

CAUSE NO. CC-17-06253-C

UNITED DEVELOPMENT FUNDING,
L.P., A DELAWARE LIMITED
PARTNERSHIP, *et al.*,

Plaintiffs,

v.

J. KYLE BASS, *et al.*,

Defendants.

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IN THE COUNTY COURT

AT LAW NO. 3

DALLAS COUNTY, TEXAS

AFFIDAVIT OF MEHRDAD MOAYEDI

STATE OF TEXAS

COUNTY OF DALLAS

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BEFORE ME, the undersigned authority, on this day personally appeared Mehrdad Moayedi, 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 Mehrdad Moayedi. I am over eighteen (18) years of age. I have never been convicted of a felony or a crime of moral turpitude. I am of sound mind, and I am fully competent to make this affidavit.

2. I am the founder, CEO, and President of Centurion American Development Group and hold a direct or indirect controlling interest in all of its affiliates (collectively, "Centurion"). I have personal knowledge of the facts stated herein, which are true and correct. I submit this affidavit in connection with the pending lawsuit between plaintiffs United Development Funding, L.P. ("UDF I"), United Development Funding II, L.P. ("UDF II"), United Development Funding III, L.P. ("UDF III"), United Development Funding IV ("UDF IV"), United Development Funding Income Fund V ("UDF V"), United Mortgage Trust ("UMT"), United Development Funding Land Opportunity Fund, L.P. and United Development Funding Land Opportunity Fund Investors, LLC (collectively, "UDF") and defendants J. Kyle Bass, Hayman Capital Management, L.P., Hayman Offshore Management, Inc., Hayman Capital Master Fund, L.P., Hayman Capital Partners, L.P., Hayman Capital Offshore Partners, L.P., and Hayman Investments, LLC (collectively, "Hayman Capital").

3. Centurion is a real estate developer that primarily develops subdivisions, condominiums, and hotels in Texas. Since 1990, Centurion has developed well over 25,000 single-family lots in dozens of premier communities in North Texas. Centurion has demonstrated

the ability to work effectively with landowners, financial institutions, and homebuilders to acquire and undertake development of over 20,000 acres of land inventory, resulting in a diverse mix of developments varying in size and scope. Delivering award-winning communities with impeccable amenities such as parks, golf courses, water park themes, and hiking and biking trails, Centurion has successfully designed master-planned communities that have been recognized across the real estate industry.

4. Centurion is one of the largest developers in Texas and well known as an experienced and successful real estate developer. Centurion has completed or is in the process of completing several high-profile developments, including: (i) the RiverWalk at Central Park in the Town of Flower Mound, which is a 158 acre mixed-use development comprising single-family and multi-family homes along with a central waterway, walking trail, plazas, 46.5 acres of parks with green space, an amphitheater, a chapel, and dining and shopping, (ii) the remodel of the historic Statler Hotel in downtown Dallas and the restoration of the Dallas Public Library, both of which were prominently featured in Dallas media, and (iii) The Residences At The Stoneleigh, which is a classic, 22-story residential high-rise in Dallas, featuring customized condominiums. Centurion's current projects include Mercer Crossing in Farmers Branch, which is planned to feature 2 hotels, 3500 multi-family units, and retail shopping. That project will also include over 800 single-family home sites for townhomes and residential villas, 180,000 square feet of commercial services, and a reserved 48-acres for a future office campus. Signature amenities planned include a 5,000 seat outdoor amphitheater and a residential amenity center with a myriad of amenities like a kid splash park and pool for local homeowners.

5. Centurion has been favorably profiled in various media. For example, in its November 2015 edition, *Dallas Magazine* labeled Centurion as a "diversified real estate powerhouse." See Annex A. A recent article in the *Dallas Morning News* suggested that Centurion should be named developer of the year.

6. Centurion's real estate development projects often involve land acquisition, entitlements, engineering, and the production of finished lots for sale to homebuilders. Because there may be a period of years between the acquisition of land to the time of sale of finished lots to homebuilders, plus the cost of acquiring the land in the first instance, Centurion often requires access to capital to support these projects from inception of completion. There are many reasons why the development of finished lots in real estate development can take years to complete after land is first acquired, including waiting for favorable market conditions to commence development, the uncertainties of the entitlement process, engineering issues, and the establishment of municipal utility districts or public improvement districts.

7. Over many years, Centurion has worked with dozens of lenders to secure capital necessary for development. Those lenders include traditional bank lenders as well as alternative sources of capital from non-bank lenders, such as UDF. UDF is not the only non-bank lender from which Centurion has borrowed.

8. On or about December 10, 2015, I became aware of an anonymous internet post concerning UDF titled "*A Texas-Sized Scheme: Exposing the Darkest Corner of the REIT Business, United Development Funding (UDF)*." A true and correct copy of that post is attached

hereto as Annex B. That post was followed by a second post on December 11 (Annex C) and a third post on December 15 (Annex D). These three posts are collectively referred to hereafter as the “anonymous posts.”

9. As I understood them, the anonymous posts asserted that UDF’s business was not engaged in a legitimate real estate business, but was instead a Ponzi scheme that was making non-market rate loans (at 13%) to an insolvent borrower, Centurion, and strongly implied that the loan proceeds were being misappropriated. That was and continues to be incorrect. The loans were at market rate. Centurion was not, and is not, insolvent. No loan proceeds were misappropriated. Centurion has had no involvement in any Ponzi scheme. Centurion borrows from many lenders, both bank lenders and non-bank lenders, and does so based on what rates and other loan terms it can obtain in the market. Like any borrower, Centurion seeks capital on the best possible terms, but rate is not the only factor. There are other factors, such as how much capital is actually available, for what period of time, with what loan covenants, security and guarantees, etc. Contrary to the assertions in the anonymous posts, loans from UDF to Centurion at 13% interest were market rate loans because those loans were competitive with what was available from other lenders for development loans. It is commonplace for real estate developers like Centurion to borrow money at higher interest rates from alternative lenders where bank capital is not available in a sufficient amount for the necessary period of time or where bank capital is subject to unfavorable terms and conditions.

10. On page five of the December 15, 2015 anonymous post, the author asserted that Centurion was not a seasoned and accomplished developer because seasoned and accomplished developers do not borrow capital to finance residential development at 13% interest. See Annex D. This was and continues to be incorrect. Centurion is a seasoned and accomplished developer. Centurion, like other developers, will borrow at lower rates as stated above in paragraphs 7 and 9; however, Centurion, like other developers, will also borrow at higher rates, including 13%, to satisfy its capital needs. In deciding whether to enter into such a loan, a seasoned and accomplished developer will consider the value of the development opportunity before it, not just the interest rate on the loan. Some factors in measuring the value of a development opportunity include the expected return, the trends in market conditions, and the carrying cost of the loan, etc.

11. On its website, Hayman Capital asserted that UDF’s loans to Centurion were “irregular” because the loans “do not generate any cash (principal or interest).”¹ *Irregular Loan Patterns Related to UDF’s Largest Borrower*, Annex E at 3. This assertion was and continues to be incorrect. In truth, loans from UDF to Centurion generated cash. There was nothing “irregular” about the “loan patterns” and alleged lack of cash generated. Loans to a real estate developer will not generate cash in the same manner as, for example, a shopping mall generates cash. In real estate development of residential subdivisions, an individual loan will generate cash at some points in time, but not others. When reviewing a large portfolio of loans at a particular time, it is to be expected that some loans will be generating cash while others will not be

¹ Comparable statements were made in the December 10 and 15 anonymous posts. Annex B, Letter to Whitley Penn, at 2 (stating that “[l]oans appear to accrue larger and larger balances for years...without ever generating any cash receipts”); Annex D, at 7 (stating that “loans to Centurion regularly (i) do not generate any cash (principal or interest)...”).

generating cash. The reasons are obvious enough in the residential subdivision context: (i) raw land typically does not generate cash; (ii) land in the entitlement process typically does not generate cash; (iii) land being engineered typically does not generate cash; and (iv) land where lots are being finished typically does not generate cash. If and when finished lots are completed, cash typically is generated, and repayment can be made. Cash may sometimes be generated in other ways, such as through “MUD” (municipal utility district) reimbursements. Real estate development tends to go through long dry periods followed by cash-generating events. That is why it was incorrect for Hayman Capital to state: “In a typical development loan, interest is ‘accrued’ and then paid (typically within 30-45 days); in the case of UDF, interest is typically not paid but instead, is accrued. Annex E, at 2. Interest on a typical development loan is not paid by the developer within 30 to 45 days; that would, in fact, be quite out of the ordinary. Instead, the interest is either funded or accrued by the lender. Either way, the developer typically does not pay cash within 30 to 45 days because the real estate project must reach certain milestones in the development process, as affected by various contingencies (such as the unpredictable entitlement process), before it generates significant cash to pay interest. The ordinary development loan assumes that the development is not generating cash such that cash will be used to pay interest within 30 to 45 days.

12. Based on the widespread and negative reaction among Centurion’s lenders to the anonymous posts, I was immediately concerned that UDF would not be able to provide the necessary funding for ongoing projects. As a result, in January 2016, I began discussions with DR Horton, the largest homebuilder in the United States, about the possible sale of ongoing development projects. These negotiations eventually resulted in the sale of six projects to DR Horton, with those projects named as follows: Regatta, Shahan Prairie, Sinclair, Southern Colony, Travis Ranch, and Williamsburg. But for the anonymous posts and the widespread and intense negative reaction in the real estate community, Centurion would not have sold these projects to DR Horton because Centurion believed that these projects would be successful projects (which has subsequently proven to be true for DR Horton).

13. Although Centurion did not believe the assertions contained in the anonymous posts, it could not ignore the fallout from the posts. In response to the anonymous posts, Centurion suspended entering into any new loans with UDF because of the extreme negative reaction to the posts from Centurion’s lenders, homebuilder clients, and other third parties. For example, prior to December 10, 2015, Centurion had intended to borrow money from UDF in connection with the Mercer Crossing project in Farmers Branch. However, because of the package of the anonymous posts and Hayman Capital’s publications that was provided to the Mayor of Farmers Branch and the resulting controversy that ensued as to whether UDF’s business was a Ponzi scheme, I had to remove UDF as a lender in that project in order to obtain project approval. The Farmers Branch Mayor and City Council explicitly raised with me some of the same allegations in that package of posts and publications,² specifically that UDF was a Ponzi scheme in order to pressure me to remove UDF as a lender on the project, which I did. As reflected in the attached article in the *Dallas Morning News*, Centurion is moving that project forward successfully today with other lenders. See Annex F.

² The Mayor declared that he received a package of anonymous posts and publications and distributed it to the City Council.

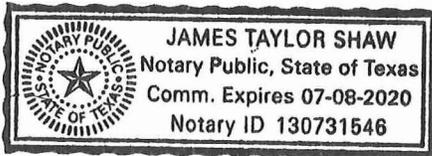
14. Centurion's loan balance with UDF steadily decreased since the anonymous posts. But for the assertions in the anonymous posts (as stated in paragraph 9) and the intense negative reaction of Centurion's lenders, homebuilder clients, and others, Centurion would have continued entering into new loans with UDF. As of December 10, 2015, there was an extensive pipeline of new projects where Centurion and UDF had planned to work together as developer and lender, amounting to hundreds of millions of dollars. Unfortunately, after December 10, 2015, none of those new projects went forward with UDF as a lender.

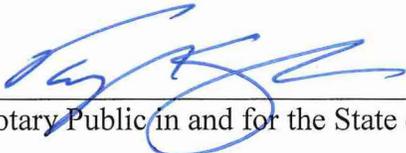
15. More than two years after the anonymous posts were published, Centurion continues to operate successfully as a real estate developer, completing projects such as RiverWalk in Flower Mound and continuing to develop projects such as Mercer Crossing in Farmers Branch.

FURTHER AFFIANT SAITH NOT.



SUBSCRIBED AND SWORN TO BEFORE ME by the aforesaid Mehrdad Moayedi on this 28th day of March 2018, to certify which witness my hand and seal of office.





Notary Public in and for the State of Texas

My commission expires:

7/8/2020