 7.8% as of September 30, 2015. UDF IV's interest rate spread between the standard 13% interest it charges its borrowers and its weighted average bank interest rate of approximately 4.4% was approximately 8.6% as of September 30, 2015. UDF V's spread between the 13% interest it charges its borrowers and the weighted average bank interest rate of approximately 4.5% was approximately 8.5%. Also, UMT had an interest rate spread between the 13% interest it charged its borrowers and the average bank interest rate of approximately 5.1% of approximately 7.9% as of September 30, 2015.

231. Additionally, UDF had unused lines of credits totaling over \$80 million (UDF IV \$49.1 million, UMT \$16 million, UDF I \$9 million, UDF III \$5 million, UDF V \$1 million). These represented additional funds the banks had approved that UDF could borrow to fund additional needs of its borrowers. Also, when a piece of property that was collateral for the bank loan was sold, the banks would normally require UDF to provide 50-60 percent of the proceeds

from the sale to pay down its loan/line of credit. UDF could use the remaining cash to re-lend to developers. The banks also routinely extended loan maturity dates whenever the loan facilities expired. Many of the bank loans had been routinely extended for multiple years in a row, with two-year extensions being commonplace. Banks often would not charge extension fees for such extensions.

232. Prior to December 10, 2015, banks extended the maturity dates of their loans to UDF. The parties sometimes signed loan modification agreements extending the maturity date after the date had passed because lenders and borrowers on good terms, such as UDF and its banks, assumed or explicitly agreed that loans would be extended and then documented the extension in a modification in writing later. In such cases, the parties typically made the extension or modification effective as of the maturity date so that no event of default occurred. Occasionally, the parties simply extended the loan while ignoring the fact that the maturity date had briefly passed without repayment. Either way, such occurrences by themselves do not indicate either a monetary default or an inability to pay on UDF's behalf, but instead are part of an ongoing banking relationship.

233. Right after the Defendants' attack began, the banks changed their dealings with UDF significantly as part of an overall effort to terminate their relationship with UDF. Unused lines of credit were cancelled. Banks demanded 100% of proceeds from sale of collateral to pay down their debt instead of allowing UDF to keep 40-50% to reinvest and operate its business. Banks refused extensions and/or drastically changed the terms of such extensions (only granting a few months, charging higher fees and requiring additional appraisals and other due diligence and reporting by UDF).

234. As a result of Defendants' attacks, by December 31, 2017, UDF's outstanding bank loans and Waterfall notes had been reduced from \$217,366,164 at September 30, 2015 to \$5,941,116. Unused lines of credit totaling over \$80 million were cancelled. Just the simple interest lost from the previously deployed capital is at least \$18 million per year (UDF's average spread of approximately 8.6% on this capital that disappeared due to Defendants' attack). This loss of interest injured Plaintiffs UMT and UDF I, UDF III, UDF IV and UDF V. Waterfall accelerated repayments of its loans and increased its interest rate from 10% to 12.5%, causing UDF IV to incur additional interest costs to carry these loans until they were repaid.

235. Additionally, the loss of the banks' willingness to do business with UDF prevented UDF from taking out new loans with the banks to fund the new borrower funding needs UDF had in the pipeline as of December 2015. Several banks had expressed an interest in expanding their credit to UDF prior to the attack.

236. For example, as to Legacy Bank, prior to the attacks, UDF III had a \$10 million revolving term loan and a \$5 million revolving line of credit. These had been in place since March, 2014, and had been renewed on September 21, 2015 through January 1 and March 21, 2016. True and correct copies of these loan documents are attached hereto as Annex 56. Prior to the Defendants' initial posts, the parties had been discussing renewal terms to again continue the loans in the ordinary course of business.

237. All that changed immediately after the first posts. Legacy contacted UDF about the Defendants' postings on December 11, 2015, and bank executives came to UDF's offices for a meeting on December 15, 2015 during which they expressed concern about Defendants' postings. They were specifically concerned about the Ponzi allegations and the attacks on UDF's collateral.

238. On December 18, 2015, Legacy informed UDF that “recent news articles regarding the family of UDF entities have raised issues of concern within our organization.” Legacy did not offer renewals of the loans. Instead, on December 29, 2015, Legacy sent documents changing the terms so that UDF III could not make any more draws on the loan or line of credit and instead required repayment. The parties executed modification and renewal documents that reflect these changes. At December 31, 2015 there was \$8.75 million outstanding. The loan balance as of December 31, 2017 was \$1,131,970. True and correct copies of the correspondence with Legacy Bank referenced above and the loan modification agreements are attached hereto as Annex 57.¹¹

239. UDF IV also had two lines of credit with Legacy Bank with outstanding balances totaling approximately \$14.1 million as of September 30, 2015. These lines had renewed March 25, 2015 and August 5, 2015. Pursuant to Legacy’s decision not to do any further business with UDF after December 10, 2015 beyond its existing obligations, the first line was paid in full on July 18, 2016. The second \$10 million line has been paid down to \$268,549 as of April 20, 2018. No additional advances were allowed after December 10, 2015.

240. Origin Bank was UDF IV’s largest lender at the time of Defendants’ attacks. UDF IV had three revolving loans with Origin with note amounts totaling \$70 million and outstanding balances totaling approximately \$52 million as of September 30, 2015. The loans had been in place since 2010 and 2013, and had been renewed in mid-2015. True and correct copies of such loans are attached hereto as Annex 58.

¹¹ One page of Annex 57, a letter from Alice Anne Brown to UDF III is dated December 18, 2016. This is a typographical error, as the letter was sent as an attachment to a December 18, 2015 email, which names the attachment as “UDF Letter 12-18-15.pdf.”

241. The week after Defendants' first postings, Origin expressed its concern about the postings, specifically the Ponzi allegations and the attacks on UDF's collateral. In an email sent on December 18, 2015, Origin listed its new terms. Origin reduced its loan commitment from \$70 million to \$47.6 million and required 100% of cash from sales of collateral to go to the bank. The bank also required additional appraisals of collateral at UDF's expense. These changes are reflected in fully-executed loan modification agreements, true and correct copies of which are attached hereto as Annex 59.

242. Independent Bank was another UDF IV lender at the time of the attack. UDF IV had a \$15 million revolving loan with an outstanding balance of approximately \$13.8 million at September 30, 2015 that was due for renewal on December 5, 2015. True and correct copies of the loan documents are attached hereto as Annex 60. Jonathan Sparling was the bank officer communicating with UDF. The bank offered UDF IV renewal terms and discussed increasing the amount. On December 11, 2015 UDF IV told the bank that its lawyers were working on renewal documents and that it wanted to move forward on the offered terms.

243. However, on December 11, 2015, the bank suddenly changed the terms: the loan would no longer be revolving – the balance of \$12.8 million would need to be paid down and 100% of the proceeds of a pending \$5 million borrower repayment would be applied to the loan balance. UDF asked for better terms, but the bank rejected. The bank told us they could no longer do business with UDF due to “pressure from investors” regarding Defendants' allegations. Mr. Sparling told UDF that the bank was getting questions from analysts about its UDF loans. A loan modification agreement was executed on December 31, 2015, which provided for no further advances, a \$6.3 million pay down of principal, and 100% net proceeds of all future borrower repayments going to the bank. The loan was repaid in full in February

2016. A true and correct copy of the referenced emails and loan modification agreements are attached hereto as Annex 61.

244. Sovereign Bank approved a \$10 million line of credit for UDF V on November 12, 2015. Casey Hozer was UDF's contact at the bank. Prior to December 10, 2015, Mr. Hozer had stated that the bank would like to look at raising the credit line to \$15 million once UDF V had raised more equity. On November 12, 2015, Mr. Hozer wrote UDF as to UDF V: "We approved a \$10m line of credit. However, we would like to look at this in 6 months once you have raised more equity to ascertain increasing the approval to \$15m." On December 18, 2015, the bank informed UDF V that "[u]pon further internal review, Sovereign Bank regrets to inform you that we are unable to approve the proposed credit facility at this time." A true and correct copy of these two emails is attached hereto as Annex 62.

245. At the time of the attack, UDF had the following loans and lines of credit with Veritex Bank: UDF I - \$10 million (since 2013), UDF IV - \$14.5 million (since July 2012), UMT- \$4.3 million (since May 2011), UDF V - \$12.5 million (Since November 2014). Draws on these loans had been funded as recently as December 2, 2015.

246. On December 15, 2015, Veritex requested a meeting about the Defendants' posts, and on December 17, 2015, UDF representatives met with bank representatives. At the meeting, they expressed concern about what they had heard in the Defendants' postings, most prominently the allegations of a Ponzi scheme and worthless collateral. After the December 10, 2015 posts, Veritex stopped originating any new business with UDF, and required UDF to pay all outstanding loan amounts, which UDF fully paid by November 2016.

247. Affiliated Bank had a \$7.5 million line of credit to UDF IV existing on December 10, 2015. The bank had also indicated to me prior to December 10, 2015 that they were

interested in doing more business with UDF. On December 14, 2015, Jeff Bridges, one of UDF's bankers at Affiliated Bank wrote us: "Need to speak with you regarding the status of the line and various events I'm reading about this weekend." On December 17, 2015, bank executives including Gary Graham came in to UDF and met with me. They expressed concern about the statements in the posts, specifically the Ponzi allegations and the attacks on UDF's collateral. They said the bank wanted to exit this credit line, and wanted to apply 100% of the proceeds of a pending Centurion asset sale to the debt. The line was paid off in April 2016.

248. All of UDF's other banks also contacted UDF in the days after the initial posts, and most ceased doing business with UDF at some point after December 10, 2015. As of December 10, 2015, UDF IV had a \$15 million credit facility with American Momentum Bank, a \$15 million line with Prosperity Bank, and a \$10 million line with Bank SNB, while UMT had \$5 million credit facility with Texas Capital Bank, and a \$15 million credit facility with Southwest Bancorp. Each of these banks also expressed concerns about the Defendants' posts beginning in December 2015, and began changing their relationships with UDF in direct response to the posts. Today, virtually none of this credit remains (~\$5.9 million of the \$297.4 credit facility capacity and Waterfall notes). As discussed above, this loss of credit resulted in lost profits on the spread between UDF's borrowing rate and its lending rate.

249. Defendants' actions caused UDF's reduced access to credit and caused UDF to lose profits on and/or equity in loans that UDF sold, liquidated or that borrowers repaid so that UDF could pay down their debts to their banks. For example, UDFLOF, LP and UDFLOF, LLC were harmed when UDFLOF, LP had to divest its ownership interest in Centurion's Residences at Stoneleigh project at a loss. UDFLOF, LP had to do so because the viability of the project was at risk as a result of Defendants' allegations against UDF. Brokers expressed an

unwillingness to show the building to new buyers, prospective buyers backed out of reservations to purchase units and numerous current homeowners pressured Moayedhi to get UDF out of the Stoneleigh ownership structure. UDFLOF, LLC suffered damages as profits from UDFLOF, LP flowed to that entity.

Defendants caused UDF to lose investor capital

250. UDF's second source of capital to lend is investor equity. Defendants' actions also caused UDF to lose current and future investors. This was one of the stated intentions of Defendants' scheme. Bass admits that he intended to stop investors from investing a billion dollars in UDF and claims to have accomplished that. Bass was quoted on February 12, 2016 in the Dallas Morning News as taking credit for stopping the next billion of investor money from flowing into UDF: "We have saved the 20,000 or 30,000 mom-and-pops from giving \$10,000 to \$100,000 to these guys and losing it all. Our civic duty is to get the next billion not to invest." See Annex 40. The "next billion" in investor funds that Bass credits himself with stopping came from two separate capital-raising vehicles.

251. The UDF Funds had previously successfully raised over \$1.0 billion in investor capital between 2003 and December 2015. At the time of the Defendants' attacks, UDF was continuing its growth through another investor funding vehicle. This capital raise, described below, would have brought \$1 billion in new capital to UDF. UDF planned to use this new capital to lend additional money to its borrowers on projects that were in UDF's pipeline and to lend on new projects with new borrowers in markets outside of Texas.

252. UDF V sought to sell 37,500,000 shares of beneficial interest for \$20.00 per share and 13,157,895 shares of beneficial interest through a DRIP for \$19 per share for total offering proceeds of \$1,000,000,000. There were several indications that there was a demand for this

new investment and that, but for Defendants attack, UDF would have sold these shares in the predicted three-year offering period. Prior to attacks -UDF V had sold 2,856,056 shares, for total proceeds of \$56,848,344. The capital raise commenced in December 2014. This was projected to be a three-year offering period and sales had ramped-up at a normal pace for the first year. Monthly sales from October 2014 through December 10, 2015 had been in a range of \$2.5M-\$6M per month. Because of Defendants' unlawful attack on UDF, UDF V could only sell 2,952,526 shares, for total proceeds of \$58,758,097. As set forth in paragraph 84, several UDF V brokers suspended this offering immediately (the same day or the next day) after the December 10, 2015 posts were published.

253. In December 2015, UDF V was in the process of switching the managing broker dealer for this offering. Emerson Equity LLC was interested in serving as UDF V's new managing broker dealer and had initiated due diligence on the offering. As soon as the Bass attacks started, the process of switching broker dealers was held up due to extra due diligence the Defendants' harsh, false allegations triggered. Ultimately, UDF V terminated the offering on March 4, 2016.

254. In December 2015, UMT had been raising \$30 million in capital through an exclusive placement with Berthel Fisher ("Berthel"). Berthel had raised over \$8 million. Immediately after the first posts, Berthel ceased such offering and the remaining funds were never raised. See paragraph 84 and Annex 15.

255. UDF IV sought to raise up to \$175,000,000 through a five-year fixed rate senior secured term loan that UDF IV was on the verge of marketing in late 2015. UDF IV planned to use this money to repay its notes to Waterfall and to lend to borrowers for additional projects and earn profits on the interest spread.

256. UDF IV had a robust pipeline of potential loans in Texas, Florida and the Carolinas, and had proven its ability to deploy capital quickly and effectively. UDF IV had consistently grown at a steady rate. It is my belief that based on UDF IV's history, if Defendants had not attacked UDF, UDF IV would have raised these funds under the anticipated timeframe and terms. Assuming UDF IV's 8.6% spread, this would have increased profits by over \$53 million over five years.

257. Defendants' attacks made it impossible for UDF IV to proceed with this fundraising.

Defendants caused UDF to lose business

258. Defendants' actions also caused its existing borrowers, including but not limited to Centurion, Harris & Straub Development Partners, David Weekley Homes and affiliates of True Homes, to reduce their existing and future business with Plaintiffs.

259. As of September 30, 2015, two and a half months prior to the Bass attacks, UDF had outstanding loans to borrowers totaling over \$1.2 billion (UMT, UDF I, III, IV, V, UDFLOF LP). Additionally, the 4th quarter 2015 pipeline report showed hundreds of millions in new deals in UDF's pipeline. These numbers were substantially the same just prior to the attack.

260. The Defendants' attacks harmed this deployment of capital in multiple ways. UDF received lots of questions from borrowers after the attack asking: "Are you going to be able to fund?" Also, UDF had to work with some of its borrowers to sell or refinance their assets to provide UDF with liquidity to pay back the banks that were canceling UDF's credit facilities because of Defendants' attack.

261. Additionally, because of the widespread negative press on UDF resulting from Defendants' anonymous posts, homebuilders, developers and their banks did not want UDF tied

to their capital or projects in any way. To the extent UDF had existing loans, many UDF borrowers needed to get UDF “out of the capital stack.” This is something UDF repeatedly heard from our developer and homebuilder clients. Additionally, UDF has been required to release its lien on projects in several cases because the builders did not want to be associated with a project in the UDF capital stack, which resulted in UDF’s security position/collateral position for the loan being negatively impacted.

262. Several borrowers refinanced their existing loans away from UDF or sold assets to pay back their loans. By December 31, 2016, UDF’s loan balances to borrowers had shrunk from over \$1.2 billion to approximately \$882 million (loan balances shrunk at UMT, UDF I, UDF III and UDF IV). This cost these UDF entities over \$45 million in lost revenue per year.

263. UDF also had profit participation interests included in some of its loans. UDF lost its profit participation in at least two loans due to Defendants’ attacks. An entity called UDF IV Woodcreek, Inc. (a UDF IV subsidiary) was a party to a Profits Interest Agreement with Southstar Woodcreek Developer, LLC (a Florida developer operating in Texas). The liquidity crunch Bass created caused a refinancing of this debt, and as a result, UDF had to give up its profit participation interest. UDF IV released its interest in this profits agreement on March 30, 2016 and to the best of my knowledge, lost millions of dollars from the release of the profits agreement.

264. UDF V is a party to a December 2014 loan to Rosehill Reserve, Harrigan Development Partners and Thomas Hargrove. UDF V agreed to provide up to \$42M to partially fund the acquisition of property in the Rosehill Reserve development. UDF V was entitled to 100% of all profits up to \$6 million. The agreement was modified on October 12, 2016. The outstanding balance was \$26.4 million. The borrower entered into a new first lien loan for \$24.9

million with a different lender. UDF V had to subordinate its loan, and its profit participation was reduced. Again, this was directly caused by Defendants' anonymous posts.

265. Additionally, UDF lost the opportunity to fund the projects in its pipeline. For over a year from the beginning of the attacks, UDF did not have any new business. From December 31, 2015 through April 19, 2017, UDF only originated \$31 million in new loans.

266. Prior to December 10, 2015, Centurion financed approximately 30% of its loans with various UDF entities. As of September 30, 2015 Centurion had outstanding loans from UMT (\$3 million), UDF I/II (\$57 million), UDF III (\$204 million), UDF IV (\$386 million) and UDF V (\$29 million). In direct response to Defendants' attack, beginning in December 2015, Centurion had to sell off or refinance assets to repay UDF approximately \$167 million. This was required mainly due to the banks' withdrawal of UDF's credit described above in paragraphs 226-249.

267. Centurion also had hundreds of millions of dollars in projected borrowing in the pipeline. Since the attack, Centurion has largely turned to other sources of financing to replace UDF, as stated in the Affidavit of Merhdad Moayedhi.

268. One of the Centurion projects that UDF lost out on was Mercer Crossing. If not for the Defendants' attacks, Centurion would have financed parts of that project with UDF. Centurion has been successfully developing that project with other financing sources. The Dallas News reported on March 20, 2017 in regard to that project:

Centurion American Development Group is kicking off construction on a \$1 billion mixed-use development in Farmers Branch. The Mercer Crossing project on LBJ Freeway west of Interstate 35E has been in the works since 2015, when Centurion American bought 370 acres for the development. Since then, the developer has been working to complete zoning and master planning for the tract of land. The project is planned to include apartments, homes, retail and commercial space.

“Mercer Crossing is the culmination of more than two years of planning with the City of Farmers Branch that takes on a specific theme called Texas Tudor, inspired by English Tudor architecture that also weaves in contemporary Texas style elements,” Mehrdad Moayedj, Centurion American president and CEO, said in a statement. The project is designed with 93 acres of urban commerce construction and 174 acres of residential single-family homes. Builders including M/I Homes, First Texas Homes, Beazer Homes, Megatel Homes, Oakdale Homes and Siena Homes will construct houses in Mercer Crossing, which will have six different neighborhoods.

269. Defendants’ December 2015 posts also directly interfered with a major transaction. In the fourth quarter of 2014, Tom Buffington stated he was going to exit the land development business and sell his land development company. As of September 30, 2015, Buffington’s outstanding loan balance with UDF was \$196 million (UDF I - \$29 million, UDF III - \$99 million, UDF IV - \$68 million).

270. Discussions began with other developers to acquire the ownership interests in the Buffington land portfolio and continue the business plan for each asset. Harris & Straub Development Partners (“Straub”) agreed to be the takeover developer for the central Texas projects, including Austin. Harris & Straub Development Partners and its predecessor firms have developed residential neighborhoods encompassing 3,600 lots valued at over \$250 million. The value of the homes built on those lots exceeds one billion dollars. The firm is one of the largest land and residential developers in the Austin area.

271. In November 2014, Straub purchased approximately 278 acres in Georgetown, Texas called Shadow Canyon, and executed a Purchase Option Agreement for Shadow Canyon that provided a UDF affiliate the option of purchasing the property for \$10. This was done as a prelude to Shadow Canyon being pledged to the Buffington portfolio as additional collateral. A true and correct copy of such agreement is attached hereto as Annex 63.

272. During third quarter of 2015, there was a significant increase in activity in the asset transition, with an intent to complete the transition of the Buffington assets in Q4 2015. In October 2015, UDF executed a term sheet with Buffington regarding transfer of assets to Straub, and engaged Riveron, a financial accounting consultant, to review the proposed structure and related accounting treatment.

273. In November 2015, UDF agreed to principal terms for the acquisition of the Buffington portfolio by Harris & Straub and entered into a Letter of Intent in regards to this transfer. A true and correct copy of such letter is attached hereto as Annex 64. In November 2015, Straub also acquired the Bar W Ranch and executed a purchase option for UDF to acquire it, again to ensure it would be pledged as further collateral to the Buffington portfolio. A true and correct copy of such agreement is attached hereto as Annex 65.

274. By early December 2015, the drafting of the Buffington documentation to effect the transfer of the portfolio had been substantially completed.

275. After the Defendants' posts in December 2015, Straub's son Joe forwarded links to the hvst.com posts to his father, and Straub informed us that he became worried that because of Defendants' anonymous posts asserting UDF's business was a Ponzi scheme, UDF would not have the capital to push forward the projects. Straub stated he was concerned about getting started and having to stop due to lack of funding. True and correct copies of emails from Straub are attached hereto as Annex 66.

276. At this time (December 2015 after Defendants' posts), Straub stopped further pursuit of these acquisitions. At that point, due to the Defendants' posts, UDF had no opportunity to secure any new developers to take over the portfolio for the same reason Straub backed out of the deal.

277. UDF suffered significant losses. The Buffington portfolio was substantially liquidated under the abnormal circumstances caused by Defendants' anonymous allegations for approximately \$40 million in cash. Many of the assets in the Buffington portfolio were purchased by prominent public and regional homebuilders and developers, including D.R. Horton, Century Communities, Gehan Homes and RSI Communities. These projects were sold at significant discounts to market value to generate liquidity for UDF to repay lenders, resulting in a significant transfer of value from UDF's investors to these homebuilders. The UDF I debt forgiveness was \$33 million, and UDF III was \$122 million. A true and correct copy of UDF III's 8-K reporting these losses is attached hereto as Annex 67.

278. Upon information and belief, these homebuilders have and will continue to profit greatly on these projects.

279. Defendants' actions caused UDF to lose new clients (borrowers) that would have become clients of UDF if Defendants had not falsely attacked UDF's business as alleged herein.

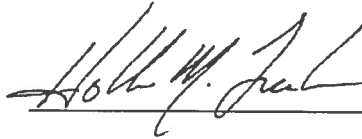
280. David Weekley is the largest private homebuilder in the United States. Prior to Defendants' attacks, it had financed projects in Austin and Orlando with UDF IV, and was looking to do more projects with UDF. After the Bass attacks, Weekley changed course, paid off all outstanding UDF loans in full and ceased doing business with UDF.

281. True Homes is the largest builder in North Carolina (Charlotte). An affiliate of True Homes did two loans with UDF IV, which have both been repaid in full. After December 2015, it did not do any new business with us, although there were several True Homes projects in UDF's pipeline in December 2015. It is my understanding based upon UDF's discussions with this builder that it would do business with UDF if it had the capital.

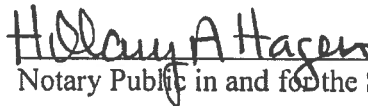
282. Attached hereto as Annex 68 are true and correct copies of UDF III and UDF IV December 2014 Form 10-K public filings, and UDF III, UDF IV and UDF V September 2015 Form 10-Q public filings.

283. I am familiar with the manner in which UDF's records are created and maintained by virtue of my duties and responsibilities. The documents attached hereto as Annex 2, 5, 6, 9, 10, 13, 15, 16, 25, 37, 43, 45, 46, 51-68, are the exact duplicates of the original records. These records are kept in the regular course of business; it was in the regular course of business and regular practice of the UDF Funds that the records were made by—or from information transmitted by—someone with knowledge of the act, event, condition, opinion or diagnosis recorded; and the documents were made at or near the time or reasonably soon thereafter.

FURTHER AFFIANT SAITH NOT.



SUBSCRIBED AND SWORN TO BEFORE ME by the aforesaid Hollis M. Greenlaw on this 5th day of May, 2018, to certify which witness my hand and seal of office.


Notary Public in and for the State of Texas

My commission expires:

5-3-2020

