United Development Funding
Executive Summary

Executive Summary – Why the SEC Should Care

- United Development Funding IV ("UDF IV") markets itself to retail investors as an opportunity to diversify portfolios with "unique and fundamentally sound investments in affordable residential real estate." – UDF IV Website [(1)] (Nasdaq ticker: UDF)

- In reality, UDF IV is a mortgage REIT with a high concentration of risk to a single individual and is part of a larger family of REITs under the United Development Funding ("UDF") umbrella, which operates publicly listed and public non-traded REITs.

- The UDF umbrella exhibits characteristics emblematic of a Ponzi-like scheme:
  - New capital, both equity and debt, is used to fund distributions to existing investors.
  - Subsequent UDF companies provide significant liquidity to earlier vintage UDF companies, allowing them to pay earlier investors.
  - If the funding mechanism funneling retail capital to the latest UDF company is halted, the earlier UDF companies do not appear to be capable of standing alone.

(1) http://www.udfiv.com/

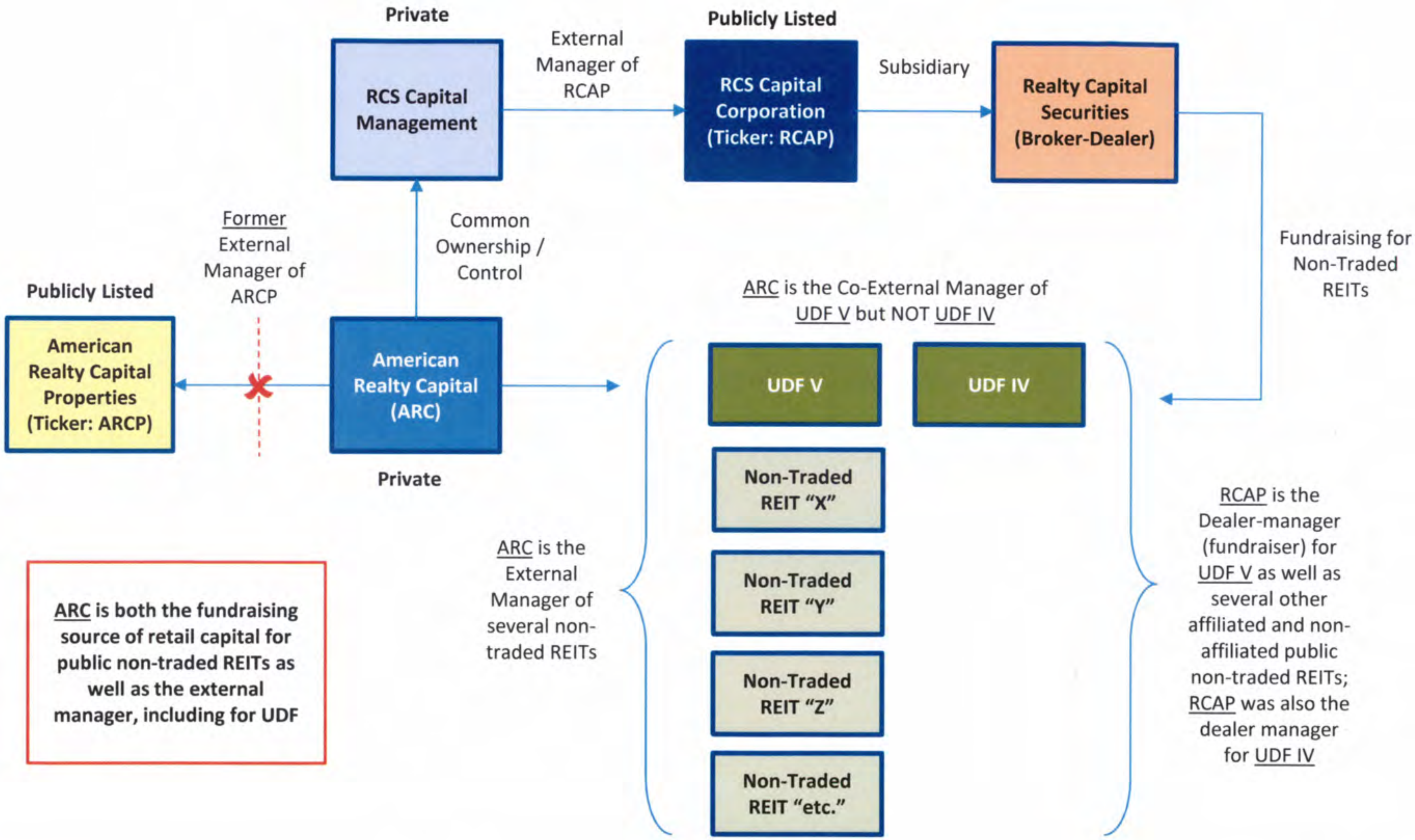
Executive Summary – Why the SEC Should Care (continued)

- The UDF umbrella is able to function as it does because of the following reasons:
  - Broker-dealers steer unsophisticated retail investors to UDF, motivated by high fees and commissions.
  - Disclosures are confusing and, at best, inadequate for the average retail investors that are buying the product
  - UDF fails to adequately disclose important information regarding the significant relationship between its largest borrower and affiliated UDF companies
    - ➢ UDF's largest borrower accounts for over 50% of credit risk and appears to be complicit in perpetuating the scheme
- Across the various United Development Funding companies, there is over $1 BILLION of invested capital at risk.
- Through its registered broker-dealer (Realty Capital Securities, LLC; SEC File No. 8-67727), UDF is currently raising money from unsuspecting retail investors, perpetuating a Ponzi-like scheme and potentially causing significant harm to all UDF-related companies and investors.

The Players Involved

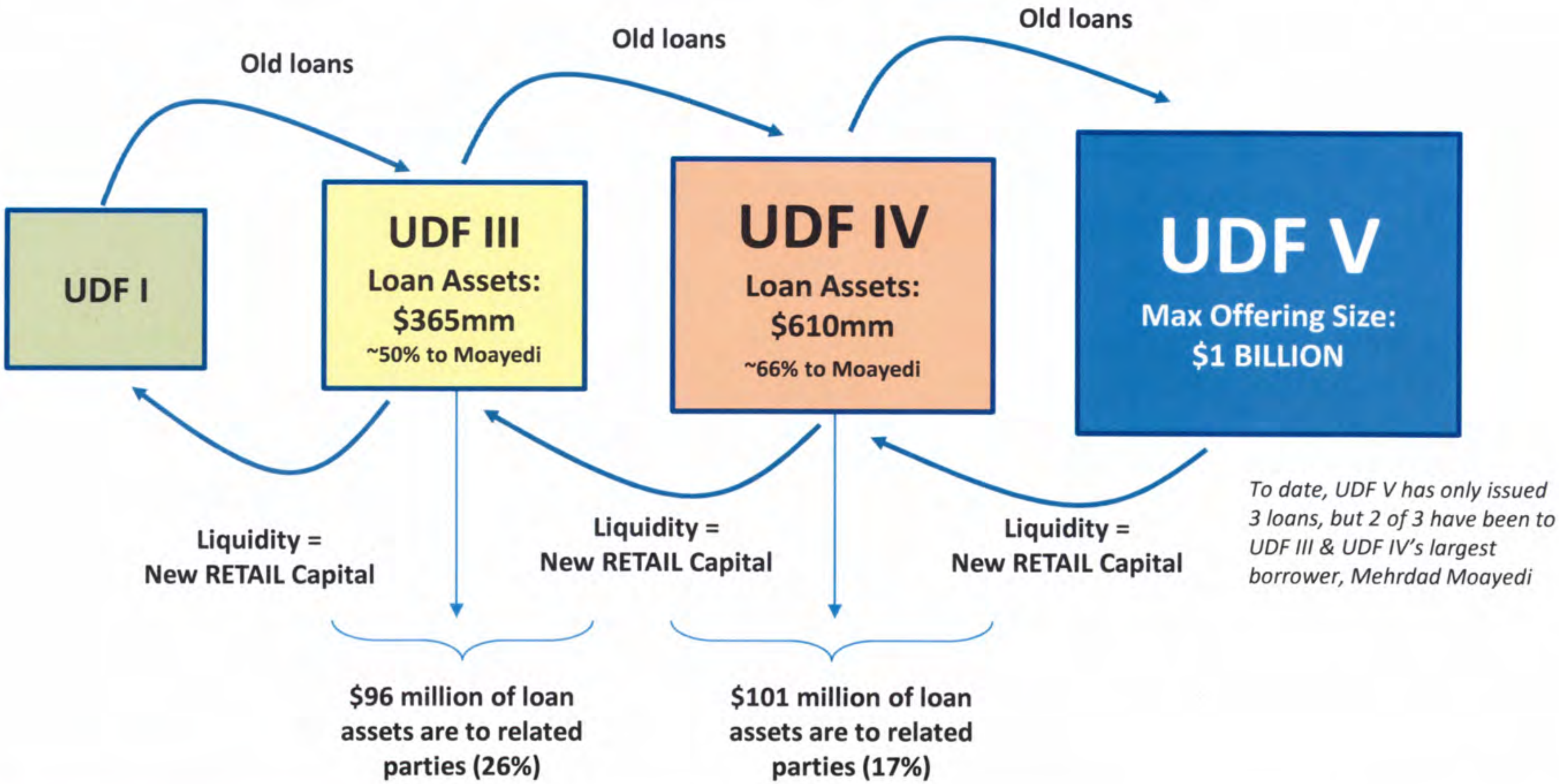
Primary Individual	Entities	Role of Entity(s)
Hollis Greenlaw, CEO	UDF I (private) UDF II (private) UDF III (publicly listed: UNDVL) UDF IV (publicly listed: UDF) UDF V (public non-traded REIT)	Mortgage REIT issuing loans principally to land developers and home builders
Mehrdad Moayedi, CEO	Centurion American (private, various entities): **Example of Entities** CTMGT Land Holdings, LP CTMGT Alpha Ranch, LLC One Windsor Hills, LP	Largest borrower of UDF Based on disclosures, borrower of at least UDF I, UDF III, UDF IV and UDF V. As examples, accounts for 47% of UDF III loans and 62% of UDF IV loans
Nicholas Schorsch, Founder, Former Chairman, Largest holder	RCS Capital Corporation (publicly listed: RCAP) Realty Capital Securities, LLC (sub of RCAP)	Broker-dealer; dealer-manager/ fundraiser for UDF IV and UDF V
Nicholas Schorsch, CEO	American Realty Capital (private)	Co-manager of UDF V with UDF Holdings

Relationship Between UDF, RCAP, ARC and ARCP



A Ponzi-Like Scheme

UDF V has provided liquidity to UDF IV which has provided liquidity to UDF III (among other affiliates) which has provided liquidity to UDF I (among other affiliates); as examples, UDF IV has acquired multiple loans from UDF III that UDF III originated and UDF IV has also directly loaned to other UDF affiliates.



Funding Distributions with New Capital

- UDF promises outsized returns to unsuspecting retail investors.

- However, its assets underperform the outsized promises and as a result, UDF funds a significant portion of promised distributions to shareholders with new equity and debt.

- The issue of funding distributions with new capital is <u>systemic</u> for <u>public non-traded REITs</u>.

- In the case of UDF, the issue is exacerbated because of the poor performing nature of loans to its largest borrower, Mehrdad Moayedi.

- As an example, UDF IV has distributed $113 million to investors; only 60% or $68 million of those distributions have been funded by cash generated by operations.

Funding Distributions with New Capital (continued)

	Cash from Operations	Proceeds from Equity Offering	Borrowings Under Credit Facility	Total Distributions to Shareholders
UDF IV (Former Non-Traded REIT)	$68mm ~60%	$23mm ~20%	$22mm ~20%	$113mm

~40% of shareholder distributions funded by new capital

Source: UDF IV SEC Filings (10Ks/10Qs)

The Motivation to Raise Capital for UDF – High Fees

~13%-15% of an investor's principal is taken off the top, prior to any potential returns being generated and prior to the recurring 2% management fees charged by the Manager (i.e. for every $100 invested, $85-$87 of loans are originated, off of which returns can be generated), a steep price to pay for an illiquid investment.

Type of Fee	Amount of Fee	Beneficiary of Fee
Selling Commissions**	6.5% of gross proceeds	Payable to Dealer Manager, often distributed to broker dealer
Dealer Manager Fees**	3.5% of gross proceeds	Payable to Dealer Manager
Acquisition and Origination Fees	3% of net invested assets	Payable to External Manager
Disposition and Liquidation Fees	2% of net invested assets	Payable to External Manager
Advisory Fees	2% of net invested assets	Payable to External Manager

** No selling commissions and dealer manager fees will be reimbursed with respect to sales under the Distribution Reinvestment Plan (DRIP) in which all required distributions are made in the form of incremental UDF IV shares.

Source: UDF IV Prospectus (S-11)

The Impact of High Fees & Dilutive Distributions

- UDF IV has raised over $750 million in total capital (equity + debt) but has only originated $610 million in assets in the form of loans.
- Total leakage from fees, commissions and distributions funded by new capital in excess of cash generated by underlying assets is ~$142 million (~20% of total capital raised).
- Of this leakage, over $80 million is attributed to upfront fees and commissions, not including loan origination fees that are disclosed to be 3% of asset value, which would add ~$18 million assuming ~$600 million of assets.
- High fees, commissions and offering costs charged by RCAP and other broker-dealers are a <u>systemic</u> issue for <u>public non-traded REITs</u> that create a conflict of interest between financial adviser and clients.
- This conflict of interest results in a significant amount of retail investors being steered toward unsuitable products.
- Consistently, these upfront costs are as high as 13-15% before assets are even acquired that can generate future returns.

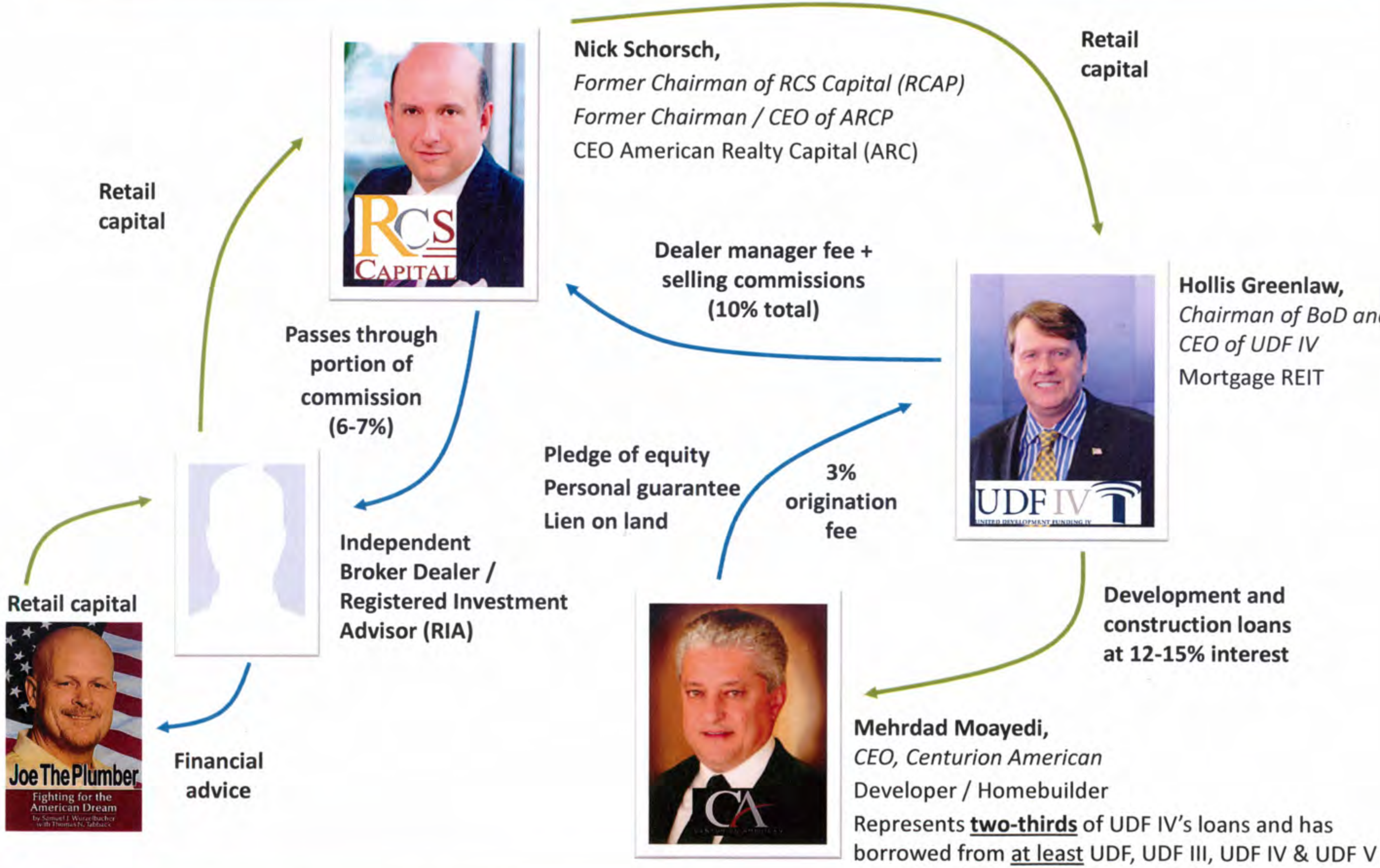
The Impact of High Fees & Dilutive Distributions (continued)

	Net Loan Assets Originated (At Cost)	Total Capital Raised (Equity + Debt)	Net Leakage (Fees, Commissions, Distributions)
UDF IV (Former Non-Traded REIT)	$610 million ~80%	$752 million 100%	$142 million ~20%

~20% leakage on $752 million capital raised

Source: UDF IV SEC Filings (10Ks/10Qs)

The UDF IV Fundraising Mechanism Simplified



Who is UDF's largest borrower?

- Despite advertising a diversified portfolio, over 60% of UDF IV's originations are loans to entities controlled by Mehrdad Moayedi, President and CEO of Centurion American, and a large majority of the underlying collateral is residential developments concentrated in North Texas.
- Moayedi was voted as the 'Dealmaker of the Year' in 2010 by the Dallas Business Journal; in addition to over 20 residential developments, Moayedi developed the Residences at the Stoneleigh luxury high-rise in Dallas and recently acquired the historic Statler Hilton in downtown Dallas.
- Moayedi has borrowed significant amounts of money from UDF I, UDF III, UDF IV and most recently UDF V; loans to Moayedi often move from one UDF company to another UDF company and some pre-date the financial crisis.
- UDF IV alone has over $400 million of its $610 million loan book concentrated in loans to entities controlled by Mehrdad Moayedi; the minimum interest rate on these loans is 12% which implies at least $48 million in annual interest owed to UDF IV, needed to be funded by Moayedi's residential developments.
- Many of the loans and underlying residential developments are significantly underwater; rather than foreclose, UDF kicks the can down the road by amending and extending bad loans or by issuing new loans, often providing liquidity from the latest UDF vintage to an older UDF vintage.
- Because UDF's risk is so concentrated with Moayedi, pulling the plug on him would in turn pull the plug on UDF; to make matters worse, directors and officers of UDF IV share equity interest with Moayedi in the Stoneleigh luxury high-rise in Dallas, which creates a significant conflict of interest that is not disclosed to UDF investors.

Mehrdad Moayedi,
President and CEO

CENTURION AMERICAN

Examples of UDF IV Loans Issued to Moayedi

The three loan examples on this page show how UDF loans with Moayedi entities behave over time: accrue larger and larger balances, have no cash receipts and are extended when the maturity date comes due

These loans had a combined balance of $36mm at 12/31/12; as of 12/31/14, these loans had a combined balance of $60mm, representing ~10% of UDF IV's total loans and have never generated any cash receipts based on UDF IV disclosures.

Source: UDF IV SEC Filings (10Ks/10Qs)

Alpha Ranch History

				Outstanding			Cash Receipts			
Entity	**Date**	**Security**	**Collateral**	**Balance**	**Issue Date**	**Maturity Date**	**2014A**	**2013A**	**2012A**	**2011A**
CTMGT Alpha Ranch	12/31/2012	2nd Lien	1,122 acres	$ 10,960,159	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	3/31/2013	2nd Lien	1,122 acres	$ 12,275,621	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	6/30/2013	2nd Lien	1,122 acres	$ 12,533,731	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	9/30/2013	2nd Lien	1,122 acres	$ 14,111,540	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	12/31/2013	2nd Lien	1,122 acres	$ 14,402,932	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	3/31/2014	2nd Lien	1,122 acres	$ 14,647,153	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	6/30/2014	2nd Lien	3,026 paper lots	$ 14,948,798	7/31/12	7/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	9/30/2014	2nd Lien	3,026 paper lots	$ 17,423,383	7/31/12	10/31/14	$ -	$ -	$ -	$ -
CTMGT Alpha Ranch	12/31/2014	2nd Lien	3,026 paper lots	$ 18,101,263	7/31/12	10/31/15	$ -	$ -	$ -	$ -

One Windsor Hills History

				Outstanding	Windsor 1		Cash Receipts			
Entity	**Date**	**Security**	**Collateral**	**Balance**	**Issue Date**	**Maturity Date**	**2014A**	**2013A**	**2012A**	**2011A**
One Windsor Hills L.P.	12/31/2012	2nd Lien	1,583 acres across 3 notes	$ 18,328,202	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	3/31/2013	2nd Lien	1,583 acres across 3 notes	$ 18,595,887	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	6/30/2013	2nd Lien	1,583 acres across 3 notes	$ 20,037,367	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	9/30/2013	2nd Lien	1,583 acres across 3 notes	$ 20,791,692	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	12/31/2013	2nd Lien	1,990 acres across 4 notes	$ 23,258,122	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	3/31/2014	2nd Lien	1,990 acres across 4 notes	$ 23,826,489	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	6/30/2014	2nd Lien	1,952 acres across 4 notes	$ 25,471,898	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	9/30/2014	2nd Lien	1,952 acres across 4 notes	$ 25,735,171	5/9/12	5/9/15	$ -	$ -	$ -	$ -
One Windsor Hills L.P.	12/31/2014	2nd Lien	1,954 acres across 4 notes	$ 27,855,350	5/9/12	5/9/15	$ -	$ -	$ -	$ -

Granbury History

				Outstanding			Cash Receipts			
Entity	**Date**	**Security**	**Collateral**	**Balance**	**Issue Date**	**Maturity Date**	**2014A**	**2013A**	**2012A**	**2011A**
CTMGT Granbury	12/31/2012	1st Lien	552 acres	$ 7,194,564	5/21/10	5/21/13	$ -	$ -	$ -	$ -
CTMGT Granbury	3/31/2013	1st Lien	552 acres	$ 7,364,766	5/21/10	5/21/13	$ -	$ -	$ -	$ -
CTMGT Granbury	6/30/2013	1st Lien	552 acres	$ 8,450,985	5/21/10	5/21/14	$ -	$ -	$ -	$ -
CTMGT Granbury	9/30/2013	1st Lien	552 acres	$ 8,872,308	5/21/10	5/21/14	$ -	$ -	$ -	$ -
CTMGT Granbury	12/31/2013	1st Lien	552 acres	$ 9,296,497	5/21/10	5/21/14	$ -	$ -	$ -	$ -
CTMGT Granbury	3/31/2014	1st Lien	552 acres	$ 9,510,523	5/21/10	5/21/14	$ -	$ -	$ -	$ -
CTMGT Granbury	6/30/2014	1st/2nd Lien	3,231 Paper Lots, 1,541 Acres	$ 12,213,029	5/21/10	5/21/15	$ -	$ -	$ -	$ -
CTMGT Granbury	9/30/2014	1st/2nd Lien	3,231 Paper Lots, 1,541 Acres	$ 12,323,386	5/21/10	5/21/15	$ -	$ -	$ -	$ -
CTMGT Granbury	12/31/2014	1st/2nd Lien	2,094 Acres	$ 13,900,296	5/21/10	5/21/15	$ -	$ -	$ -	$ -

This is a Programmatic Issue

The SEC's Office of the Investor Advocate recently released its annual report. The report listed what the SEC's Office of the Investor Advocate deemed to be the most serious problems for retail investors going into 2015, one of which is the Non-Traded REIT asset class.

SEC[13]	NASAA[14]	FINRA[15]
Non-traded REITs	Binary Options	Bitcoin—Virtual Currency
Variable Annuities	Marijuana Industry Investments	High-Yield CDs
Virtual Currency	Stream-of-income Investments	Variable Annuities
Binary Options	Digital Currency & Cybersecurity Risks	Bonds—Reverse Convertibles
Private Placement Offerings	Regulation D/Rule 506 Private Offerings	Pre-IPO Offerings
	Pyramid and other Ponzi Schemes	Frontier Funds
	Real Estate Schemes, Including Those Using Promissory Notes	Private Placements
	Affinity Fraud	Public Non-traded REITs
	Internet Fraud, including Social Media and Crowdfunding	Retirement Accounts
	Oil & Gas Investments in the Fracking Era	

Not So Kind Words from the SEC

SEC words used to describe non-traded REITs:

- "Significant upfront costs"
- "External managers...paid high fees...not aligned with shareholders"
- "...often make distributions in excess of taxable income using borrowed funds and offering proceeds"
- "displaying a REIT security's immutable offering price as its per share estimated value...throughout the offering period...which could span several years, notwithstanding the fluctuation in value of the REIT security during that period"

Source: SEC's Office of the Investor Advocate Annual Report.

Two Poster Children of the Non-Traded REIT Industry

- The issues that exist within the UDF structure, specifically related to the high fees and commissions as well as funding distributions with new capital, are systemic of public non-traded REITs, which is how UDF IV originated prior to listing.

- UDF IV appears to be a particularly egregious example because of the Ponzi-like nature of the different UDF vintages as well as the concentration of risk with UDF's largest borrower that has contributed to the scheme being perpetuated.

- RCAP sits at the center because it is the fundraising mechanism between UDF and retail investors.

- RCAP is currently raising capital for UDF V, potentially causing significant harm to past and future retail investors.

- Non-traded REITs are a hot-button issue for the SEC as well as for FINRA; UDF and RCAP are poster children for the harm that can be done to retail investors because of these structures.