

USA CAPITAL DIVERSIFIED TRUST DEED FUND, LLC
Robert G. Worthen, Chairman of the Board

August 22, 2007

Dear USA Capital Diversified Trust Deed Fund, LLC Investor:

I again write on behalf of the Board of Directors of USA Capital Diversified Trust Deed Fund, LLC (“DTDF”) to update you about DTDF’s efforts to collect assets. As described in more detail below, we continue to devote our time to recovering assets, with the goals of being able to make the best recovery possible and to make an initial distribution to investors this year, although we still cannot at this time predict how much will be distributed or when the first distribution will be made. We once again remind you that there is no easy way to undo the damage done to DTDF by its pre-bankruptcy managers, Joe Milanowski (“Milanowski”) and Tom Hantges (“Hantges”).

DTDF Management.

As discussed in my May 10th letter to all investors, DTDF emerged from chapter 11 on March 12, 2007. As of that date, Tom Allison ceased his role as Chief Restructuring Officer of DTDF, and DTDF’s chapter 11 counsel also moved on to other projects. Michael Tucker of FTI Consulting became DTDF’s new manager that day. He answers to the Board of Directors, which is comprised of five DTDF investors: myself, as Chairman of the Board, Robert Hardy, Charles Nichols, Bob Fitzner and Richard Kreps. DTDF, has retained the former committee counsel, Orrick, Herrington & Sutcliffe LLP and Beckley Singleton Chtd., and has retained as its financial advisor, FTI Consulting, which served as financial advisor to the DTDF Committee.

Distributions To DTDF Members.

As described below, DTDF has collected over \$8 million since May 10th, but it also has incurred and paid significant professional fees. We hope to be in a position within the next two months to know whether DTDF will be able to make a distribution this year, but as you continue to read this letter and the attached addendum, you will see that there still is much litigation in store for us, and DTDF must maintain significant reserves in order to fund its recovery efforts.

DTDF’s Actions To Collect Assets And The Non-Performing DTDF Loans.

The following loans and claims are DTDF’s major assets. In the May 10th letter, we described the loans and the issues raised by each. We once again summarize the current status of each loan and significant claims against third parties on the attached addendum. The collection status of many of the major assets changes daily.

- 10-90, Inc. loan – owed by Investment Partners
- Claims against Milanowski and Hantges
- Ashby real estate projects
- Tree Moss Partners/EPIC Loan – The Marquis Villas in Palm Springs
- USA Investors VI – The Hotel Zoso in Palm Springs

- Colt Gateway LLC loans – The former Colt Armory located in Hartford, Connecticut
- BySynergy obligation – The subject property located in Sedona, Arizona
- Loans Serviced by Compass
- HMA litigation – related to the sale of the Royal Hotel in Las Vegas
- Claims against USA Commercial Mortgage (“USACM”)

Communication With DTDF Members.

Our next letter will be sent in November. We posted the May 10th letter as well as this one on the DTDF website. All future letters will be posted there as well. The website also contains key pleadings knowing that many of you find this helpful and informative. It may be accessed at **<http://usacapdtdf.bmcgroup.com>**.

As it is very expensive to communicate with our professionals, who bill hourly fees, I am pleased to receive your phone calls and answer questions about our status to the best of my ability. My personal cell phone number is (702) 239-4222.

You may send us email inquiries at diversifiedfund@orrick.com.

Address changes should be sent as a written request with your legal vesting name and account number to DTDF at the following address:

USA Capital Diversified Trust Deed Fund
C/O FTI Consulting, Inc.
Two North Central Avenue
Suite 1200
Phoenix, Arizona 85004

Conclusion.

We continue to ask for your patience, and want to assure you that the Board and the DTDF professionals are giving our best efforts to obtain the best recovery for you.

Best Regards,
Robert G. Worthen
Chairman of the Board

Introduction.

Because our May 10th letter was the Board's first communication to DTDF investors, we went into great detail about each of DTDF's significant loans and claims. Thus, the attachment was five and a half pages of single-spaced text, all of it substantive. The following discussion *updates* the previous letter, and as a result provides far less detail. The information provided below assumes that you have read the May 10th letter, but that you recall only the key details. After reviewing the following, you may want to re-read portions of the earlier letter (which is posted on the DTDF website, as explained earlier).

- Investment Partners, Its Chapter 11 Case And Trustee. Investment Partners was the vehicle pursuant to which Hantges and Milanowski, under the guise of a loan to 10-90, Inc. transferred in excess of \$55 million of DTDF investor funds to themselves as a way to engage in speculative real estate activities ("10-90 Loan"). With interest, obligation owing under the 10-90 Loan exceeds \$100 million. As previously reported the Board voted to join with other of Investment Partners' creditors in the filing of an involuntary chapter 11 petition against that entity and requesting an interim trustee. Bankruptcy Judge Linda Riegle granted the interim trustee motion. The next day, the United States Trustee appointed Lisa Poulin of Corporate Revitalization Partners to serve as interim trustee of Investment Partners. She has control of Investment Partners' assets, and, along with her counsel, Gordon & Silver, has been working to identify, understand and preserve Investment Partners' assets, with the goal of liquidating those assets for the benefit of creditors (of which DTDF is the largest).

- Hantges and Milanowski Personal Bankruptcy Cases. Once control of Investment Partners was taken from the hands of Milanowski and Hantges and placed in the capable hands of Ms. Poulin, DTDF, again working with the USA Commercial Mortgage Trust, filed involuntary chapter 11 petitions against Hantges and Milanowski, personally. The petitions and many related pleadings were filed on May 29th, and at the conclusion of a hotly-contested June 4th hearing, Judge Riegle ordered the appointment of interim trustees in each case. Shortly thereafter, the United States Trustee appointed Michael Carmel to serve as the interim trustee for Hantges, and Ford Elsaesser to serve as the interim trustee for Milanowski. Each is an experienced and well-regarded lawyer with extensive trustee experience, each was very acceptable to DTDF and the USACM Trust, and each has retained first-rate counsel. Both trustees immediately took steps to begin to corral the assets of their respective debtors. Not surprisingly, both Hantges and Milanowski fought the involuntary petitions, but on June 22nd, Judge Riegle entered an order for relief in the Hantges case. That meant that Hantges must remain in bankruptcy. Hantges moved to set aside that order, but such motion was denied in early July. Milanowski fought harder, and the trial on his defense was delayed until August 9th. The effort of DTDF and Milanowski's other creditors in preparation for and during the August 9th trial resulted in an order for relief entered in his case as well. The result of the foregoing is that Elsaesser and Carmel are now the permanent trustees, and they and their counsel are actively pursuing assets for the benefit of creditors. The largest creditor of both estates is DTDF because Hantges and Milanowski guaranteed the so-called 10-90 Note, the current balance of which (as noted above) exceeds \$100 million. The

investigations by the two trustees have been hampered by Hantges and Milanowski having invoked their Constitutional rights against self-incrimination in response to many of the questions posed by the trustees. However, the two trustees continue to work aggressively to identify and gain control of Milanowski's and Hantges' assets for the benefit of their creditors.

- Ashby Real Estate Projects, Including Roripaugh Ranch. The 10-90 Loan is secured by the assignment of membership interests in Ashby USA, LLC, Capital Land Investors, LLC and Random Developments, LLC. Investment Partners is the 50% owner of such entities, and now that Ms. Poulin and her professionals control Investment Partners, they have taken the lead in attempting to create value for the equity interests and for creditors such as DTDF. In May, she and her professionals, along with DTDF professionals met with Ashby representatives in Las Vegas in an attempt to learn more about the Ashby properties and how to achieve maximum value from them. The meetings and negotiations are ongoing, and DTDF professionals are actively participating in Ms. Poulin's quest for Ashby-related data and documents and in the review thereof.

- Tree Moss Partners and the Marquis Villas. Lisa Poulin, through her position of trustee of Investment Partners, now controls Tree Moss Partners, LLC in its chapter 11 case. Tree Moss has an unsecured obligation in excess of \$20 million to DTDF. Recently, Judge Riegle approved Ms. Poulin's proposal to establish bid procedures for the sale/auction of the 63 condominium units in the Marquis Villas resorts in Palm Springs, California, owned by Tree Moss. DTDF supports the sale of the Marquis Villa units, and has been both actively monitoring the sale process and working with Ms. Poulin to identify potential buyers. The sale/auction of the Marquis Villas units, along with the sale of the Hotel Zoso (described below) is scheduled for October 15, 2007. Because both Tree Moss and the owner of the Hotel Zoso are in chapter 11 cases, though, it is likely that no payment of the sale proceeds to DTDF or any other unsecured creditor will be made until early 2008. The current sale contract is for \$10,800,000, which will be the opening bid amount at the auction.

- USA Investors VI ("Investors VI"). DTDF has a large unsecured claim against Investors VI which owns the Hotel Zoso, located in Palm Springs across the street from the Marquis Villas. Lisa Poulin, through her position of trustee of Investment Partners, now controls Investors VI in its chapter 11 case. As mentioned above, the sale/auction of the Hotel Zoso will be held on October 15th at the same time as the sale of the Marquis Villas. That sale may result in a substantial payment to DTDF as an unsecured creditor, but much depends on the sale price and on the requisite payment to direct lenders. The direct lender loan is serviced by the USACM Trust and secured by a first priority deed of trust of approximately \$20 million on the Hotel Zoso. The current sale contract is for \$25,100,000, which will be the opening bid amount at the auction.

- Colt Loans. As noted in the May 10th letter, the DTDF/Colt relationship is very complex, in that DTDF is one of three direct lenders that are the beneficiaries of a promissory note secured by a first trust deed on certain parcels and buildings comprising a portion of the overall Colt project. DTDF's share of the "Colt 1st loan" principal

balance is approximately \$2.5 million. DTDF also made three additional advances to Colt, but these three loans are “undocumented,” meaning that promissory notes and related security documentation was not formally signed by the parties involved. Colt management has made claims that these advances, which total \$8.3 million, were not loans at all, but rather were infusions of equity. In the last quarter DTDF has met on several occasions with Colt Gateway in Hartford, Connecticut, in an attempt to negotiate a resolution and payment terms of Colt’s obligations. The meetings and a number of follow-up communications by DTDF resulted in DTDF’s receipt of workout proposals from Colt, but, unfortunately, the proposals were wholly unacceptable. DTDF is exploring its options, and has retained Connecticut counsel in anticipation of foreclosure and other litigation.

- The BySynergy Obligation. DTDF continues to be in communication with BySynergy about the \$4.4 million unsecured loan to BySynergy, 87% of which is owned by DTDF and 13% by the USACM Trust. DTDF has conducted a Rule 2004 examination of a BySynergy principal, reviewed various documents produced by BySynergy during the examination and had discussions with parties involved in the transaction. DTDF has been in contact with BySynergy’s counsel, and expects to receive additional documents in the near future. BySynergy has raised a number of defenses to the DTDF claim, and has promised to provide evidence of such defenses to DTDF. Litigation may well ensue, but first we need to obtain all relevant documents so as to fully understand BySynergy’s obligations and its putative defenses.

- Loans Serviced by Compass. DTDF is no different than any other direct lender in the loans serviced by Compass. DTDF has interest in nine loans that Compass services. The total outstanding amount due for the nine loans as of 5/31/07 is approximately \$6.3 million (\$3.4 million of the \$6.3 million is due from the Amesbury/Hatters Point loan). Despite numerous requests of Compass, DTDF has received limited information on the status of DTDF’s loans and hasn’t received a loan summary since 5/31/07.

Compass and the LPG have various disputes between each other. The primary dispute is in regards to the servicing rights of the direct lender loans. Diversified is not involved in the disputes and has not been impacted by them.

- Settlement Of The HMA Adversary Relating To The Royal Hotel. As described in the May 10th letter, on December 22, 2006, Hantges and Milanowski caused one of their affiliates, HMA Sales LLC to sell the Royal Hotel for \$24 million in cash and a promissory note or notes for approximately \$5 million. The sale escrow paid the Salvatore Reale Trust (“Reale”), a creditor of Milanowski and Hantges personally, approximately \$9.9 million. And the escrow paid Great White Investment NV Inc. (“Great White”) \$1 million even though Great White was not a creditor of HMA, either. DTDF and the DTDF Committee promptly sued Reale, Great White and a number of people to whom Great White had made transfers. In January and February, with the Effective Date imminent, the DTDF Committee professionals began to take control of the adversary proceeding from DTDF’s bankruptcy counsel. The adversary was very hotly

contested, and included prejudgment remedies, attachments preserving approximately \$7 million, depositions, interrogatories, declarations and the like. The adversary became more complex when Ms. Poulin took control over, and eventually filed a chapter 11 case for, HMA. Judge Riegler recommended mediation before Bankruptcy Judge Bruce Markell, and after one failed attempt, Reale, DTDF and HMA reached a settlement at a mediation on May 25th. Judge Riegler approved the settlement on June 29th, and DTDF has been paid \$8.5 million. Thereafter, DTDF, HMA and the Great White defendants mediated their disputes before Judge Markell, reaching agreement on June 29th. The motion for approval of the settlement will be heard by Judge Riegler on August 23rd. The settlement calls for a potential recovery of \$760,000, some of which is to be paid immediately upon approval of the settlement, and some of which will be paid when certain individuals' assets are converted to cash. If the settlement is approved – which we believe it will be – the result will be the payment of approximately \$360,000 to DTDF. There remain several additional defendants in the adversary, and DTDF and HMA are discussing how best to pursue them.

- Disputes Concerning DTDF's Claims Against USACM. The disputes between DTDF and the USACM Trust are multiple and complex. Rather than engage in warfare over their claims against one another, the two former debtors have been cooperating in the actions against Investment Partners, Milanowski and Hantges in an attempt to increase the pool of assets available for both estates. By mutual agreement, the parties have agreed to delay any substantive discussion or negotiation at this time, given the numerous other issues currently requiring full attention.