USA CAPITAL DIVERSIFIED TRUST DEED FUND, LLC (“DTDF”)

Robert G. Worthen, Chairman of the Board

May 19, 2008

Dear DTDF Investor,

Previous DTDF newsletters have been detailed and lengthy, reviewing each significant loan and its underlying collateral, if any, and describing claims against third parties. Those letters represent “legal and complete disclosure,’’ and the attorneys and financial advisors representing DTDF and its investors did much of the drafting. The professionals had far less of a role in the drafting of this letter, which I write on behalf of the Board in an attempt to boil down the events of the past several years in a concise narrative, and to discuss the future in plain and simple language.

USA Commercial Mortgage Company (“USA”) and all its related entities were participants in a fraud perpetrated by Joseph Milanowski and Thomas Hantges, which fraud could not have been conducted without active and passive participation by numerous third parties (such as accountants, attorneys, some borrowers, some lenders, and even banks). At the time of the USA bankruptcy filing on April 13, 2006, this fraud had been ongoing for years.

After the USA chapter 11 filing, Mesirow Financial Consulting operated USA and its affiliates, including DTDF, charged with sorting out the numerous USA entities, reconstructing records for these entities, and identifying, preserving, and recovering investor assets under Bankruptcy Court supervision.

DTDF was the most abused and defrauded of the various USA entities, and its mix of assets the most complicated. Unfortunately for DTDF and its investors, the primary focus of the Mesirow efforts was on record restoration of all USA entities, in collecting payments on individual USA loans which were not in default (and were being repaid by the borrowers in a timely manner), and in attempting to sell the USA entities. Due to the prebankruptcy actions of and investments by its former managers, though, DTDF was not an attractive target and no potential buyer was interested in making an offer.

A reorganization plan for all USA entities was approved by an order filed in January 2007, and on the effective date of the plan in mid-March, Mesirow departed, and the former committee of DTDF equity holders was replaced by a newly-constituted DTDF Board of Directors, charged in the revised operating agreement with sorting out the mess. The Board and DTDF’s professionals took immediate action, in no small part because prior efforts on behalf of DTDF investors had been virtually nonexistent under Mesirow.

Among the prebankruptcy actions most damaging to DTDF was the diversion by Milanowski/Hantges of more than $80,000,000, which they used in ventures and schemes for their own benefit through various related entities. DTDF, through its Committee counsel, had long maintained to the Bankruptcy Court that Milanowski/Hantges violated securities and other laws in connection with their use of DTDF funds. Recently, the Unites States Securities &

Exchange Commission filed a civil complaint against Milanowski, claiming that many of Milanowski's actions contradicted representations in a DTDF Prospectus and violated securities law. For example, the SEC complaint (like DTDF Committee pleadings filed in the summer of 2006) alleged that not all DTDF loans were secured by first deeds of trust, and that some DTDF loans were made with unclear or unenforceable terms and/or no underlying real estate collateral – all contrary to the promises made in the Prospectus.

To make matters worse for DTDF investors, since the April 2006 bankruptcy filing, DTDF collateral and prospects for recovery have been rocked by the failing subprime mortgage industry, taking down many legitimate borrowers and eroding the value of virtually all underlying DTDF collateral. Unfortunately, the prospects for recovery on the DTDF loans were doubly exposed to a declining real estate market, whereas if the promises of the Prospectus had been fulfilled and DTDF monies were invested in first deeds of trust against income-producing real property with appraisals that demonstrated a conservative loan to value ratio, the DTDF loans would have been relatively immune to the downturn in the real estate market. This dynamic is explained in more detail in the addendum to this letter, which addendum in not included in this letter because it was drafted by DTDF attorneys.

Prospects for significant future recovery now lie with the pursuit of legal claims against Milanowski/Hantges, and those persons and entities that aided and abetted them. The only certainty in these claims is that resolution will take a long time, particularly in light of the fact that Milanowski, Hantges and various of their related companies have been thrown into involuntary bankruptcy cases (with DTDF serving as one of the petitioning creditors). Outcomes are always uncertain in litigation, but the DTDF cause is clear and just.

There is no way to estimate what will be recovered in the future. The small return of approximately 2% of principal to DTDF investors in January, 2008 has frustrated everyone. Future DTDF distributions are expected, but direct recovery is unknown as to how much and when.

DTDF has managed to avoid being responsible for much of the costs in this prolonged litigation by joining with other USA entities under a negotiated agreement. Under the agreement, from this point forward, USA entities other than DTDF have agreed to bear most litigation costs in pursuit of DTDF recovery.

DTDF and the Board also have paid attention to reducing related professional fees since the Board was constituted after DTDF emerged from bankruptcy, and will continue to look for ways to minimize costs. Board Members have a direct stake in maximizing recovery, as each is a DTDF investor.

Many of you have asked about the lack of criminal charges against Milanowski/Hantges. Even though we are pleased that the SEC finally sued Milanowski, everyone on the Board is somewhat mystified by the lack of government action during the past two years. Unfortunately, there is nothing DTDF can do to force the SEC, the U.S. Department of Justice, the Nevada Attorney General or the Clark County District Attorney to file criminal actions against Hantges or Milanowski.

If you have access to the DTDF Website, you can review the SEC complaint filed against Milanowski. You can also review other filings and all previous DTDF Investor letters which contain much detail regarding DTDF loans, collateral, and recovery status. The website may be found by typing http://usacapdtdf.bmcgroup.com/default.aspx into the browser screen at the top of your monitor. I am available to DTDF Investors by telephone; my personal cell phone number is (702) 239-4222.

Best Regards,
Robert G. Worthen
Chairman of the Board

ADDENDUM:

One of the sad realities about the DTDF "loans" (in quotes because some of the DTDF loans are really just speculative investments made by Milanowski and Hantges in their own real estate development business that were later clothed in the documentation of loans, but bearing none of the attributes of a normal loan) is that such “loans” were used to fund the acquisition by USA Investment Partners (“USAIP”) of equity interests in real estate development entities (too often involving only raw land). Such development entities purchased land, sought to entitle the land for residential development (or commercial development in the case of Colt Gateway), and to thereafter build homes on the land (or commercial buildings in the case of Colt Gateway). Obviously, such entities did not generate monthly rental income necessary for the payment of monthly interest or dividend payments to DTDF investors, as promised by the DTDF Prospectus. Typically, the real estate development entities borrowed money to finance their activities; in several cases such entities borrowed money from USA Capital direct lenders. So the investments of the development companies were "leveraged" by virtue of such real property secured loans from third party lenders or related USA Capital direct lenders.

The investments in raw land of the development companies were leveraged by another factor - the red hot real estate market - in the following manner. The prices paid for developable land became a function of how much profit could be made by selling residential homes at retail, deducting the costs of entitlement, construction and marketing and reducing the future profit to present value. For example, a property owned by a third party and USAIP purchased for approximately $15mm (financed by a USA Capital Direct Lender loan in the amount of $10mm) soared in value as the red hot real estate market telegraphed that greater and greater profits could be made selling the homes to be built on the property.

Thus, if the price of homes increased by 10%, that may have had a major positive impact upon the value of the land, since a 10% increase in the retail sales price of the homes may constitute, say, a 40% increase in the profit margin which ripples back through the calculation of the value of the land. Conversely, a 10% decrease in the price of the homes could reduce the value of the land to a much greater extent, in the above example, by 40%. Thus, the value of the USAIP investments in development entities was greatly leveraged to the prices of homes in the residential real estate market.

So with the acquisition debt, these USAIP investments (and DTDF's collateral for the 10-90 loan) were "doubly leveraged". This is the antithesis of secured lending wherein the secured lender seeks to be insulated from any such swing in the business fortunes of the borrower and seeks to be in a position to be paid in full regardless of the fortunes of the borrower or the vacillations in the market in which the borrower operates.

Stated another way, not only did the DTDF "loans" depart from the standards for such loans set forth in the Prospectus, the DTDF "loans" funded wildly speculative bets that the then red hot real estate market would continue on its upward trajectory. Such wildly speculative bets would have paid outsized returns (to USAIP) had the market continued its hot streak, but the prospects for losing most or even all of the money invested by USAIP (and "loaned" to USAIP by DTDF) were unusually high. High reward, high risk.

Continuing with the example above, the third party and USAIP had received an offer of approximately $60mm for the property from a developer that owned the adjoining parcel. At that time the direct lender loan had increased by several million dollars since no debt service was being paid, but a $60mm sale would have generated something on the order of $40mm in profit, $20mm or so of which would have come back to USAIP to pay down the 10-90 Loan (income taxes would have reduced the numbers obviously). The third party/USAIP rejected the offer on the rationale that the property (purchased for a mere $15mm or so) was worth over $100mm on a bad day.

As the prices that could be realized for homes built upon the property decreased, the value of the real estate decreased, while the balance on the $10mm USA Capital Direct Lender loan increased. Eventually, despite our efforts to salvage some value out of the property by filing it into its own chapter 11 case, the loan was declared to be in default and the property was foreclosed for the amount of the USA Capital Direct Lender debt just over $20mm.

Because the DTDF portfolio of "loans" largely fell into this category of funding USAIP investments in speculative development entities, the decrease in the expected recoveries on the DTDF loans as a result of the declining real estate market have fallen dramatically while the expected recovery on the Direct Lender loans that remain unpaid may have not fallen as much.

Thus, the decline in the real estate market has had a disproportionate impact upon the ability of DTDF to collect its "loans".