

USA CAPITAL DIVERSIFIED TRUST DEED FUND, LLC

Robert G. Worthen, Chairman of the Board

February 13, 2009

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 regarding DTDF’s efforts to collect assets and to make distributions to investors. I am pleased to report DTDF is making a \$10 million distribution, which represents 6.7% of the total investment in DTDF of just under \$149.6 million. This is the second distribution (the first distribution was in December 2007) to DTDF investors bringing the total return of investment to 8.7% (first distribution of 2% plus second distribution of 6.7%).

For those investors who do not have a custodial account, enclosed is your portion of the \$10 million distribution. For investors with custodial accounts, your portion of the \$10 million distribution was mailed to the custodian of your DTDF investment.

We continue to focus on recovering assets and the investigation and prosecution of causes of action against potential recovery targets. In previous letters to investors – each of which is posted on the DTDF website – we reported to you on our efforts to recover assets. This letter builds off of the information provided in the previous letters and covers the following topics:

1. DTDF Taxes – You should receive your DTDF K-1 the first week in March.
2. Communications With DTDF Investors – Phone number and e-mail address provided for DTDF investor questions.
3. Accessing The DTDF Website – Website information provided for investors to access DTDF information.
4. Settlement with USA Commercial Mortgage Trust (“USACM”) – Summary of settlement.
5. Investigating and Prosecuting Causes of Action against Potential Target Defendants – Summary of litigation plan and list of lawsuits filed by DTDF.
6. Advocating DTDF Interests in Other Bankruptcy Cases – Summary of bankruptcy cases and DTDF’s involvement and claim amounts.
7. Preserving Assets of Insiders (Thomas Hantges and Joseph Milanowski) – Summary of bankruptcy filings, DTDF’s involvement and claim amounts and other lawsuits.
8. Status of Other Recovery Sources – Update on collections of the Colt loans and Compass/Silar serviced loans.

After reviewing the following, you may want to re-read portions of the earlier letters for additional background information.

1. DTDF Taxes – Mailing of K-1's to DTDF Investors

KPMG prepared DTDF's 2006 and 2007 tax returns and has been retained by DTDF to prepare the 2008 tax return that includes the K-1's for individual investors. We have been told that the 2008 K-1's should be completed by the end of February, so you should receive your K-1 in the mail the first week of March.

2. Communications With DTDF Investors

We will send you another letter within the next three months. As it is very expensive to communicate with our professionals, who bill hourly fees, I am pleased to receive your phone calls and to answer questions about our status to the best of my ability. My personal cell phone number is (702) 239-4222 or you may send us inquiries at diversifiedfund@orrick.com.

For address changes, please print and complete the Change of Address form posted on the DTDF website (form can be found under 1. Updates/Questions). If you don't have access to a computer to visit the website, please send 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

3. Accessing The DTDF Website

The website provides a convenient way to track the progress in this case. There, you can view an updated court docket, with links to recent pleadings and informative updates. Every letter to DTDF investors, including this one, is posted on the website. I urge you to visit our website on a regular basis. Here are two ways to access the DTDF Website:

- TYPING: Type <http://usacapdtfd.bmcgroup.com/default.aspx> into the browser screen at the top of your monitor.
- GOOGLE: If you type "USA Capital Diversified Information" in Google, the first resulting link should be the DTDF Website. Simply click on the link and you will be at the DTDF Website.

To stay informed of new postings to the website you can request automatic notifications of website updates. This can also be done by signing up on the website in Section 1. Updates/Questions. By signing up and providing a valid email address, you will receive alerts via email when new content is uploaded to the website.

4. Settlement with USA Commercial Mortgage Trust (“USACM”)

Confirmation of the Plan did not resolve numerous disputes between USACM and DTDF. In March 2008 DTDF and USACM settled their disputes.

In summary, the settlement provided:

- DTDF and USACM split certain reserves held by USACM on a 40/60 basis;
- DTDF is allowed a \$128 million unsecured claim in the USACM Estate;
- DTDF hires Diamond McCarthy LLP to pursue certain DTDF Litigation Claims, that will generally be prosecuted jointly with similar claims asserted by USACM through Diamond McCarthy;
- DTDF and USACM will jointly share proceeds of litigation claims, including those DTDF Litigation Claims prosecuted by Diamond McCarthy, with DTDF receiving 50% of the first \$20 million of gross recoveries, and DTDF receiving 35% of all gross recoveries thereafter;
- DTDF, by reason of its allowed general unsecured claim, will share in the USACM recoveries from both litigation claims and other assets of USACM on a pro-rata basis with all other allowed general unsecured creditor claims;
- DTDF and USACM share proceeds of the \$58 million note made by USA Investment Partners (“USAIP”) on an equal basis; and
- DTDF and USACM release each other of potential claims.

The compromise was the subject of notice to those parties entitled to post-confirmation notice and considered at a hearing on March 25, 2008. The Bankruptcy Court asked that additional notice be provided and that the deadline for objections be extended to March 31, 2008. No objections were received and on April 1, 2008, the bankruptcy court entered its Order Granting Motion to Approve Settlement Agreement with USA Capital Diversified Trust Deed Fund, LLC. Reserves of approximately \$5 million were released by USACM – 60% to USACM and 40% to DTDF. DTDF engaged Diamond McCarthy as its special counsel and Diamond McCarthy filed causes of action on behalf of DTDF before the expiration of the two-year tolling period on April 13, 2008.

The DTDF professionals and the Board are pleased with the settlement reached with USACM. Pursuing the litigation claims jointly allows DTDF to share in USACM claim recoveries from litigation targets that DTDF may not have pursued and vica versa for USACM. The settlement also allows DTDF to pursue its litigation targets without incurring substantial professional fees. Having an agreement with USACM eliminates future controversy regarding the allocation of claim recoveries and allows DTDF to receive proceeds from USACM litigation recoveries on a real time basis rather than waiting for USACM to make a distribution to its creditors. Finally, the settlement will serve to reduce DTDF’s ongoing attorney’s fees as the role of Orrick and Snell & Wilmer will be greatly reduced.

DTDF expects to recover funds from USACM based on DTDF's allowed \$128 million unsecured claim in the USACM Estate. The amount and timing of distributions to unsecured creditors by USACM is undetermined.

5. Investigating and Prosecuting Causes of Action against Potential Target Defendants

Diamond McCarthy as special litigation counsel has actively conducted formal and informal discovery of files, witnesses and transactions since its informal engagement by USACM in January 2007, which was formalized once the plan went effective in March 2007. The goals are to develop and then prosecute causes of action against insiders and third parties to recover damages for the benefit of DTDF investors and USACM creditors. In addition, special litigation counsel has sought to identify assets diverted by insiders and their affiliates so that the assets can be recovered. Diamond McCarthy is coordinating those efforts with others, including the USAIP Trustee, and the Trustees for Hantges and Milanowski mentioned below. Many witnesses have been deposed or interviewed, and many thousands of documents have been reviewed. Further, Diamond McCarthy is coordinating efforts with various federal and state Governmental agencies, including the FBI, US Attorney's Office for Las Vegas, and the SEC.

DTDF and USACM had the benefit of a two-year tolling period under Bankruptcy Code § 108 to bring many claims and causes of action owned by DTDF and USACM on the date of its bankruptcy filing. The two-year anniversary of the bankruptcy filing was April 13, 2008. DTDF and USACM filed numerous causes of action before this deadline. Lawsuits where DTDF is a plaintiff were filed against the following in United States Bankruptcy Court for the District of Nevada:

Case No.	Defendant
08-01132	Stanley E. Fulton ¹
08-01133	Kathryn L. Petersen; Kathryn L. Petersen Living Trust; KLP Trust dated 7/15/99; Specialized Development Tahoe, LLC ²
08-01134	Mary Petersen; Mary Petersen Family Trust dated 8/12/98; Michael D. Petersen; Michael D. Petersen Family Trust dated 8/12/98; Kathryn L. Petersen; Kathryn L. Petersen Living Trust; KLP Trust dated 7/15/99 ³
08-01135	Wells Fargo Bank, N.A. ⁴
08-01164	Beadle, McBride, Evans & Reeves, LLP; Reeves, Evans, McBride & Zhang, LLP; TG McBride, CPA Ltd.; T. Garth McBride ⁵

¹ Plaintiff is DTDF.

² Plaintiff is DTDF.

³ Plaintiffs are USACM and DTDF.

⁴ Plaintiffs are USACM, DTDF and FTDF.

⁵ Plaintiffs are USACM and DTDF.

Case No.	Defendant
08-0112-0	David A. Fogg ⁶

Additionally, a complaint was filed in the United States District Court for the District of Nevada, as follows:

Case No.	Plaintiffs	Defendants
2:08-CV-461	USACM and DTDF	Deloitte & Touche, LLP; Victoria Loob ⁷

These actions are being prosecuted in order to recover funds for DTDF investors and USACM beneficiaries.

DTDF and USACM also entered into what are known as “tolling agreements” with a number of potential targets before the deadline for bringing action. In essence, a tolling agreement allows DTDF and USACM to take more time to investigate possible causes of action and hopefully negotiate settlement of any claims against the potential targets before filing suit. The relevant limitations period is tolled during the pendency of the tolling agreement. For confidentiality and other reasons, to encourage settlement and to protect potential targets about whom DTDF and USACM may not have sufficient information to bring an action at this time, DTDF and USACM are not disclosing the identity of the persons and entities with whom they have entered into tolling agreements except now in a few instances where the efforts of Diamond McCarthy, USACM and DTDF, have resulted in settlement of the claims raised against those particular third parties.

USACM and DTDF sought bankruptcy court approval to enter into a settlement agreement with USACM, DTDF and Beadle McBride, Evans & Reeves, LLP, Reeves, Evans, McBride & Zhang, LLP, TG McBride CPA Ltd., and T. Garth McBride, collectively (“BMER”). In substance, the settlement provided for BMER’s insurance carriers to pay \$1.5 million to settle all claims. DTDF shares in a portion of the collections in the agreement between USACM and DTDF previously described in the August 25, 2008 letter to DTDF investors. The payment from insurance settled complex causes of action and provided a greater recovery than USACM, DTDF and counsel expected would be obtained if litigation were filed, judgment was entered, and collection efforts undertaken. The Bankruptcy Court entered an order approving the BMER settlement on December 9, 2008.

⁶ Plaintiffs are USACM and DTDF.

⁷ Plaintiffs were USACM and DTDF. DTDF’s claims against Deloitte were dismissed on August 15, 2008.

USACM and DTDF also sought bankruptcy court approval to enter into a settlement agreement with Piercy, Bowler, Taylor & Kern PC (“PBTk”). PBTk were the former auditors of USACM. USACM investigated and informally asserted causes of action on behalf of the Trust and DTDF against PBTk, which elected to settle after extensive negotiations. PBTk requested that the settlement amount to be paid by its insurance carriers be maintained as confidential. DTDF shares in a portion of the settlement pursuant to the agreement referenced above. The settlements were considered after notice to creditors and interested parties, including in the case of PBTk, all direct lenders. Certain creditors opposed the settlement, some generally due to their frustration over the losses they had incurred in the USACM loans and others because of specific concerns with respect to the settlement. After a hearing on December 23, 2008, the Bankruptcy Court approved the settlement with PBTk and overruled the objections.

After a settlement conference, USACM and DTDF reached agreement on a proposed settlement with another professional firm and its insurance carrier. That firm requested and USACM and DTDF agreed to keep the name of the potential defendants confidential, as well as the amount of the settlement payment.

6. Advocating DTDF Interests in Other Bankruptcy Cases

USAIP Chapter 11 Case

DTDF and USACM joined with other creditors of USAIP in the filing of an involuntary chapter 11 petition against USAIP in early April 2007. As a result, USAIP is a debtor in a bankruptcy case pending in Nevada (case #07-11821-LBR). USAIP is the maker of a \$58,374,918.81 promissory note (the “\$58 Million Note”) to USACM for the benefit of creditors (including DTDF). Repayment of the \$58 Million Note and other obligations of USAIP are secured by liens on USAIP’s interest in entities owned or in part by USAIP.⁸ As mentioned above, DTDF and USACM will share collections on the \$58 Million Note on an equal basis.

Trustee

Over the objection of Hantges and Milanowski, through their counsel, the bankruptcy court (Honorable Linda B. Riegler) entered an order directing the United States Trustee to appoint a trustee for USAIP. Lisa M. Poulin was appointed as trustee. She selected Gordon & Silver, P.C. of Las Vegas, Nevada as her counsel, with the Court’s approval.

Proofs of Claim

DTDF timely filed a proof of claim seeking \$176,380,998 from the USAIP estate. Resolution of claims against the USAIP estate and the possibility of payment are months or years away.

⁸ Capital Land Investors, LLC, a California limited liability company; Ashby USA, LLC, a California limited liability company; Placer County Land Investors, LLC a California limited liability company (f/k/a Placer County Land Speculators, LLC); Oak Mesa Investors, LLC, a California limited liability company; HMA Sales, LLC, a Nevada limited liability company; Tanamera Properties, LLC; Random Developments, LLC, a California limited liability company; and Buffalo Land Developments, LLC, a California limited liability company.

As Lisa Poulin identified USAIP subsidiaries in need of bankruptcy protection, bankruptcy cases were filed, she was appointed trustee, and the cases were jointly administered. These include: HMA Sales, LLC, Case No. 07-12694; Capital Land Investors, LLC, Case No. 07-18099; Oak Mesa Investors, LLC, Case No. 08-10397; and Buffalo Land Development Co., LLC, Case No. 08-10398.

Tree Moss Partners, LLC Chapter 11 Case

Tree Moss Partners, LLC (“Tree Moss”) is a debtor in bankruptcy due to an involuntary bankruptcy petition (Case No. 06-13758-LBR) filed by DTDF. Ms. Poulin has been appointed trustee for Tree Moss. Tree Moss owns the condominium project adjacent to the Hotel Zoso. USAIP’s equity in this entity is not pledged as collateral for the \$58 Million Note.

DTDF filed a proof of unsecured claim for \$23,116,045 in the Tree Moss case.

On April 1, 2008, the Bankruptcy Court granted the Motion of the Trustee for Tree Moss for sale of substantially all of its property and releases with Diamond Resorts Corporation as buyer for approximately \$9,000,000. The sale is conditioned upon a few items one of which is the extension of the ground lease by Bureau of Indian Affairs. The sale has not closed; Ms. Poulin is in negotiations with Diamond Resorts Corporation regarding the sale.

USA Investors VI, LLC Chapter 11 Case

USA Investors VI, LLC (“Investors VI”) is a debtor in bankruptcy due to an involuntary bankruptcy petition (Case No. 07-12377-lbr) filed by DTDF. Ms. Poulin has been appointed trustee for Investors VI. The sole asset of Investors VI was the Hotel Zoso in Palm Springs that was sold in late 2007 with the lion's share of the proceeds paid to the secured lender.

DTDF filed a proof of unsecured claim for \$13,310,422 in the Investors VI case. The minimal distribution to unsecured creditors was made and the case has been closed.

HMA Sales, LLC Chapter 11 Case

HMA Sales is a debtor in bankruptcy due to a voluntary chapter 11 petition (Case No 07-12694) filed by USAIP under the control of Ms. Poulin. Ms. Poulin is the trustee for HMA Sales. DTDF and HMA Sales reached a settlement agreement in June 2007 that was discussed in prior letters to investors. As a result of the settlement agreement DTDF received \$8.9 million in 2007 and will receive additional monies in 2009. DTDF continues to monitor the HMA Sales bankruptcy and work with Ms. Poulin and her counsel to collect additional sums relating to the Royal Hotel.

BySynergy, LLC Chapter 11 Case

BySynergy is also a debtor in bankruptcy due to an involuntary bankruptcy petition (Case No. 08-7680-rtb) filed by parties other than DTDF on June 25, 2008. DTDF is monitoring the bankruptcy case to determine what amounts, if any, will become available for distribution to DTDF on account of BySynergy's loan from DTDF.

7. Preserving Assets of Insiders (Thomas Hantges and Joseph Milanowski)

Thomas Hantges (“Hantges”)

Due to the filing of an involuntary bankruptcy petition by DTDF, USACM and other creditors, Hantges is a debtor in a chapter 11 bankruptcy case in Nevada, Case No. 07-13163-lbr. Michael Carmel was appointed trustee in the Hantges bankruptcy.

DTDF timely filed a proof of claim against the estate of Hantges seeking the amount of \$182,538,254. Resolution of claims against the Hantges estate and the possibility of payment are months or years away.

On February 11, 2008, DTDF filed a complaint to determine non-dischargeability of debt against Hantges, assigned Adversary No. 08-01041-lbr. Hantges has answered the complaint and the adversary proceedings were stayed pending settlement discussions by the Court’s October 24, 2008 order. Similar lawsuits were filed against Hantges by USACM (No. 08-01042), the Kehl family (No. 08-01040), and the United States Pension Benefit Guaranty Corporation (“PBGC”) (No. 08-01039). On February 6, 2009, the Court ordered DTDF to appear for a February 20, 2009 status conference to provide the Court with its availability for a settlement conference with Judge Randall Newsome and also possible trial dates. The Court has also set a March 6, 2009 status conference, as it did for the Milanowski adversary proceeding.

On May 7, 2008, Hantges filed a motion to dismiss his chapter 11 case or an alternative motion to convert the case from chapter 11 to chapter 7. The Bankruptcy Court’s order denying Hantges’ motion to dismiss or alternative motion to convert the bankruptcy case to chapter 7 was entered on the docket on November 14, 2008.

Joseph Milanowski (“Milanowski”)

Similarly, due to the filing of an involuntary bankruptcy petition by DTDF, USACM and other creditors, Milanowski is a debtor in a chapter 11 bankruptcy case in Nevada, Case No. 07-13162-lbr. Although Milanowski and his counsel strenuously opposed the involuntary, the Bankruptcy Court entered an order for relief against Milanowski and appointed Ford Elsaesser as the trustee. Milanowski has appealed the order for relief. The Milanowski appeal is in the United States District Court for the District of Nevada, Case No. 3:07-cv-404. This appeal was reassigned to Judge Brian E. Sandoval and eventually dismissed, on May 8, 2008.

DTDF filed a proof of claim against Milanowski for \$182,538,254. Resolution of claims against the Milanowski estate and the possibility of payment are months or years away.

The chapter 11 trustee in the Milanowski bankruptcy case has reached a proposed settlement agreement with Milanowski, whereby the trustee will settle the bankruptcy estate's claims against Milanowski for roughly \$1,000,000. On January 9, 2009, the trustee filed a motion to approve the settlement agreement with the Court. That motion is currently set for hearing on March 6, 2009, the same day as the status check on the DTDF v. Milanowski adversary proceeding, addressed below.

DTDF filed a complaint in the bankruptcy court, Adv. No. 07-13162-lbr, to determine the non-dischargeability of Milanowski’s debts to DTDF. Similar lawsuits were filed against

Milanowski by USACM (No. 08-01093), Aurora Investment L.P (No. 07-01212), the Kehl family (No. 08-01052), the PBGC (No. 08-01044), and BySynergy, LLC (No. 07-01209). Milanowski has answered DTDF's complaint. On October 28, 2009, the Court entered an order staying litigation and discovery pending the conversion of the case to a chapter 7, or the filing of a chapter 11 plan providing for discharge. Neither event has occurred, and the Court has set a status check for March 6, 2009.

On April 23, 2008, the SEC brought an action against Milanowski "in connection with a multi-million dollar fraud" seeking an order requiring Milanowski to disgorge sums obtained. DTDF is not prosecuting this action. The complaint was filed with the United States District for the District of Nevada and is Case No. 2:08-CV-00511.

8. Status of Other Recovery Sources

Colt Loans

DTDF and the two other direct lenders who are DTDF's co-beneficiaries of a promissory note secured by a first trust deed on certain parcels and buildings comprising a portion of the overall Colt project have, through Connecticut counsel hired by the three, initiated a foreclosure action. The case is working its way through the Connecticut courts, but justice moves slowly, and foreclosure is not on the near horizon.

Loans Serviced By Compass/Silar

Compass was the servicer of nine DTDF loans. Silar Advisors, LLC, represents that Silar foreclosed on its loan to Compass on September 26, 2008, and that Asset Resolution, LLC was an entity created to continue the servicing process. As of January 31, 2009, the total outstanding amount due to DTDF for the nine loans approximated \$7.0 million. The two largest DTDF loans serviced by Compass are the Amesbury/Hatters Point loan with \$3.8 million owed to DTDF and the Ten-Ninety, Ltd loan with \$1.5 million owed to DTDF.

Compass/Silar and the Lender Protection Group have various disputes between each other, primarily with respect to the servicing rights of the direct lender loans. DTDF is not directly involved in those disputes.

Conclusion

We appreciate 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