

BRINGING DOWN THE HOUSE

HAYMAN CAPITAL MANAGEMENT IS NO LONGER SHORT UNITED DEVELOPMENT FUNDING IV BUT WILL NOT LET UP ON ITS CLAIMS OF FRAUD. ELEANOR O'DONNELL EXPLAINS WHY THE SHORT SELLER IS ADAMANT THE COMPANY WILL GO BANKRUPT.

UNITED DEVELOPMENT FUNDING IV



SECTOR:
FINANCIAL



MARKET CAP:
\$132M (MICRO CAP)



EXCHANGE:
OTC PINK



TICKER:
UDFI



HQ:
GRAPEVINE, TX

Hayman Capital Management has not been short any United Development Funding IV (UDF) shares since 2016, but the short seller is far from done at the company. Only a couple of months ago, Hayman predicted the company will go bankrupt and has told *Activist Insight Monthly* that those responsible for fraud will be arrested and sent to prison.

UDF is a residential real estate investment trust (REIT) that loans capital to homebuilders and land developers, who repay on the completion and sale of projects.

In December 2015, Hayman contended in an anonymous report that development sites serving as collateral to loans in most instances were non-income producing raw land, even though some loans were issued 10 years prior. This begged the question: where was the money going if not to the development sites?

The short seller went public with its claim that UDF was operating a Ponzi scheme worth billions of dollars, funding distributions to existing shareholders by raising new capital from unassuming retail investors. The allegation pushed the company's stock price off a cliff, tumbling 35% on news of the report and a further 9% in after-hours trading. By February 2016, the stock had tumbled 62.6%, leading to a trading halt of UDF's shares.

IN SUSPENSE

After halting the stock for six months and issuing continued warnings regarding the company's failure to timely file periodic reports, the Nasdaq Hearings Panel delisted the shares of the trust on October 19, 2016. UDF at the time said it would trade on the over-the-counter (OTC) market instead. Despite requesting Nasdaq terminate its suspension in early 2017 after filing some of the missing reports with the Securities

and Exchange Commission (SEC), the fund still trades on the OTC pink exchange to this day.

Nasdaq was not the only one to take umbrage at UDF's reportedly fraudulent money-making ways. Citron Research's Andrew Left was quick to jump on the bandwagon, tweeting in December 2015 that UDF appeared to be a Ponzi scheme, and it wasn't long before an ongoing SEC investigation surfaced. The SEC had been investigating UDF since April 2014 but the company claimed in its response to the short seller attacks that the investigation was "not an indication that any violations of law have occurred or that the SEC has any negative opinion of any person, entity, or security."

**"UDF'S FINANCES, ACCOUNTING,
AND BUSINESS MODEL REMAIN
STRONG."**

However, UDF eventually settled charges made by the SEC and agreed to pay \$8.2 million in penalties in July this year. The U.S. regulator accused Chairman and CEO Hollis Greenlaw, and lower-ranked executives Benjamin Wissink, Theodore Etter, and Cara Obert, of failing to disclose that UDF could not pay its distributions and was using money for a newer fund to pay investors in an older fund. The four executives settled without admitting or denying the allegations.

While audited financial statements for the period in question have not been filed, Hayman founder Kyle Bass told *Activist Insight Monthly* that he believes the difference between the last stated asset value reported by UDF on September 30, 2015, and the restated values for that period would make up the amount of money the directors "defrauded their

“WHY ARE WE DISCUSSING ANYTHING IF UDF AND THEIR TEAM OF MISCREANTS HAVEN’T FILED AUDITED FINANCIAL STATEMENTS? THE JOKE IS ON EVERYONE UNTIL THEIR AUDITORS ARE FORCED TO SHOW US WHERE THE MONEY ACTUALLY WENT.”

shareholders out of.” According to Bass, “if they ever restate the net asset values, it will be an admission of guilt.”

After the SEC charges were brought, a court ordered two of UDF’s funds to establish a fair fund to compensate investors that lost money because of the REIT’s mismanagement, appoint a tax administrator, and authorize payment of taxes and tax administration fees and expenses. UDF’s outside counsel Paul Pelletier told *Activist Insight Monthly* in an emailed statement that the company requested the fair funds distribution to investors after the Commission proposed the no admit/no deny settlement.

PLEADING INNOCENT

Despite UDF’s rebuttal of the accusations made against it, Bass also told *Activist Insight Monthly* that the fund has not addressed the short seller’s accusations regarding the missing money. The company instead alleged “that Hayman, as the whistleblower for their fraud, has caused all of their problems,” instead of explaining why it is not fraudulent. Although the executives have been charged with multiple counts of fraud by the SEC and paid over \$8 million in civil fines, Bass believes that their conduct has been “deplorable and juvenile” and expects them to serve jail time, although “it takes the government a long time to bring [fraudsters] to justice,” he added.

“UNTIL WE KNOW WHERE THE MONEY WENT, EVERYTHING THEY SAY COULD BE A LIE.”

Although Hayman sees the SEC charges as ultimately agreeing with its allegations of fraud, Pelletier claimed in an email to *Activist Insight Monthly* that the settlement actually “contradicts Bass/Hayman’s ‘Ponzi scheme’ allegations as it allows UDF’s business to continue and directs no alterations in UDF’s accounting and/or disclosures.”

Pelletier also noted that UDF uncovered evidence that showed Hayman’s campaign is “an unlawful short and distort manipulations scheme.” UDF sued Bass and Hayman in December 2017 for “business disparagement and tortious interference,” an allegation that could still go to trial after a court denied Hayman’s request for dismissal. Bass told *Activist Insight Monthly* that the short seller “will stand behind

our work in the civil courtroom against UDF,” adding, “When and if they get arrested for criminal offenses, it’s likely the civil suit will be thrown out.”

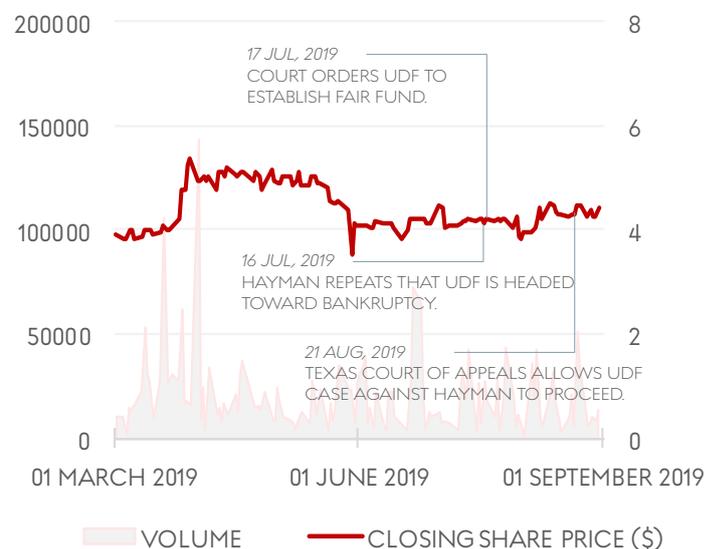
SHOW ME THE MONEY

In his argument to *Activist Insight Monthly*, Pelletier noted that UDF’s audit committee retained law firm Thompson & Knight to conduct an independent review of the fund’s accounting and disclosures, adding that the company and its auditor, Whitley Penn, publicly addressed the “bona fides” of UDF’s accounting. According to Pelletier, “UDF’s finances, accounting, and business model remain strong.” The fund recently authorized a dividend payment to investors, he added.

Bass, on the other hand, said that he thinks the federal criminal authorities will arrest and charge management “very soon given the specificity of charges from the SEC,” but explained that “until we know where the money went, everything they say could be a lie.”

“Why are we discussing anything if UDF and their team of miscreants haven’t filed audited financial statements?” asked Bass. “The joke is on everyone until their auditors are forced to show us where the money actually went.” 📌

UNITED DEVELOPMENT FUNDING’S SHARE PRICE PERFORMANCE



A TIMELINE OF EVENTS:

DECEMBER 11, 2015

- HAYMAN PUBLISHES ANONYMOUS REPORT, CITRON REVEALS SHORT POSITION.
- UDF RESPONDS TO SHORT SELLERS, CLAIMS TO BE COOPERATING WITH SEC.

FEBRUARY 05, 2016

- HAYMAN REVEALS IDENTITY BEHIND SHORT, LAUNCHES WEBSITE.

FEBRUARY 19, 2016

- FBI RAIDS UDF OFFICES.

MAY 17, 2016

- UDF SAYS INVESTIGATION FOUND NO EVIDENCE OF FRAUD, MISCONDUCT.

JUNE 03, 2016

- NASDAQ REJECTS UDF'S PLAN TO REGAIN COMPLIANCE.

JUNE 08, 2016

- UDF HIRES NEW ACCOUNTING FIRM AFTER PREVIOUS AUDITOR DECLINED TO BE RE-APPOINTED.

JUNE 20, 2016

- UDF GAINS MORE TIME TO REGAIN COMPLIANCE WITH NASDAQ RULES.

AUGUST 29, 2016

- NASDAQ ISSUES NEW WARNING REGARDING UDF'S TARDY FILING PRACTICES.

OCTOBER 18, 2016

- SEC WARNS UDF IT INTENDS TO START AN ENFORCEMENT ACTION AGAINST THE REIT.

OCTOBER 19, 2016

- UDF DELISTED FROM NASDAQ.

DECEMBER 01, 2017

- UDF SUES KYLE BASS OVER PONZI SCHEME ALLEGATIONS.

JULY 03, 2018

- UDF SETTLES SEC CHARGES.

JULY 16, 2019

- HAYMAN SAYS UDF HEADED TOWARD BANKRUPTCY.

JULY 17, 2019

- COURT ORDERS TWO UDF FUNDS TO ESTABLISH A FAIR FUND TO REPAY INVESTORS.