

USA CAPITAL DIVERSIFIED TRUST DEED FUND, LLC

Robert G. Worthen, Chairman of the Board

September 15, 2010

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. We continue to focus on recovering assets and on the investigation and prosecution of causes of action against potential recovery targets. This letter builds off of the information provided in the previous letters and covers the following topics:

1. 2009 K-1s and Status of Theft Loss Determination Requested from IRS
2. Recovery Efforts
 - A. Settlement with USA Commercial Mortgage Trust ("USACM")
 - B. Investigating and Prosecuting Causes of Action against Potential Target Defendants
 - C. Advocating DTDF Interests in Other Bankruptcy Cases
3. Preserving Assets of Insiders
 - A. Thomas Hantges
 - B. Joseph Milanowski
4. Status of Other Recovery Sources
5. Distributions
6. Communications with DTDF Investors

1. 2009 K-1 and Status of Theft Loss Determination Requested from IRS

Enclosed are your 2009 K-1 and the accompanying 2009 Partnership Instructions. As explained in the March 3, 2010 letter, DTDF delayed the filing of its 2009 tax return due to its efforts to obtain a Pre-filing or Closing Agreement from the IRS regarding a theft loss tax adjustment. Final determination from the IRS regarding the theft loss has not yet been received. However, DTDF, in consultation with its tax advisors has taken the position that a theft loss deduction under Revenue Ruling 2009-9 and Revenue Procedure 2009-20 should be taken by DTDF in 2009. Therefore, the theft loss is reported on DTDF's 2009 partnership return and is passed through to investors on their respective K-1's for the 2009 tax year. Should the IRS make a ruling different than the theft loss position taken by DTDF, we will notify you of their ruling and the impact, if any on DTDF's tax return and your 2009 K-1.

Refer to 'Other Income (loss)', Part III, Box 11 of your K-1 to determine the theft loss allocated to your investment. Please realize that each investor's tax situation is unique and DTDF cannot provide you with tax advice.

2. RECOVERY EFFORTS

A. Settlement with USA Commercial Mortgage Trust ("USACM")

As mentioned in prior letters to DTDF investors, DTDF and USACM reached a settlement in early 2008 where DTDF received a \$128 million unsecured claim in the USACM estate and agreed to share DTDF and USACM net litigation recoveries. Litigation recoveries are split 50%

to DTDF and 50% to USACM up to \$20 million and 35% to DTDF and 65% to USACM thereafter. DTDF will receive future distributions from USACM as a result of DTDF's unsecured claim and from litigation proceeds, however, the amount and timing of future distributions is unknown.

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

DTDF and USACM are working together to pursue various lawsuits. The table below shows the active/recent cases where DTDF is or was a plaintiff. The timing and outcome of each of the cases is unknown at this time, except as otherwise noted below.

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
08-0112-0	David A. Fogg ⁵
2:08-CV-461	Deloitte & Touche, LLP ⁶ ; Victoria Loob ⁷

¹ Plaintiff is DTDF. On December 11, 2009, the bankruptcy court's finding of fact and conclusions of law were affirmed on appeal to the district court, case no. 2:09-cv-01946-RHL-LRL. DTDF agreed to a settlement which was approved by the Bankruptcy Judge Linda Riegler on or about September 9, 2010.

² Plaintiff was DTDF. The parties reached a confidential settlement and the case was dismissed by stipulation.

³ Plaintiffs were USACM and DTDF. The parties reached a confidential settlement and the case as dismissed by stipulation.

⁴ Plaintiff was DTDF. The trial was held in July and August 2010. Bankruptcy Judge Linda Riegler ruled that DTDF failed to show that Wells Fargo knowingly aided USA Capital and one of the firm's funds in defrauding investors. Judge Riegler rejected DTDF's case and found in favor of Wells Fargo. Judge Riegler said investors in the Diversified Trust Deed Fund were cheated by USA Capital, but said she must make her recommendation based on the facts and the law. DTDF had to present a preponderance of evidence that Wells Fargo employees knew they were assisting USA Capital in specific wrongdoing, not just that they were negligent.

⁵ Plaintiffs are USACM and DTDF. The parties have reached a settlement agreement. The parties intend to file a stipulation of dismissal once all Parties have complied with and completed their obligation pursuant to the settlement.

⁶ Plaintiff is USACM. USACM and Deloitte have briefed and argued motions for summary judgment filed by Deloitte. Judge Pro took the motions under advisement and has not yet issued an opinion.

⁷ Plaintiffs were USACM and DTDF. The action has been dismissed against Ms. Loob.

C. Advocating DTDF Interests in Other Bankruptcy Cases

USAIP Chapter 11 (Case # 07-11821-LBR)

DTDF filed a timely proof of claim seeking \$176,380,998 from the USAIP estate. USAIP is making progress in resolving claims against the USAIP estate. It is unclear at this time what if anything will be distributed to creditors of USAIP. DTDF continues to monitor the USAIP case, including reviewing its monthly operating reports.

Per the June Monthly Operating Report (most recent report filed), USAIP reported that it has approximately \$2.0 million in cash on hand with approximately \$1.06 million in unpaid post petition services, including professional fees. The Court approved the sale of USAIP's interest in Twelve Horses for \$500,000 and its interest in Colt Gateway LLC for \$100,000.

Tree Moss Partners, LLC ("Tree Moss") Chapter 11 (Case No. 06-13758-LBR)

On April 27, 2007 the Tree Moss Partners case was converted from a Chapter 7 to a case under Chapter 11 of the Bankruptcy Code. Lisa Poulin is the Trustee of Tree Moss and throughout the duration of the case has made significant efforts to market and sell Tree Moss interest in sixty-three (63) units at the Marquis Villas. DTDF filed a proof of unsecured claim for \$23,116,045 in the Tree Moss ("Debtor") case. Throughout the case, the Trustee has been actively marketing the property and just recently reached a Purchase Agreement with Diamond Resorts Palm Springs Development, LLC (current owner of the other thirty-eight (38) units at the Marquis Villas). Unfortunately, until now the Trustee has not received any offers that she believed were for fair market value and/or were from potential purchasers with the financial means to close a transaction, or where the potential purchasers after diligence were willing to sign a Letter of Intent acceptable to the Trustee.

On August 20, 2010, the Trustee filed a motion with the Court to approve the sale of substantially all of the Debtor's assets to Diamond Resorts. Per the Purchase Agreement, Diamond Resorts will acquire the sixty-three (63) units for \$575,000 in cash. If the motion is approved, the Court will set a date to conduct an in-court Auction. Diamond Resorts will become the 'stalking horse' bidder and other qualified bidders are welcome to participate in the Auction. DTDF is reaching out to previously interested parties and encouraging them to bid on the property. The motion to approve the sale and to conduct an Auction will be heard on September 23, 2010.

HMA Sales, LLC Chapter 11 (Case No 07-12694)

As a result of the settlement agreement DTDF received \$8.9 million in 2007 and will receive additional monies from HMA. DTDF continues to monitor the HMA case and work with Ms. Poulin and her counsel to collect additional sums relating to the Royal Hotel.

BySynergy, LLC Chapter 11 (Case No. 08-7680-rtb)

On April 21, 2010, the US Trustee filed a motion to convert the case from a Chapter 11 to a Chapter 7. Subsequently, on August 23, 2010, the Debtor moved to dismiss the case since the property was foreclosed in late 2009 and no significant assets were left for reorganization or liquidation. Any future recovery from this asset is unlikely.

3. INSIDERS – THOMAS HANTGES AND JOSEPH MILANOWSKI

A. Thomas Hantges

Due to the actions of DTDF, the USACM Liquidating Trust, and other creditors, Thomas A. Hantges was a debtor in a chapter 11 bankruptcy case in Nevada, Case No.07-13163-lbr. Michael Carmel was appointed trustee in the Hantges bankruptcy. On October 27, 2009, the Trustee, Michael Carmel, filed a motion to convert this case to chapter 7. The motion was approved and the case was converted to a chapter 7 on November 25, 2009. DTDF timely filed a proof of claim against the estate of Hantges seeking the amount of \$182,538,254.

On February 11, 2008, DTDF through Diamond McCarthy filed a complaint to determine non-dischargeability of debt against Hantges, assigned Adversary No. 08-01041-lbr. Hantges has answered the complaint and the matter is in the early discovery stages. Similar lawsuits were filed against Hantges by USACM Liquidating Trust (No. 08-01042), the Kehl family (No. 08-01040), and the United States Pension Benefit Guaranty Corporation (“PBGC”) (No. 08-01039). A settlement conference is scheduled for October 21, 2010 and a status hearing is scheduled for November 17, 2010.

B. Joseph Milanowski

Joseph Milanowski became a debtor in a chapter 11 bankruptcy case in Nevada, Case No. 07-13162-lbr, as a result of DTDF, the USACM Liquidating Trust and others joining in bringing an involuntary bankruptcy petition against Milanowski. The Court entered an order for relief against Milanowski and appointed Ford Elsaesser as the trustee in the Milanowski case.

Similar to the Hantges estate, on November 18, 2009, Mr. Elsaesser filed a motion to convert the Chapter 11 case to Chapter 7. The Bankruptcy Court approved the motion and the case is now being administered as a Chapter 7 liquidation. A new meeting of creditors and deadline to file proofs of claim was set in the chapter 7 case, as was a new deadline for complaints objecting to the debtor’s discharge or dischargeability of debts.

DTDF filed a timely proof of claim against Milanowski for \$182,538,254. DTDF also filed a complaint in the Bankruptcy Court, Adv. No. 08-01090-lbr, to determine the dischargeability of Milanowski’s debts to DTDF. That complaint is in the early stages of discovery. Similar lawsuits were filed against Milanowski by USACM Liquidating Trust (No. 09-01093), Aurora Investment L.P (No. 07-01212), the Kehl family (No. 08-01052), the PBGC (No. 08-01044), and BySynergy, LLC (No. 07-01209). A status hearing is scheduled for November 17, 2010.

The United States Trustee filed a complaint objecting to Milanowski’s discharge under Bankruptcy Code § 727. DTDF is not a party to this action. It would, however, render moot DTDF’s complaint to have Milanowski’s debts to DTDF determined nondischargeable.

Mr. Milanowski entered into a plea agreement with the United States in a criminal case pending in Nevada, No. 2:07-CR-00291. Mr. Milanowski was scheduled to be sentenced on January 15, 2010. The sentencing was continued to April 9, 2010 by the presiding Judge. Mr. Milanowski’s plea agreement was accepted by the Court and Mr. Milanowski was sentenced to twelve years incarceration, five years of supervised release post incarceration; and as an additional condition of his sentence, Mr. Milanowski was ordered to continue to cooperate with the bankruptcy trustees and counsel in the prosecution of the remaining litigation matters. Failure to cooperate

would be deemed a violation of Mr. Milanowski's supervised release and would subject him to imprisonment in addition to the twelve year sentence. Mr. Milanowski reported to the Safford, Arizona prison on August 6, 2010 to begin his twelve year sentence.

In addition, Mr. Milanowski was also required to pay restitution totaling \$86,900,000. If you are entitled to restitution from Milanowski, you would have received documentation from the US District Court. DTDF is not involved in this case and all inquiries should be directed to the US District Court in the District of Nevada regarding this matter. For your reference, the case number is 09-cr-291-RLH-PAL.

4. STATUS OF OTHER RECOVERY SOURCES

A. Colt Loans

DTDF and the two other direct lenders ("Colt 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.

American Tax Funding purchased tax liens on the Colt project and has filed a tax lien foreclosure complaint. Prior to American Tax Funding foreclosing on the property, the Colt Lenders have the option to cure the amount owed to American Tax Funding. Counsel for the Colt Lenders is monitoring the tax lien foreclosure action. In addition, the Colt Lenders have filed a motion for the appointment of a receiver to collect and disburse rents from billboards on the Colt property.

B. 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. Asset Resolution LLC filed bankruptcy on October 14, 2009.

Direct lenders sought relief from the stay in the Asset Resolution LLC Chapter 11 case to prosecute actions pending in the district court and sought withdrawal of the reference to the district court. A request to convert the case to chapter 7 (liquidation) or alternative request for appointment of a trustee was also filed. After a January 19, 2010 hearing, the United States District Court withdrew the reference of the Asset Resolution LLC case to the district court, under Judge Jones. Judge Jones converted the case to a case under Chapter 7 retroactively to January 19, 2010 and William A. Leonard, Jr. was appointed trustee.

In June 2010, the US District Court signed orders authorizing the servicing transfer from Asset Resolution LLC to Cross Fractional Lending Solutions ("Cross FLS") for 22 loans. As a result of the servicing transfer Cross FLS is now servicing five DTDF loans (Amesbury/Hatters Point, HFA – Clear Lake, Lake Helen Partners, Mountain House Business Park and Oak Shores II). Cross FLS has prepared Asset Summary Reports and held conference calls for each of the loans and is working to provide collection action recommendations.

5. DISTRIBUTIONS

To date, three distributions (December 2007, February 2009 and December 2009) have been made for a total of 13.4% of your investment at the time of the bankruptcy. While DTDF does not know the timing and/or amount of future distributions, as a result of the recovery efforts mentioned above, additional monies will be available to distribute in the future.

6. COMMUNICATIONS WITH DTDF INVESTORS

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) or 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

The website provides updates on recent developments and is a convenient way to track the progress of DTDF collection efforts. Every letter to DTDF investors, including this one, is posted there. To access the DTDF Website type <http://usacapdtfd.bmcgroup.com/default.aspx> into the browser.

Conclusion

We understand your desire to receive distributions and are doing our best to expedite the recovery efforts. DTDF has every intention of making one or more distributions in the future, but at this time, we cannot estimate the timing or the amount of the next distribution. Please know DTDF continues to focus on the recovery of assets and the prosecution of causes of action against potential recovery targets. 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 possible recovery for you.

Best Regards,
Robert G. Worthen
Chairman of the Board