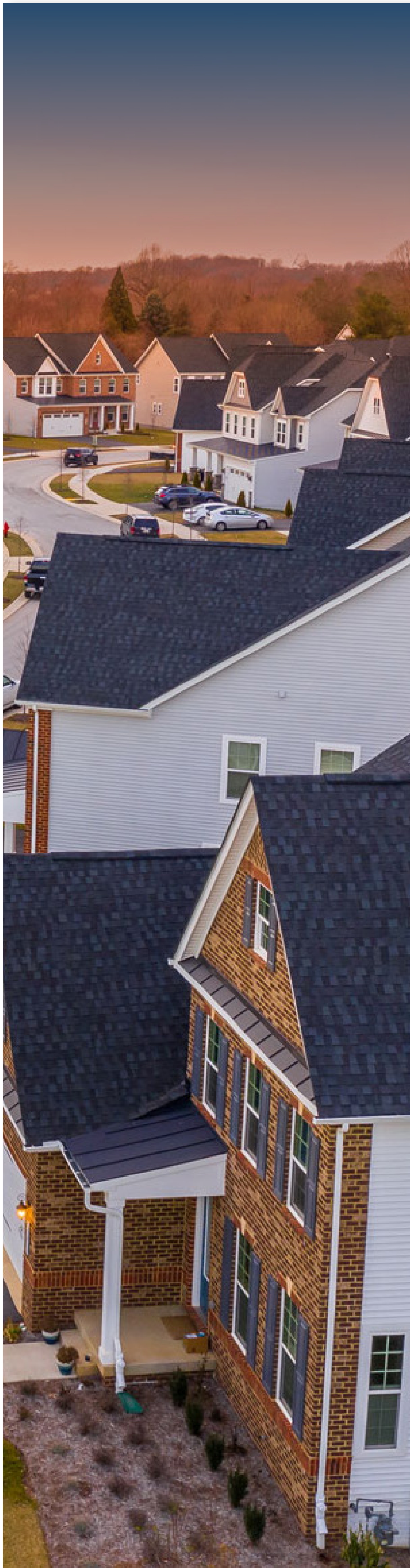
July 18, 2024

Dear UDF IV Shareholders,



Enclosed you will find the United Development Funding IV ("UDF IV" or the "Trust") audited financial statements for the year ended December 31, 2023, along with a letter discussing our fiscal year 2023 results. The UDF IV Board of Trustees, management, and UMTH General Services L.P. (the "Advisor") continue to implement strategic initiatives to enhance and preserve the value of our portfolio.

We are pleased that, thanks to these initiatives, the Trust's portfolio reached an inflection point in the first half of 2023 when the cash expected from loan repayments surpassed the cash that we anticipate our borrowers will require for improvements to the projects collateralizing our development loans. Moving forward, we remain focused on enhancing our portfolio and prudently managing our capital to maximize returns for shareholders.

Key Updates

1. **Thanks to the success of our recent strategic initiatives, we have received — or anticipate receiving — higher recovery amounts on certain impaired assets** compared to the values reported on the Trust's December 31, 2023 balance sheet (the "Balance Sheet"). These efforts have preserved and increased the value of our portfolio, and we intend to continue pursuing strategic initiatives with our borrowers to increase the recovery of certain of our loans.

2. **Our Advisor successfully negotiated the pledge of additional collateral from the borrowers of five loans with an aggregate outstanding balance of $13.3 million.** As a result, we now expect to collect approximately $24 million in interest due under these loans that is not currently reflected on the Balance Sheet (because we suspended interest income recognition for these loans in prior years). Future cash repayments exceeding the outstanding principal of these loans will be recorded as interest income, adding significant value for our shareholders in excess of the December 31, 2023 book value of these loans.

3. **Our Advisor collaborated with one of our borrowers to improve the collateral securing a $15 million loan, which currently has an $8.4 million reserve recorded against the principal.** We now expect this collateral to fully repay the principal of this loan, at which point we expect to reverse the $8.4 million reserve. Future cash repayments exceeding the outstanding principal will be recognized as additional interest income that is not currently reflected on the Balance Sheet (because we suspended interest income recognition for this loan in a prior year).

4. **We facilitated funding from a senior lender for one of our borrowers to develop 348 finished lots.** This action enhanced the collateral securing our note receivable. All principal owed on this note was repaid by the borrower upon the sale of the lots and approximately $7.3 million in accrued interest on the loan was repaid, which we recognized as interest income in the first half of 2024 (because we suspended interest income for this loan in a prior year). Our action provided value to our shareholders in excess of the book value of the loan as December 31, 2023.

Under the guidance of our Board of Trustees and management, our Advisor continues to actively manage our portfolio and explore options to enhance shareholder value. These positive outcomes would not have been possible without a careful, measured approach to maximizing the repayment potential of certain loans in our portfolio.

UDF IV will be holding an Annual Shareholder Meeting in the fourth quarter of 2024 (the “Annual Meeting”), at which shareholders will have the opportunity to reelect four of the independent Trustees who have been overseeing our efforts to protect the value of your investment. We will share additional information regarding the Annual Meeting in the months ahead and encourage shareholders to visit UDFforShareholders.com for further details.

We sincerely appreciate your continued support.

Sincerely
Jim Kenney, Chief Executive Officer of UDF IV

Protect the Value of Your Investment in UDF IV

Support the Board and Management Team that Are Taking Action to Build on the Trust’s Track Record of Delivering Enhanced Shareholder Returns

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Forward-Looking Statements

This letter contains forward-looking statements relating to, among other things: UDF IV’s expectations regarding repayment of principal and interest of certain loans, additions to value for the benefit of UDF IV shareholders and plans to actively manage the UDF IV portfolio. These forward-looking statements are based on management’s current expectations and are not guarantees of future performance or future events. Such forward-looking statements generally can be identified by our use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “anticipate,” “estimate,” “believe,” or other similar words. Readers should be aware that there are various factors, many of which are beyond UDF IV’s control, which could cause actual results to differ materially from any forward-looking statements made in this correspondence including, among others: changes in general economic conditions the real estate market and the credit market and changes in interest rates. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this correspondence. Forward-looking statements in this document speak only as of the date on which such statements were made, and UDF IV undertakes no obligation to update any such statements that may become untrue because of subsequent events.

July 18, 2024

Shareholders,

It is my privilege to provide you with this update on the progress and performance of United Development Funding IV ("UDF IV" or the "Trust"). The UDF IV Board of Trustees (the "Board") and management team have acted, and continue to act, to protect and promote the interests of the Trust's shareholders. Over the last several years we have navigated extraordinary challenges while safeguarding the Trust's assets, and we will continue to focus on maximizing shareholder value while building on the Trust's long history of cash distributions.

This letter provides an overview of (1) the Trust's financial performance, (2) the UDF IV portfolio, (3) UDF IV distributions to shareholders, (4) the Trust's Annual Shareholder Meeting, and (5) an update on ongoing litigation matters.

Financial Update

Enclosed with this letter are UDF IV's audited financial statements for the year ended December 31, 2023, including the consolidated balance sheet and the consolidated statements of operations, shareholder's equity and cash flows. The full 2023 audited financial statements, including the notes to the financial statements, can be found on the Trust's website at www.udfonline.com/udfiv/. Alternatively, you may request that these financial statements be mailed to you by contacting Investor Relations at (800) 859-9338.

For the year ended December 31, 2023, UDF IV generated total interest income of approximately $15.3 million, including approximately $2.6 million of related party interest income. After accounting for expenses and provision for credit losses, UDF IV recognized a $28.1 million net loss for the year (see the "Portfolio Update" below for further discussion of the provision for credit losses). As of December 31, 2023, UDF IV had total assets of approximately $293.3 million, consisting of cash and cash equivalents of approximately $36.8 million, notes receivable (net of reserves) of approximately $219.9 million (including net notes receivable due from related parties and participation receivable – related parties of approximately $24.1 million and $3.5 million, respectively), investment in company of approximately $15.5 million, accrued interest receivable of approximately $18.7 million, accrued receivable due from related parties of approximately $1.6 million for accrued interest, miscellaneous fees and reimbursements, and other assets of approximately $679,000.

UDF IV's total liabilities as of December 31, 2023, were approximately $2.9 million. Shareholders' equity as of December 31, 2023, was approximately $290.4 million. As of December 31, 2023, UDF IV's book value was $9.47 per share, based on 30,654,971 common shares outstanding.

Protect the Value of Your Investment in UDF IV

Portfolio Update

As of December 31, 2023, UDF IV's portfolio consisted of thirty-six (36) loans with an aggregate outstanding balance of $266.3 million. The loans are generally collateralized by one or more of the following: senior or subordinate deeds of trust creating a security interest in real property, a pledge of ownership interests in the borrower, pledges of ownership interests in certain borrower related parties, assignments of lot sale contracts or assignments of the borrower's right to reimbursements of development costs under contracts with districts or municipalities. As of December 31, 2023, the loans in the portfolio have terms ranging from 4 to 84 months and bear interest at rates ranging from 3% to 18%. Currently, 100% of the loans in the UDF IV portfolio are associated with real estate projects in Texas.

Much of the allowance for credit losses recorded in 2023 related to a loan secured by a master-planned project for which the borrower has begun to implement a plan to accelerate the cash generated from the project by focusing on selling pods of lots to builders, rather than incurring development costs which would require financing from UDF IV or a third-party lender. We expect to receive cash repayment significantly faster under this plan than if the borrower developed the project; however, this approach resulted in the establishment of a reserve against the loan and suspension of interest recognition in 2023. We expect to receive 100% of the principal and interest currently recorded on the balance sheet for this loan, as well as significant interest recovery for the period after interest recognition was suspended. We also expect to recover some interest due with respect to other loans for which interest has been suspended. For example, through June 2024, we received cash repayments and recognized approximately $7.7 million of interest income on impaired loans for which no receivable existed at December 31, 2023.

The Trust's portfolio reached an inflection point in the first half of 2023 when the cash that we expect to be generated from loan repayments exceeded the cash that we expect our borrowers will require to improve the projects collateralizing our development loans. UDF IV has been deliberate in its approach to managing its assets, balancing the goals of cash generation and maximizing the value of each loan, and it is now positioned to begin making greater cash distributions to its shareholders.

Distributions

Since inception, UDF IV has paid cash distributions to its shareholders totaling approximately $185.7 million, including approximately $8 million in 2023 and approximately $4 million in the first two quarters of 2024. The Trust intends to continue paying cash distributions quarterly from available cash, as determined by the Board. The Board makes all decisions regarding the Trust's payment of distributions, subject to an evaluation of the Trust's financial condition, results of operations and capital requirements, as well as applicable law, regulatory and contractual constraints, industry practice and other business considerations that the Board considers relevant. No assurance can be provided regarding the timing or amount of future distributions to shareholders.

2024 Annual Meeting

The Trust intends to hold a shareholder meeting in the fourth quarter of this year at which all four independent trustees will be up for re-election. Further details regarding the exact date, time, and venue will be communicated to you in advance.

Despite our work to drive long-term value for shareholders, NexPoint Real Estate Opportunities, LLC and its affiliates (collectively, "NexPoint"), which have a track record of acting against the interests of UDF IV shareholders, submitted nominations for a controlling slate of dissident trustees for election at the meeting. NexPoint's attempt to elect trustees to the Board is simply the latest step in its ongoing, self-interested campaign, which is grounded in misinformation and, we believe, aimed at derailing the continued operations of UDF IV in an attempt to extract value from the Trust at the expense of all other shareholders. While the Board and management team are focused on protecting and enhancing shareholder value, it has become overwhelmingly clear to us that NexPoint has no interest in advancing these objectives. The Board believes that NexPoint taking control of the Trust would present serious risks for UDF IV shareholders and the value of your investment in the Trust.

The Board is committed to a high standard of corporate governance and takes its fiduciary duties to shareholders extremely seriously. UDF IV will be mailing proxy materials to shareholders in due course, which will include the WHITE proxy card and additional details regarding the Board's recommendation of nominees for election to the Board at the 2024 Annual Meeting of Shareholders. Please discard any other color proxy card sent to you. These proxy materials and other important information related to the 2024 Annual Meeting of Shareholders will be made available to shareholders at UDFforShareholders.com.

Litigation

UDF Lawsuit Against Bass/Hayman

On May 27, 2022, UDF dismissed its claims against J. Kyle Bass and his affiliated hedge funds ("Bass/Hayman") in the County Court of Dallas County, Texas (the "Trial Court"). On the same day, Bass/Hayman purported to e-file a motion asserting various counterclaims against UDF. UDF appealed the issue of whether Bass/Hayman had a legal basis to bring these counterclaims to the Court of Appeals for the Fifth District of Texas ("Appeals Court"). On March 18, 2024, the Appeals Court issued an opinion stating that the Trial Court dismissed the entire case, including Bass/Hayman's counterclaims, and instructed the Trial Court to designate the case as closed. On April 17, 2024, Bass/Hayman filed a motion requesting the Appeals Court rehear the issue en banc. On June 4, 2024, the Appeals Court issued an order denying Bass/Hayman's motion for reconsideration en banc. On July 3, 2024, Bass/Hayman filed a petition for a Writ of Mandamus with the Texas Supreme Court where the matter is now pending.

NexPoint Litigation

On August 17, 2022, two NexPoint affiliates filed a complaint in the 192nd Judicial District Court in Dallas County, Texas ("192nd District Court") against UMTH General Services, L.P., the Trust's advisor (the "Advisor"), UMTH Land Development, L.P., the Trust's asset manager and UMT Holdings, L.P., the holding company that owns these entities, as well as four of the Advisor's current and former executives (collectively, the "Advisor Defendants"), alleging breach of fiduciary duty, aiding and abetting a breach of fiduciary duty, breach of the advisory agreement between the Trust and the Advisor, and civil conspiracy. The Advisor Defendants deny all claims and intend to vigorously defend themselves. On September 15, 2022, NexPoint filed a motion for a temporary injunction to prevent the Trust from advancing legal expenses to former Trust executives and the Advisor Defendants. This motion, which is stayed pending the outcome of the mandamus proceeding referred to below, seeks to prevent the Trust from complying with its obligations under its Declaration of Trust to advance reasonable expenses of the Advisor and its affiliates acting as agents of the Trust in advance of the final disposition of a legal proceeding. The 192nd District Court and Fifth Circuit Court of Appeals denied the Advisor Defendants' motions to dismiss the claims on grounds that the suit was not brought in the proper venue and that the claims should have been asserted derivatively. The matter is now the subject of a mandamus proceeding pending before the Texas Supreme Court.

On October 9, 2020, NexPoint Advisors, LP ("NexPoint Advisors") sued UDF IV and a member of the Advisor ("Advisor Member") for defamation. UDF IV filed a motion to dismiss the claims under the Texas Citizen's Participation Act ("TCPA"). On April 27, 2001, the 48th Judicial District Court ruled in favor of UDF IV and the Advisor Member, dismissing NexPoint's claims and ordering NexPoint to pay UDF IV and the Advisor Member's attorneys' fees. NexPoint appealed the ruling and on August 3, 2023, the Fort Worth Court of Appeals in the Second Appellate District of Texas reversed the judgment and attorneys' fee award in favor of UDF IV based on the TCPA's commercial speech exemption but affirmed the dismissal of claims against the Advisor Member. In November 2023, UDF IV petitioned the Texas Supreme Court to overturn the appellate ruling. UDF IV's petition was denied in May 2024. UDF IV intends to file a motion for rehearing with the Texas Supreme Court in July 2024. If not granted, the case will be remanded to the trial court to resolve the litigation between UDF IV and NexPoint and determine the legal fees recoverable from NexPoint that were associated with UDF IV's defense of the Advisor Member. UDF IV denies NexPoint's claims and intends to vigorously defend itself.

Megatel

In March 2020, Megatel Homes, LLC, and two of its affiliates (collectively, “Megatel”) filed a federal lawsuit (the “Megatel Action”) against the principal of one of the Trust’s current borrowers and several UDF entities, including the Trust, as well as present and former executives of the General Partner of UDF I, UDF II, UDF III and the Advisors to UDF IV and V (such present and former executives, the “UDF Principals”). The sole cause of action pleaded against the UDF entities and the UDF Principals is RICO conspiracy under 18 U.S.C. § 1962(d) regarding eleven real estate development projects, including properties that serve as collateral for UDF loans. In February 2024, Megatel moved to dismiss two of its affiliates, Megatel Homes, LLC and Megatel Homes II, LLC, from the lawsuit without prejudice. The UDF Entities requested that the dismissal of the two affiliate entities be with prejudice, which would prevent the two affiliate entities from bringing their alleged claims against the Trust again. The Court agreed and dismissed Megatel Homes, LLC and Megatel Homes II, LLC and their claims against the UDF Entities with prejudice and limited Megatel Homes III, LLC’s potential damages, if proven, to eight real estate development projects. As to the remaining claims, the UDF entities and the UDF Principals deny all claims and contentions alleged by Megatel and intend to vigorously defend themselves against these allegations.

Conclusion

In closing, I want to express my deepest gratitude to all our valued shareholders. Your continued support is invaluable to us, and we are committed to maintaining open and transparent communication. We are confident that under the guidance of our Board and management, our portfolio is positioned to generate significant cash, which we can return to shareholders or opportunistically reinvest into the portfolio. If you have questions or comments, please call our Investor Relations department at (800) 859-9338.

Sincerely
Jim Kenney, Chief Executive Officer of UDF IV

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022
with Report of Independent Auditors

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

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BVWD

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees and Shareholders
of United Development Funding IV

Opinion

We have audited the accompanying consolidated financial statements of United Development Funding IV (the "Trust"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Trust as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Bodwell Vasek Wells DeSimone LLP

Dallas, Texas
July 9, 2024

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 36,809,089	$ 50,455,656
Accrued interest receivable	18,721,986	21,514,159
Accrued receivable - related parties	1,617,157	1,330,714
Notes receivable	230,373,143	228,070,368
Notes receivable - related parties	32,496,746	27,599,850
Participatons receivable - related parties	3,465,480	-
Allowance for credit losses	(46,402,803)	(19,495,536)
Investment in company	15,521,988	18,021,987
Other assets	678,708	2,085,425
Total assets	$ 293,281,494	$ 329,582,623
Liabilities and Shareholders' Equity		
Liabilities:		
Accrued liabilities	$ 2,888,869	$ 3,210,385
Total liabilities	2,888,869	3,210,385
Commitments and contingencies		
Shareholders' equity:		
Shares of beneficial interest; $0.01 par value; 400,000,000 shares authorized; 30,654,971 and 30,650,681 shares issued and outstanding as of December 31, 2023 and 2022, respectively	306,550	306,507
Additional paid-in-capital	574,187,637	574,082,661
Accumulated deficit	(284,101,562)	(248,016,930)
Total shareholders' equity	290,392,625	326,372,238
Total liabilities and shareholders' equity	$ 293,281,494	$ 329,582,623

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2023	Year Ended December 31, 2022
Interest income:		
Interest income	$ 12,738,567	$ 24,372,906
Interest income - related parties	2,603,668	1,452,127
Total interest income	15,342,235	25,825,033
Provision for credit losses (recoveries)	26,907,268	(1,979,685)
Provision for credit losses - related parties	-	349,000
Net interest income after provision for credit losses (recoveries)	(11,565,033)	27,455,718
Noninterest income (loss):		
Investment in company unrealized loss	-	(2,154,234)
Other income	239,850	42,900
Total non-interest income (loss)	239,850	(2,111,334)
Expenses:		
Management fees - related party	5,173,345	5,552,589
General and administrative	10,296,082	22,561,735
General and administrative - related parties	1,320,000	1,748,336
Total expenses	16,789,427	29,862,660
Net loss	$ (28,114,610)	$ (4,518,276)

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

	Shares of Beneficial Interest		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2021	30,662,494	$ 306,625	$ 574,082,661	$(235,462,448)	$ 338,926,838
Net loss	-	-	-	(4,518,276)	(4,518,276)
Distributions	-	-	-	(7,968,566)	(7,968,566)
Share repurchases and retirement	(11,813)	(118)	-	(67,640)	(67,758)
Balance at December 31, 2022	30,650,681	306,507	574,082,661	(248,016,930)	326,372,238
Net loss	-	-	-	(28,114,610)	(28,114,610)
Share-based compensation	4,290	43	104,976	-	105,019
Distributions	-	-	-	(7,970,022)	(7,970,022)
Balance at December 31, 2023	30,654,971	$ 306,550	$ 574,187,637	$(284,101,562)	$ 290,392,625

See accompanying notes to consolidated financial statements.

UNITED DEVELOPMENT FUNDING IV

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2023	2022
Operating Activities		
Net loss	$ (28,114,610)	$ (4,518,276)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loan losses	26,907,268	(1,630,685)
Investment in company unrealized loss	-	2,154,234
Share-based compensation	105,019	-
Changes in assets and liabilities:		
Accrued interest receivable	2,792,173	(6,227,275)
Accrued receivable - related parties	(286,443)	(106,011)
Other assets	1,406,718	(258,869)
Accrued liabilities	(321,518)	(5,726,835)
Net cash provided by (used in) operating activities	2,488,607	(16,313,717)
Investing Activities		
Investments in notes receivable	(27,695,894)	(17,318,649)
Receipts from notes receivable	25,393,118	38,160,119
Investments in notes receivable - related parties	(6,840,979)	(5,996,122)
Receipts from notes receivable - related parties	1,944,083	1,365,885
Investments in participations receivable - related parties	(3,565,480)	-
Principal receipts from participations receivable - related parties	100,000	-
Receipts from investment in company	2,500,000	-
Net cash provided by (used in) investing activities	(8,165,152)	16,211,233
Financing Activities		
Share repurchase and retirement	-	(67,758)
Distributions	(7,970,022)	(7,968,566)
Net cash used in financing activities	(7,970,022)	(8,036,324)
Net change in cash and cash equivalents	(13,646,567)	(8,138,808)
Cash and cash equivalents at beginning of year	50,455,656	58,594,464
Cash and cash equivalents at end of year	$ 36,809,089	$ 50,455,656

See accompanying notes to consolidated financial statements.

A. Nature of Business

United Development Funding IV (which may be referred to as the “Trust”, “we”, “our”, or “UDF IV”) was organized on May 28, 2008 (“Inception”) as a Maryland real estate investment trust. The Trust has multiple subsidiaries, which are primarily wholly owned.

The Trust primarily originates, purchases, participates in and holds for investment secured loans made directly by the Trust or indirectly through its affiliates to persons and entities for the acquisition and development of parcels of real property as single-family residential lots or mixed-use master planned residential communities, for the construction of single-family homes and for completed model homes. The Trust may also make direct investments in land for development into single-family lots, home construction and portfolios of finished lots and model homes; provide credit enhancements to real estate developers, home builders, land bankers and other real estate investors; and purchase participations in, or finances for other real estate investors, the purchase of, securitized real estate loan pools and discounted cash flows secured by state, county, municipal or other similar assessments levied on real property. The Trust also may enter into joint ventures with affiliated or unaffiliated real estate developers, home builders, land bankers and other real estate investors to originate or acquire, as the case may be, the same kind of loans or real estate investments the Trust may originate or acquire directly.

UMTH General Services, L.P. (“UMTH GS” or the “Advisor”), a Delaware limited partnership, is the Trust’s advisor and is responsible for managing the Trust’s affairs on a day-to-day basis under the direction and guidance of the Trust’s board of trustees. The Advisor also oversees the investing and financing activities of the affiliated programs managed and advised by the Advisor. In addition, the Advisor underwrites transactions within the guidelines adopted by the Trust and advises the Trust regarding investments and finance transactions, management, policies and guidelines. The Advisor also reviews for each investment the transaction structure and terms, underwriting, collateral, performance and risk management and also manages the Trust’s capital structure. The Advisor may also, on behalf of the Trust, engage affiliated or unaffiliated companies to assist with the performance of its advisory obligations.

The Trust’s sole employee is its Chief Financial Officer. The Trust does not maintain any physical properties. The Trust’s operations are conducted at the corporate offices of the Trust’s Advisor at 2201 W. Royal Lane, Irving, Texas 75063.

B. Summary of Significant Accounting Policies

A summary of our significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Presentation

These consolidated audited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

B. Summary of Significant Accounting Policies - continued

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

During 2023, we transitioned the calculation of discounting the modeled cash flow for impaired loans. The difference in the calculation is instead of all time periods being equal, we used specific dates that correspond to each modeled cash flow, which we believe results in a more precise discount calculation. If we had used the new calculation for the year ended December 31, 2022, the difference in the provision for loan losses would have been a reduction in specific reserves of approximately $1.2 million.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 31, 2023 and 2022, there were no such amounts included in cash and cash equivalents.

Notes Receivable, Notes Receivable – Related Parties and Participation Receivable – Related Parties

Notes receivable and notes receivable – related parties are recorded at the lower of cost or net realizable value. The notes are generally collateralized by one or more of the following: senior or subordinate lien deeds of trust, a pledge of ownership interests in the borrower, pledges of ownership interests in certain borrower related parties, collateral assignments of lot sale contracts, or reimbursements of development costs due to the borrower pursuant to contracts with districts or municipalities. None of such notes are insured or guaranteed by a federally owned or guaranteed mortgage agency. As of December 31, 2023, the notes have terms ranging from 4 to 84 months and bear interest at rates ranging from 3% to 18%. The notes may be repaid prior to maturity; however, we currently intend to hold all notes for the life of the notes. The notes may be extended past current maturity dates if approved by the board of trustees.

Allowance for Credit Losses

The allowance for credit losses is our current estimate of expected credit losses in our portfolio of Notes receivable and Notes receivable – related parties. We perform a periodic detailed review of our portfolio of notes and other loans on an ongoing basis to determine if impairment has occurred and to assess the adequacy of the allowance for credit losses. Our review consists of evaluating historical losses, economic conditions, the estimated value of underlying collateral, the guarantor, when applicable, adverse situations that may affect the borrower's ability to pay or the value of the collateral, and other relevant factors.

B. Summary of Significant Accounting Policies - continued

Allowance for Credit Losses – continued

We evaluate our portfolio of notes on a loan-by-loan basis quarterly or as circumstances or events arise that warrant more frequent review. In conjunction with this evaluation, we apply the guidance in FASB ASC 326-20 Financial Instruments – Credit Losses in determining the current expected credit losses associated with the contractual principal and interest payments as scheduled in our loan agreements. In reviewing our portfolio, we consider cash flow estimates from the disposition of finished lots, paper lots, and land as well as expected cash flow from municipalities or reimbursement districts. These estimates are based on current market metrics, which may include the supply of finished lots, paper lots, and land; the supply of homes and the rate and price at which land and homes are sold; historic levels and trends; lot contracts; appraisals; and discussions with third-party market analysts and participants, including homebuilders. We have based our estimates of value on current and historic market trends, on our analysis of market events and conditions, including activity within our portfolio, and on the analysis of third-party services. When available, we utilize cash flow forecasts based on lot purchase contracts which provide base prices, escalation rates, and absorption rates on an individual project or phase basis. For projects deemed to have an extended time horizon for disposition, we may also consider third party appraisals to provide a valuation in accordance with guidelines set forth in the Uniform Standards of Professional Appraisal Practice. In addition to cash flows from the receipt of reimbursement and the deposition of lots, paper lots and land, cost analysis has been performed based on estimates of development and senior financing expenditures provided by developers and independent professionals on a project-by-project basis. These amounts are considered with our best estimates to establish the net realizable value of the portfolio. The allowance is measured based on the loan-by-loan analysis in combination with the historical loss rate and assessment of go forward economic risk. We include as inputs to the allowance, the discounted cash flow analysis completed over the loans where it is probable that we will be unable to collect all amounts due, risk associated with the historical loss rate, potential go-forward economic impact risk. See Note D - Loans and Allowance for Credit Losses for more detailed information about the allowance for credit losses.

We charge additions to the allowance for credit losses to current period earnings through a provision for credit losses. Amounts determined to be uncollectible are charged directly against or "charged off" and decrease the allowance for credit losses, while cash amounts recovered on previously charged off accounts are recognized in current period earnings.

Investment in Entities

The Trust utilizes the equity method to account for investments in certain unconsolidated entities when the Partnership has 20-50% ownership or has significant influence. The Trust records equity investments at cost and adjusts for the Trust's proportionate share of net earnings or losses including the Trust's proportionate share of losses in value to be received from the unconsolidated entities.

Legal Fees and Other Costs Directly Related to Contingent Liabilities

The Trust has elected to not include estimated legal fees and other directly related costs as part of its loss contingency accrual in its evaluation of contingent liabilities.

B. Summary of Significant Accounting Policies – continued

Interest Income Recognition

Interest income on notes receivable and notes receivable – related parties is recognized over the life of the participation agreement or note agreement and recorded on the accrual basis. A loan is placed on non-accrual status and income recognition is suspended at the date at which, in the opinion of management, a full recovery of income and principal becomes more likely than not, but is no longer probable, based upon our review of economic conditions, the estimated value of the underlying collateral, the guarantor, when applicable, adverse situations that may affect the borrower's ability to pay or the value of the collateral and other relevant factors. Income recognition is resumed when the loan becomes contractually current, and performance is demonstrated to be resumed. Any payments received on loans classified as non-accrual status are typically applied first to outstanding loan amounts and then to the recovery of lost interest.

Advisor Fees

Pursuant to an agreement between the Trust and its Advisor (the "Advisory Agreement"), the Trust is required to pay the following fees to its Advisor or an affiliate of its Advisor:

- An amount equal to one-twelfth of 1.5% of the equity of the Trust, as defined in the Advisory Agreement (the "Base Management Fee"). The Base Management Fee is payable monthly in arrears and is expensed as incurred. The expense associated with the Base Management Fee is included in management fees – related party expense on the consolidated statements of operations.

- An amount equal to 20% of the amount by which the Trust's core earnings (as defined in the Advisory Agreement) for the preceding 12 months exceeds the product of 8% and the weighted average shares outstanding for the preceding 12 months multiplied by the weighted average share price for the preceding 12 months (as defined in the Advisory Agreement) (the "Incentive Management Fee"), provided that no Incentive Management Fee is payable with respect to any quarter unless the amount of the Trust's core earnings for the 12 preceding quarters is greater than zero. Prior to the completion of a 12-month period during the term of the Advisory Agreement, core earnings will be calculated on the basis of the number of days the Advisory Agreement has been in effect on an annualized basis. The Incentive Management Fee is payable in arrears in quarterly installments. The Trust did not incur expense associated with the Incentive Management Fee during the years ended December 31, 2023 and 2022, and there are no Incentive Management Fees payable as of December 31, 2023 and 2022.

B. Summary of Significant Accounting Policies – continued

Advisor Fees - continued

- Debt financing fees equal to 0.5% of the amount made available to the Trust pursuant to the origination of any line of credit or other debt financing ("Debt Financing Fees"), provided that the Advisor provided a substantial amount of services as determined by a majority of the Trust's independent trustees. On each anniversary date of the origination of any such line of credit or other debt financing, the Trust will continue to pay an additional fee of 0.25% of the primary loan amount if such line of credit or other debt financing continues to be outstanding on such date, or a prorated portion of such additional fee was paid for the portion of such year that the financing was outstanding. Debt Financing Fees are amortized into interest expense over the life of the related line of credit or other debt financing. The Trust did not incur expense associated with the Debt Financing Fee during the years ended December 31, 2023 and 2022, and there are no Debt Financing Fees payable as of December 31, 2023 and 2022.

- An amount equal to 1% of the par amount of the securities sold by the Trust in connection with the securitization and placement of any secured loans (as defined in the Advisory Agreement) ("Securitized Loan Pool Placement Fees"), if the Advisor or an affiliate of the Advisor provided a substantial amount of services as determined by the Trust's independent trustees. The Trust did not incur expense associated with Securitized Loan Pool Placement Fees during the years ended December 31, 2023 and 2022, and there are no Securitized Loan Pool Placement Fees payable as of December 31, 2023 and 2022.

In addition to the fees described above, pursuant to the terms of the Advisory Agreement, the Trust will reimburse the Advisor and its affiliates for expenses they incur on behalf of the Trust (the "Advisor Expense Reimbursement"). The Trust will pay the Advisor Expense Reimbursement on a monthly basis, and costs incurred by the Trust in connection with the Advisor Expense Reimbursement will be expensed by the Trust as incurred. Such expense is included in general and administrative – related parties expense on the consolidated statements of operations. Additionally, see Note E below related to indemnification of the Advisor.

Income Taxes

We made an election under Section 856(c) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), to be taxed as a real estate investment trust ("REIT"), beginning with the taxable year ended December 31, 2010. As a REIT, we generally are not subject to federal income tax on income that we distribute to our shareholders. If we later fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates and may not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied unless we are entitled to relief under certain statutory provisions. Such an event could materially and adversely affect our net income. However, we intend to continue to operate so as to remain qualified as a REIT for federal income tax purposes.

B. Summary of Significant Accounting Policies – continued

Income Taxes – continued

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, *Income Taxes*, prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. In accordance with FASB ASC 740, we must determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. We believe we have no such uncertain positions.

We file income tax returns in the United States federal jurisdiction. At December 31, 2023, tax returns related to fiscal years ended December 31, 2020 and after remain open to possible examination by the tax authorities. To our knowledge, no tax returns are currently under examination by any tax authorities, and we did not incur any penalties or interest during the years ended December 31, 2023 and 2022.

Accounting and Reporting Developments

Standards Adopted in 2023

ASC 2016-13 “Financial Instruments – Credit Losses (Topic 326)” requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 requires new disclosures for financial assets measured at amortized cost, loan and available-for-sale debt securities. ASU 2016-13 also applies to off balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We adopted ASU 2016-13 as of January 1, 2023, and we did not have an adjustment to retained earnings, as the difference under ASU 2016-13 was immaterial to the previous approach to calculating the allowance for credit losses. See Note D - Loans and Allowance for Credit Losses for more detailed information about the allowance for credit losses.

The Trust adopted ASU 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures (“ASU 2022-02”) effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. The Trust closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

B. Summary of Significant Accounting Policies – continued

Fair Value of Financial Instruments

In accordance with the reporting requirements of FASB ASC 825-10, *Financial Instruments-Fair Value*, we calculate the fair value of our assets and liabilities which qualify as financial instruments under this statement and include this additional information in the notes to the financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of accrued interest receivable, accrued receivable – related parties, and accrued liabilities approximates the carrying amounts due to the relatively short maturity of these instruments. The estimated fair value of notes receivable and notes receivable – related parties approximate the carrying amount since they bear interest at market rates.

Guarantees and Indemnifications

From time to time, we enter into guarantees of debtors' or affiliates' borrowings and provide credit enhancements for the benefit of senior lenders in connection with our debtors and investments (collectively referred to as "Guarantees"). In addition, from time to time, we enter into indemnity agreements backing surety bonds related to development projects for which we provide financing ("Indemnity Agreements"). We account for such Guarantees and Indemnity Agreements in accordance with FASB ASC 460-10, *Guarantees.*

Share-Based Compensation

We value all share-based payments at the estimated fair value on the date of grant and we expense these payments over the applicable vesting period in accordance with GAAP. For additional discussion of share-based compensation, see Note C below.

C. Shareholders' Equity

Distributions

We must distribute to our shareholders at least 90% of our taxable income each year in order to meet the requirements for being treated as a REIT under the Internal Revenue Code. In accordance with this requirement, we pay distributions on a quarterly basis to our shareholders. Our distribution rate is determined quarterly by our board of trustees and is dependent on a number of factors, including funds available for payment of distributions, our financial condition, loan funding commitments and annual distribution requirements needed to maintain our status as a REIT under the Internal Revenue Code. In addition to these distributions, in an effort to ensure we distribute at least 90% of our taxable income, our board of trustees may periodically authorize additional, special distributions. All distributions are currently paid in cash.

During the years ended December 31, 2023 and 2022, our board of trustees authorized quarterly cash distributions of \$0.065 per common share of beneficial interest to be paid on or about the last day of each quarter to shareholders of record on or about the 23rd day of the final month in each quarter, which is equal to an annualized distribution rate of \$0.26 per share See Note J – Subsequent Events for further discussion of distributions declared and paid in 2024.

C. Shareholders' Equity – continued

Share Repurchases and Retirement

The Trust did not repurchase any shares in the year ended December 31, 2023. During the year ended December 31, 2022, the Trust repurchased and retired 11,813 common shares at an average price of $5.74. These shares were repurchased opportunistically in the secondary market through an online auction site for non-traded REITs and other illiquid investment securities.

Equity Incentive Plans

On May 29, 2014, the board of trustees, including a majority of the independent trustees, approved the adoption of equity incentive plans for the Advisor (the "Advisor Equity Plan"), its trustees, officers, advisors and consultants (the "Equity Plan") and its nonexecutive trustees (the "Non-Executive Trustee Stock Plan"). These equity incentive plans (collectively, the "Equity Incentive Plans") are overseen by the board of trustee's compensation committee, which consists solely of non-executive trustees. The equity incentive plans will expire on June 4, 2024.

The Advisor Equity Plan provides for the grant of stock options, restricted common shares, restricted stock units, stock appreciation rights and other equity-based awards to the Advisor. The Advisor may in turn issue such awards to its officers, employees or other consultants in order to promote the success of the Trust.

The Equity Plan provides for the grant of stock options, restricted common shares, restricted stock units, dividend equivalent rights and other equity-based awards to the trustees, officers and other employees and independent contractors, including employees or trustees of the Advisor and its affiliates who are providing services to the Trust.

The Non-Executive Trustee Stock Plan provides for the issuance of restricted common shares, restricted stock units, or other equity-based awards to the Trust's non-executive trustees in order to provide incentives to such trustees to promote the success of the Trust.

Shares issued pursuant to the Equity Incentive Plans are subject to an aggregate limitation of 2,423,284 shares of beneficial interest, of which 2,382,550 and 2,408,284 shares remained available at December 31, 2023 and 2022, respectively.

Share-Based Compensation

Effective March 30, 2023, the board of trustees authorized an annual grant on January 1 of each year of Restricted Share Units ("RSUs") of Trust shares with an aggregate fair market value of $35,000 to eligible independent trustee(s) and an annual cash award to the remaining independent trustee(s). Future RSUs and cash awards will vest in three equal annual installments beginning one year after the grant date.

During the year ended December 31, 2023, the board authorized 25,734 RSUs with a grant date fair value of $8.16 per share, which were awarded to three independent members of our board of trustees. Of the RSU's granted, 4,290 vested immediately upon issuance; 8,580 vest in 2024; 8,577 vest in 2025; and 4,287 vest in 2026. For holders of unvested RSUs granted before distribution record dates, the Trust paid approximately $4,182 in cash for the year ended December 31, 2023, which was equal to the number of unvested RSUs multiplied by the distribution per share paid to such shareholders.

C. Shareholders' Equity – continued

Share-Based Compensation - continued

The following table reflects RSUs that have been granted to three independent members of our board of trustees and shares that have vested or been forfeited for the year ended December 31, 2023.

	Restricted Stock Units	Grant Date Fair Value Per Share	Total
Outstanding as of January 1, 2023			
Granted	25,734	$ 8.16	$ 209,989
Vested	4,290	8.16	35,006
Forfeited	-	-	-
Outstanding as of December 31, 2023	21,444	$ 8.16	$ 174,983

See Note J – Subsequent Events for further discussion of share-based compensation granted in 2024.

D. Loans and Allowance for Credit Losses

The table below reflects our aggregate loan portfolio as of December 31, 2023 and 2022, which comprises notes receivable, notes receivable – related parties and loan participation receivable – related parties and is recorded at the lower of cost or estimated net realizable value.

	December 31, 2023	December 31, 2022
Notes receivable	$ 230,373,000	$ 228,070,000
Notes receivable – related parties	32,497,000	27,600,000
Loan participation receivable – related parties	3,465,000	-
Allowance for credit losses	(46,403,000)	(19,495,000)
Total	$ 219,932,000	$ 236,175,000

The following table represents the scheduled maturity dates of the 36 loans outstanding as of December 31, 2023:

	Related Party			Non-related party			Total		
Maturity Date	Amount	Loans	% of Total	Amount	Loans	% of Total	Amount	Loans	% of Total
2024	$10,909,000	4	30%	$ 61,057,000	3	27%	$ 71,966,000	7	27%
2025	-	-	-	79,394,000	7	34%	79,394,000	7	30%
2026	-	-	-	4,562,000	1	2%	4,562,000	1	2%
2028	10,059,000	1	28%	85,360,000	19	37%	95,419,000	20	36%
2030	14,994,000	1	42%	-	-	-	14,994,000	1	5%
Total	$35,962,000	6	100%	$230,373,000	30	100%	$266,335,000	36	100%

D. Loans and Allowance for Credit Losses - continued

The following table represents the scheduled maturity dates of the 35 loans outstanding as of December 31, 2022:

	Related Party			Non-related party			Total		
Maturity Date	Amount	Loans	% of Total	Amount	Loans	% of Total	Amount	Loans	% of Total
2023	$10,517,000	3	38%	$122,804,000	23	54%	$133,321,000	26	52%
2024	3,208,000	1	12%	60,188,000	3	26%	63,396,000	4	25%
2025	-	-	-	44,731,000	3	20%	44,731,000	3	18%
2026	-	-	-	347,000	1	*%	347,000	1	*%
2030	13,875,000	1	50%	-	-	-	13,875,000	1	5%
Total	$27,600,000	5	100%	$228,070,000	30	100%	$255,670,000	35	100%

* Less than 1%

As part of the ongoing monitoring of the credit quality of the loan portfolio, we periodically, no less than quarterly, perform a detailed review of our portfolio of mortgage notes and other loans. The following is a general description of the credit levels used:

Level 1 – Full collectability of loans in this category is considered probable.

Level 2 – Full collectability of loans in this category is deemed more likely than not, but not probable, based upon our review of economic conditions, the estimated value of the underlying collateral, the guarantor, when applicable, adverse situations that may affect the borrower's ability to pay or the value of the collateral and other relevant factors. Interest income is suspended on Level 2 loans.

Level 3 – For loans in this category, it is probable that we will be unable to collect all amounts due.

As of December 31, 2023 and 2022, our loans were classified as follows:

	December 31, 2023	December 31, 2022
Level 1	$ 130,590,000	$ 169,933,000
Level 2	16,826,000	47,789,000
Level 3	118,919,000	37,948,000
Total	$ 266,335,000	$ 255,670,000

As of December 31, 2023, we have placed 14 loans totaling $135.7 million on non-accrual status, of which one loan totaling $15.0 million is a loan to a related party. As of December 31, 2022, we had placed 13 loans totaling $85.7 million on non-accrual status, of which one loan totaling $13.9 million is a loan to a related party.

As of December 31, 2023, we had suspended income recognition on seven notes receivable with an aggregate unpaid principal balance of approximately $16.8 million for which full collectability is considered more likely than not, but not probable, and seven notes receivable with an aggregate unpaid principal balance of approximately $118.9 million, including one note receivable – related party with an aggregate unpaid principal balance of $15.0 million, that were deemed more likely than not, but not probable that we will be unable to collect all amounts due. The average monthly outstanding balance associated with impaired loans for the year ended December 31, 2023 was approximately $134.9 million. During the year ended December 31, 2023, approximately $577,000 in interest income was recognized and collected on impaired loans.

D. Loans and Allowance for Credit Losses - continued

As of December 31, 2022, we had suspended income recognition on seven notes receivable with an aggregate unpaid principal balance of approximately $47.8 million for which full collectability is considered more likely than not, but not probable, and six notes receivable with an aggregate unpaid principal balance of approximately $38.0 million, including one note receivable – related party with an aggregate unpaid principal balance of $13.9 million, that were deemed more likely than not, but not probable that we will be unable to collect all amounts due. The average monthly outstanding balance associated with impaired loans for the year ended December 31, 2022 was approximately $95.6 million. During the year ended December 31, 2022, approximately $6.5 million in interest income was recognized and collected on impaired loans.

An analysis of the allowance for credit losses under ASC 326, adopted as of January 1, 2023, and the recorded investment in financing receivables is included in the following table for the period indicated:

	As of January 1, 2023
Allowance for credit losses:	
Balance at prior year end	$ 19,495,000
ASC 326 implementation at January 1, 2023	
Level 3 DCF analysis	15,247,000
Allowance based on historical loss rate	-
Allowance related to risk of classification*	4,248,000
Total allowance as of January 1, 2023	$ 19,495,000
*Risk that a loan currently classified as a 1 or 2 level would become classified as a 2 or 3 (increase risk) in future periods	
Adjustment at 1/1/2023 for ASC 326 adoption	-
Balance at beginning of year under ASC 326	$ 19,495,000

Allowance for credit losses as of December 31, 2023	As of January 1, 2023	Current Year Activity	As of December 31, 2023
Level 3 DCF analysis	$ 15,247,000	$ 26,908,000	$ 42,155,000
Allowance based on historical loss rate	-	-	-
Allowance related to risk of classification*	4,248,000	-	4,248,000
Total allowance	$ 19,495,000	$ 26,908,000	$ 46,403,000
Ending balance, individually evaluated for impairment	$ 15,247,000		$ 42,155,000
Ending balance, collectively evaluated for impairment	$ 4,248,000		$ 4,248,000

*Risk that a loan currently classified as a 1 or 2 level would become classified as a 2 or 3 (increase risk) in future periods

Financing receivables:	
Balance at end of period	$ 266,335,000
Ending balance, individually evaluated for impairment	$ 135,745,000
Ending balance, collectively evaluated for impairment	$ 130,590,000

D. Loans and Allowance for Credit Losses - continued

Modifications to Borrowers Experiencing Financial Difficulty

On January 1, 2023, the Trust adopted ASU 2022-02, which amended accounting and disclosure requirements applicable to loan modifications to borrowers experiencing financial difficulty which were completed on or after the adoption date. For further information on the adoption of ASU 2022-02, refer to Note B - Summary of Significant Accounting Policies.

The Trust works with borrowers who are experiencing financial difficulty to identify solutions that are mutually beneficial to both parties with the objective of mitigating the risk of losses on the loans. These efforts may result in modifications to the payment terms of the loans. The types of modifications offered to borrowers may include term extensions, interest rate reductions, payment delays (other than those that are insignificant), principal forgiveness. or a combination thereof. The most common modification the Trust offers is a term extension to accommodate the continuing development and/or monetization of the underlying collateral and/or pledges.

The allowance for credit losses incorporates an estimate of lifetime expected credit losses. The estimate of the allowance for credit losses incorporates historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses through the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification.

As of December 31, 2023, the Trust had commitments of approximately $11.0 million to lend additional funds to borrowers experiencing financial difficulty whose terms have been modified during the year ended December 31, 2023.

The following table shows the cost basis as of December 31, 2023 of the Trust's loans that were modified for borrowers experiencing financial difficulty by the type of concession granted during the twelve months ended December 31, 2023:

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

2023	Term Extension	Interest Rate Reduction	Payment Delay	Principal Forgiveness	Total	% of Portfolio
Construction, acquisition and land development*	$ 120,751,000	$ -	$ -	$ -	$120,751,000	45%

*Includes one non-accrual, fully reserved loan with a balance of approximately $2.9 million, with a modification to the interest rate which had no effect on the financials.

Financial effects of loan modifications

The following table presents the financial effects of the Trust's significant types of portfolio loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023:

	Financial Effects
Construction, acquisition and land development	Weighted-average length of term extensions was approximately 45 months

D. Loans and Allowance for Credit Losses – continued

Credit quality of modified loans

The Trust closely monitors the performance of the loans that were modified for borrowers experiencing financial difficulty. Since its loans are primarily construction, acquisition and land development loans, the loans do not typically have set repayment schedules; therefore, all of the principal and interest receivables due from borrowers experiencing financial difficulty are considered current.

E. Commitments and Contingencies

Loan Commitments

As of December 31, 2023, there were approximately $37.4 million of expected cash commitments to be funded under the terms of mortgage notes receivable, which included approximately $8.3 million of expected cash commitments to related parties. Including interest accrual, the expected commitments total approximately $93 million at December 31, 2023, which included approximately $26.9 million to related parties. As of December 31, 2022, there were approximately $57.9 million of expected cash commitments to be funded under the terms of mortgage notes receivable, which included approximately $12.5 million of commitments to related parties. Including interest accrual, the expected commitments total approximately $109.2 million, which included approximately $17.9 million to related parties. Substantially all advances pursuant to our loan commitments are subject to our prior approval, which may be given or denied in our sole discretion.

Litigation

In the ordinary course of business, the Trust or its borrowers may become subject to litigation or claims.

In October 2020, NexPoint Advisors, L.P ("NexPoint Advisors") filed a lawsuit against the Trust and an employee of its Advisor, claiming that the Trust and the employee of the Advisor made false accusations about NexPoint. The case was dismissed under the Texas Citizens Participation Act (the "TCPA") in May 2021 and NexPoint was subsequently ordered to reimburse UDF IV and the employee of the Advisor for their legal fees in the amount of $280,000 plus reserve amount for appeals of an additional $57,000.

NexPoint appealed the TCPA dismissal and fee award and in August 2023, the appellate court ruled in NexPoint's favor regarding UDF IV but affirmed the dismissal of the Advisor's employee by the trial court. In November 2023, UDF IV petitioned the Texas Supreme Court to overturn the appellate ruling. UDF IV's petition was denied in May 2024. UDF IV intends to petition the Texas Supreme Court for a rehearing. If not granted, the case will be remanded to the trial court to resolve the litigation between UDF IV and NexPoint and determine the legal fees recoverable that were associated with the defense of the employee of the Advisor.

E. Commitments and Contingencies – continued

Litigation - continued

In March 2020, Megatel Homes, LLC, and two of its affiliates (collectively, "Megatel") filed a federal lawsuit (the "Megatel Action") against the principal of one of the Trust's current borrowers, UDF IV and several UDF IV affiliated entities (collectively, the "UDF Entities"), as well as a former executive of UDF IV and present and former executives of UDF IV's Advisor (such present and former executives, the "UDF Principals"). The sole cause of action pleaded against the UDF Entities and the UDF Principals is RICO conspiracy under 18 U.S.C. § 1962(d) regarding eleven real estate development projects, including some that serve as collateral for UDF loans. In February 2024, Megatel moved to dismiss two of its affiliates, Megatel Homes, LLC and Megatel Homes II, LLC, from the lawsuit without prejudice. The UDF Entities requested that the dismissal of the two affiliate entities be with prejudice, which would prevent the two affiliate entities from bringing their alleged claims against the Trust again. The Court agreed and dismissed Megatel Homes, LLC and Megatel Homes II, LLC and their claims against the UDF Entities with prejudice and limited Megatel Homes III, LLC's potential damages, if proven, to eight real estate development projects. As to the remaining claims, the UDF Entities and the UDF Principals deny all claims and contentions alleged by Megatel and intend to vigorously defend themselves against these allegations.

In October 2023, NexPoint Real Estate Opportunities, LLC ("NREO") filed a lawsuit in the Circuit Court of Baltimore ("the Court") against the Trust, its current board of trustees, and one former member of the board of trustees. The lawsuit sought declaratory and injunctive relief for two constituent amendments that were adopted by the board of trustees. The first was the adoption in July 2020 of a classification of the board of trustees as provided under subsection (b) of MGCL § 3-803 and whether all trustee positions should be open for nomination and election at the next annual meeting of shareholders. The second was the amendment of the By-Laws in January 2021 limiting the nominations for members of the board of trustees to qualified shareholders of the Trust, which action was subsequently rescinded in January 2024. In April 2024, the Court ruled that the Classified Board election was valid, and the Board remains classified. The Court ruled further that both the Class 2 and Class 3 Trustee positions on the board would stand for election at the 2024 shareholder meeting.

On May 27, 2022, United Development Funding, L.P., United Development Funding II, L.P., United Development Funding III, L.P., United Development Funding IV, United Development Funding Income Fund V, United Mortgage Trust, United Development Funding Land Opportunity Fund, L.P., and United Development Funding Land Opportunity Fund Investors, L.L.C. (collectively, "UDF") dismissed its claims against J. Kyle Bass and his affiliated hedge funds ("Bass/Hayman") in the County Court of Dallas County, Texas (the "Trial Court"). On the same day, Bass/Hayman purported to e-file a motion asserting various counterclaims against UDF. UDF appealed the issue of whether Bass/Hayman had a legal basis to bring these counterclaims to the Court of Appeals for the Fifth District of Texas ("Appeals Court"). On March 18, 2024, the Appeals Court issued an opinion stating that the Trial Court dismissed the entire case, including Bass/Hayman's counterclaims, and instructed the Trial Court to designate the case as closed. On April 17, 2024, Bass/Hayman filed a motion requesting the Appeals Court rehear the issue en banc. On June 4, 2024, the Appeals Court rejected Bass/Hayman's motion for reconsideration en banc.

E. Commitments and Contingencies – continued

Off-Balance Sheet Arrangements

From time to time, we enter into Guarantees and Indemnity Agreements (as discussed further in Note B above). Guarantees and Indemnity Agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee by the debtor. A Guarantee or Indemnity Agreement involves, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. Our exposure to credit loss in the event of non-performance by the other party to the instrument is represented by the contractual notional amount of the Guarantee or Indemnity Agreement. At December 31, 2023, we had no outstanding Guarantees and 10 outstanding Indemnity Agreements totaling approximately $1.8 million. At December 31, 2022, we had no outstanding Guarantees and four outstanding Indemnity Agreements totaling approximately $1.1 million.

The Trust routinely subordinates its lien position when a third-party lender provides a senior loan to develop a phase in a multi-phase community where the Trust is financing the land. In one subordination agreement, in the event the third-party senior lender delivers a default notice, the senior lender has the right to cause the Trust to purchase the senior loan upon written request. At December 31, 2023 and 2022, the senior loan balance of this loan was $4.5 million and $4.0 million, respectively. See Note J – Subsequent Events for discussion of the status of this subordination agreement.

Advisor Indemnification

The Trust is obligated under the Advisory Agreement to reimburse the Advisor or its Affiliates for expenses they incur on behalf of the Trust, other than expenses that are specifically the responsibility of the Advisor as set forth in the Advisory Agreement. Subject to the conditions and exceptions set forth in the Advisory Agreement, the Trust is obligated to indemnify and hold harmless the Advisor and its Affiliates, including their respective officers, directors, trustees, partners and employees, from all liability, claims, damages or losses arising in the performance of their duties under the Advisory Agreement, including related expenses, such as reasonable attorneys' fees, to the extent not fully reimbursed by insurance, subject to any limitations imposed by the laws of the State of Maryland and the Declaration of Trust.

F. Economic Dependency

Under various agreements, the Trust has engaged or will engage the Advisor and its affiliates to provide certain services that are essential to the Trust, including asset management services, asset acquisition and disposition decisions, as well as other administrative responsibilities for the Trust. As a result of these relationships, the Trust is dependent upon the Advisor and its affiliates. In the event that these entities are unable to provide the Trust with the respective services, the Trust would be required to find alternative providers of these services.

G. Investment in Company

The Trust has a 50% membership interest in BRHG TX-1, LLC ("BRHG") which has a financial interest in two partnerships whose primary asset is a homebuilder with operations in Austin and San Antonio, Texas. During the year ended December 31, 2023, the Trust received $2.5 million in cash from its investment. During the year ended December 31, 2022, the Trust recorded an unrealized loss related to its investment in partnership in BRHG of approximately $2.2 million. At December 31, 2023 and 2022, approximately $718,000 is included in accrued receivable – related parties from BRHG for loan guarantee fees.

H. Related Party Transactions

Advisor Fees

We incur monthly Base Management Fees payable to our Advisor (as discussed further in Note B above). For the years ended December 31, 2023 and 2022, approximately $5.2 and $5.6 million, respectively, is included in management fees – related party expense for Base Management Fees payable to our Advisor. As of December 31, 2023 and 2022, approximately $100,000 and $53,000, respectively, is included in accrued receivable – related parties associated with Base Management Fees paid to our Advisor.

Each month, we incur an Advisor Expense Reimbursement (as discussed further in Note B above). For the years ended December 31, 2023 and 2022, approximately $1.3 and $1.7 million, respectively, is included in general and administrative – related parties expense associated with the Advisor Expense Reimbursement.

Notes Receivable – Related Parties

A majority of our trustees (including a majority of our independent trustees) who are not otherwise interested in these transactions have approved the following notes receivable – related parties and participation receivable – related parties agreements as being fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

VOHL Loan

Effective May 20, 2013, we entered into a $2.9 million loan agreement with BLD VOHL 6A-1, LLC (the "VOHL Loan"). The VOHL Loan was originated to finance and construct 45 sixty-foot-wide lots in a master planned community. Effective December 31, 2016, a subsidiary of various affiliates of the Trust acquired the ownership interests in BLD VOHL 6A-1, LLC from Buffington Land Development, LLC, pursuant to an Assignment and Assumption of Interests and as a result, became the owner of the remaining underlying property, including approximately 4.6 acres of land planned for commercial properties. As of December 31, 2022, the VOHL Loan was secured by a first lien deed of trust on the remaining 1.42 acre platted commercial lot recorded in Travis County, Texas, as well as a promissory note, an assignment of reimbursements from the applicable municipal utility district, and other loan documents. The interest rate on the VOHL Loan is 13% per annum. The VOHL Loan's principal balance and related accrued interest receivable were repaid in full during the year ended December 31, 2023; however, the loan remains open for future advances. As of December 31, 2022, approximately $109,000 and $100 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the years ended December 31, 2023 and 2022, approximately $38,000 and $95,000, respectively, is included in interest income – related parties.

H. Related Party Transactions - continued

Woodland Lakes Loan

Effective December 30, 2016, we entered into a $19.7 million loan agreement with WL Woodland Lakes, LLC, a wholly owned subsidiary of an affiliate (the "Woodland Lakes Loan"). The Woodland Lakes Loan provided for the financing of the land and certain stages of development of a 450-acre project located in the City of Houston, Harris County, Texas. As of December 31, 2023, the loan is secured by a first lien deed of trust on approximately 50 acres and a subordinate lien deed of trust on approximately 308 acres in Harris County, Texas, as well as a promissory note, a collateral assignment of reimbursements from the applicable municipal utility district covering the project, and other loan documents. The interest rate on the loan is 13% per annum. The Woodland Lake Loan matures and becomes due and payable in full on December 31, 2028. The origination of the Woodland Lakes Loan included a commitment for principal advances of approximately $15.8 million and an interest reserve of approximately $3.9 million pursuant to which we annually compound the borrower's accrued interest into the principal balance of the loan. As of December 31, 2023, approximately $10.1 million and $7,000, respectively, is included in notes receivable – related parties and accrued receivable – related parties. As of December 31, 2022, approximately $9.8 million and $7,000, respectively, is included in notes receivable – related parties and accrued receivable – related parties. For the years ended December 31, 2023 and 2022, approximately $1.3 and $1.1 million, respectively, is included in interest income – related parties.

Lakeside Loan

Effective March 15, 2017, we acquired a $6.6 million loan to an unaffiliated borrower secured by a senior lien on approximately 438 acres in Texas City, Galveston County, Texas ("the Lakeside Loan"). Effective December 21, 2022, an affiliate of the Trust with a subordinate lien secured by a portion of the same property acquired the project from the unaffiliated borrower, subject to the senior loan. The original loan provided funding for land acquisition and pre-construction project costs. To accommodate development of the project, we increased the Lakeside Loan to $15.5 million and extended the maturity date to December 31, 2030. The Lakeside Loan has subsequently been increased to $17 million effective June 21, 2023. As of December 31, 2023, the interest rate on the loan was 13%; however, the loan was, and continues to be, on non-accrual status, so no interest income was recognized on this loan for the years ended December 31, 2023 and 2022. During 2022, we increased the provision for credit losses for this loan by approximately $349,000. As of December 31, 2023, the loan balance was approximately $15.0 million with a reserve for credit loss of approximately $8.4 million. As of December 31, 2022, the loan balance was approximately $13.9 million with a reserve for credit loss of approximately $8.4 million. The Lakeside Loan matures and becomes due and payable in full on December 31, 2030.

H. Related Party Transactions - continued

OU Land Loan

Effective July 15, 2020, we entered into a $587,000 loan agreement with OU Land Acquisition, L.P., a wholly owned subsidiary of an affiliate (the "OU Land Loan"), subsequently increased by the first loan modification agreement to $750,000 effective October 27, 2022. The OU Land Loan increased to $834,000 pursuant to a second loan modification agreement effective December 31, 2023. The OU Land Loan provided for financing of approximately 19.5 acres of real property. As of December 31, 2023, the loan is secured by a first lien deed of trust on approximately 19.5 acres in Harris County, Texas, as well as a promissory note and other loan documents. The interest rate on the loan is 13% per annum. The loan matures and becomes due and payable in full on December 31, 2024. The origination of the OU Land Loan included a commitment of principal advances of $500,000 and interest reserve of $250,000 pursuant to which we annually compound the borrower's accrued interest into the principal balance of the loan. As of December 31, 2023, approximately $719,000 and $44,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. As of December 31, 2022, approximately $625,000 and $37,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the years ended December 31, 2023 and 2022, approximately $88,000 and $78,000, respectively, is included in interest income – related parties.

Arcadia 75 Loan

Effective July 13, 2022, we entered into an $8.6 million loan agreement with Arcadia 75, LLC, a wholly owned subsidiary of an affiliate (the "Arcadia 75 Loan"). The Arcadia 75 Loan provided for acquisition and pre-construction development costs of approximately 109 acres of real property. As of December 31, 2022, the loan is secured by a first lien deed of trust on approximately 109 acres in Bexar County, Texas, as well as promissory notes and other loan documents. The interest rate on the loan is 13% per annum. As of December 31, 2023, the loan would mature and become due and payable in full on July 31, 2024; however, the loan's maturity date was extended to December 31, 2028 in January of 2024. The origination of the Arcadia 75 Loan included a commitment for principal advances of approximately $7 million and an interest reserve of approximately $1.6 million pursuant to which we annually compound the borrower's accrued interest into the principal balance of the loan. As of December 31, 2023, approximately $6.7 million and $409,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. As of December 31, 2022, approximately $3.2 million and $192,000 are included in notes receivable – related parties and accrued receivable – related parties, respectively. For the years ended December 31, 2023 and 2022, approximately $789,000 and $192,000, respectively, is included in interest income – related parties.

H. Related Party Transactions - continued

Loan Participation

On April 26, 2023, we entered into a participation agreement with an affiliate lender pursuant to which we purchased up to a 100% pari passu participation interest in an interim construction loan facility to an unaffiliated borrower with a maximum aggregate principal amount of $5,000,000 (the "Participation"). The construction loan facility bears interest at 13% except upon default, at which time the interest rate increases to 18%, and has a maximum loan-to-value ratio of 80%. The proceeds of the loan participation provide financing for the construction of new single-family homes in the greater Austin, Texas market. The loan is secured by first lien deeds of trust on the homes being constructed, as well as guarantees from the parent of the borrower and its founders. Fifteen loans were originated under the construction loan facility with an aggregate maximum principal balance of approximately $4.27 million, all of which matured on January 26, 2024. On July 20, 2023, the affiliate lender called the loan facility into default with our consent and the interest rate increased to 18%. On July 31, 2023, the borrower was placed in receivership. In December 2023, the affiliate lender filed lawsuits against the principals who guaranteed the repayment and performance of the construction loans. As of December 31, 2023, approximately $3.5 million and $339,000 are included in participations receivable – related parties and accrued receivable – related parties, respectively. For the year ended December 31, 2023, approximately $376,000 is included in interest income – related parties. We expect to fully collect the Participation and related interest based on the value of the underlying collateral. See Note J – Subsequent Events for discussion of Participation repayments in 2024.

Related party receivable

As of December 31, 2022, we had approximately $324,000 included in accrued receivable – related parties from a related party for litigation expenses. This receivable was paid in full during the year ended December 31, 2023.

I. Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk are primarily cash and cash equivalents, accrued interest receivable, accrued receivable – related parties, notes receivable and notes receivable – related parties.

We maintain deposits in financial institutions that may at times exceed amounts covered by insurance provided by the United States Federal Deposit Insurance Corporation ("FDIC"). We have not experienced any losses related to amounts in excess of FDIC limits.

As of December 31, 2023 and 2022, all our real property loans and investments are secured by or related to properties located in Texas.

We may invest in multiple secured loans that share a common borrower. The bankruptcy, insolvency or other inability of any borrower that is the subject of multiple loans to pay interest or repay principal on its loans would have adverse consequences on our income and reduce the amount of funds available for distribution to investors. The more concentrated our portfolio is with one or a few borrowers, the greater credit risk we face. The loss of any one of these borrowers would have a material adverse effect on our financial condition and results of operations.

I. Concentration of Credit Risk - continued

As of December 31, 2023, we had two loans to individual borrowers that each accounted for over 10% of the outstanding balance of our portfolio as of December 31, 2023. The properties financed by these two loans are in the Dallas/Fort Worth market. Including these two loans, as of December 31, 2023, we have invested approximately 85% of the outstanding balance of our portfolio in 28 loans to our largest individual borrower and its affiliates. For the year ended December 31, 2023, approximately 78% of our interest income was generated by loans to our largest individual borrower and its affiliates.

As of December 31, 2022, we had two loans to individual borrowers that each accounted for over 10% of the outstanding balance of our portfolio as of December 31, 2022. The properties financed by these two loans are in the Dallas/Fort Worth market. Including these two loans, as of December 31, 2022, we have invested approximately 88% of the outstanding balance of our portfolio in 28 loans to our largest individual borrower and its affiliates. For the year ended December 31, 2022, approximately 93% of our interest income was generated by loans to our largest individual borrower and its affiliates.

J. Subsequent Events

On February 1, 2024, our board of trustees authorized a cash distribution of $0.065 per share for the first quarter of 2024, which was paid on March 29, 2024, to shareholders of record at the close of business on March 22, 2024. On May 22, 2024, our board of trustees authorized a cash distribution of $0.065 per share for the second quarter of 2024, which was paid on June 28, 2024 to shareholders of record at the close of business on June 21, 2024.

In February 2024, the senior loan for which the subordination agreement granted the senior lender the right to cause the Trust to purchase the senior loan upon written request after a notice of default was repaid in full, terminating the subordination agreement and the loan purchase obligation.

On March 21, 2024, our board of trustees authorized 14,625 RSUs with a grant date fair value of $7.18 per share, which were awarded to three independent members of our board of trustees. 4,875 of the RSUs vest in each of 2025, 2026 and 2027. For holders of unvested RSUs granted before distribution record dates, the Trust will pay an amount in cash equal to the number of unvested RSUs multiplied by the distribution per share paid to such shareholders.

One independent trustee, who is a resident of Maryland and is therefore ineligible to receive RSUs, received a cash award of $35,000, which will be paid in installments of $11,667 in 2025 and 2026 and $11,666 in 2027.

After issuance of the 14,625 RSUs, there are 2,367,925 shares remaining under the Equity Incentive Plans. The equity incentive plans expired on June 4, 2024.

As of July 1, 2024, the Participation Receivable – Related Party and related interest receivable was repaid in full.

During 2024, the Trust’s outstanding Indemnity Agreements have been reduced to 6 totaling approximately $950,000 from 10 totaling approximately $1.8 million at December 31, 2023.

Subsequent to December 31, 2023, the Trust has collected and recognized approximately $7.7 million of interest income on impaired loans, including approximately $7.3 million of interest income from repayment of a loan whose borrower sold the underlying collateral to an affiliate of the Trust.