



Capital Alliance

October, 2008

Dear Shareholders:

The actions taken by the Fed, the U.S. Treasury and U.S. Congress over the last few weeks have been extraordinary. The challenge for the regulators has been to make sure that the capital markets continue to function and that the system has adequate liquidity and time to work through problems caused by declining residential real estate values coupled with loans made on properties where there was little to no borrower equity when the loan was made. Given this historic backdrop, I am writing to update you on the Capital Alliance Institutional Mortgage Fund, LLC (“CAIMF”), its current status, the challenges we face today and the opportunities created by the turbulence in the financial and real estate markets.

Current Status

As you are aware from previous communications, our portfolio consists primarily of loans on one-to-four unit residential properties (largely single-family residences) and multi-family residential properties, including condominium conversions. All of these loans were underwritten at a loan to value (“LTV”) of 75% or less at the time they were originated. Even though some areas of California have value declines of 35% or more, particularly in areas distant from the coastline, CAIMF’s one-to-four residential portfolio continues to perform because most of our borrowers had significant equity in their property when the loan was originated.

However, the original equity buffer notwithstanding, CAIMF’s one-to-four unit residential loan portfolio is not immune from the turmoil of these times. If a borrower is having difficulty making their mortgage payments to CAIMF, we endeavor to work with them to modify the terms of their loan to provide the necessary time to bridge their specific issues. Even though we have been extremely proactive in working with these borrowers, CAIMF does receive ownership on properties due to foreclosure. In a normal market, we would immediately prepare the property for sale. But trying to sell properties in this current financial, real estate and economic environment would result in a loss to CAIMF, if the properties were sold at “today’s values”.

We believe that the best course of action is to hold these properties, lease them and wait for the financial and residential real estate markets to stabilize. In order to be able to accomplish this, CAIMF needs to access additional capital to renovate, lease and maintain these properties. No one can predict when the exact bottom will be reached in the residential home market. However, according to the California Building Industry Association, “California builders are likely to pull only about 72,000 permits to build new homes in 2008—one third the number

issued in 2005 and the lowest number since tracking began in 1954”.¹ Additional statistical evidence shows that sales momentum is growing statewide for new and resale houses and condos as measured year over year during the last quarter.²

July 2007 Sales	July 2008 Sales	% Increase
35,185	39,507	12.3%
August 2007 Sales	August 2008 Sales	% Increase
33,429	37,988	13.60%
Sept. 2007 Sales	Sept. 2008 Sales	% Increase
24,460	40,317	64.80%

CAIMF’s multi-family loan portfolio, which includes condominium conversions, comprised about 20% or approximately \$12.46 million of the aggregate loan balance outstanding of CAIMF at year-end 2007. During the first nine months of 2008, that exposure has been reduced through pay-downs, write-downs and a restructure to \$6.64 million. On one of the condo conversion projects in inventory, we were successful in negotiating with the bank that held the first trust deed to modify the terms of their loan so that current loan requires only the interest be paid for the next five years at a 6% fixed interest rate. CAIMF was able to find a joint venture partner to make a \$650,000 cash equity investment to complete the 41-unit project so that it can be held and leased as if it were an apartment project generating positive cash flow for CAIMF. If, after holding this leased up property for three years, we sell 41 individual condominium units at 75% of their 2005 prices, the returns to CAIMF and its equity partner would be impressive—30%+ projected internal rate of return. If not, then the project could continue to be held as an income-producing property. Currently, CAIMF is negotiating for three other condominium projects remaining in inventory to achieve the same result. In each case, we are requesting that the institutional first trust deed holder take at least a 33% discount to their current outstanding loan balance. To succeed in retaining any of these projects, an additional cash equity investment will be required by CAIMF. If CAIMF does not raise additional capital, it will have to write-off these loans.

In addition, new capital will be needed to originate new loans to support the cash flow needs of CAIMF. *Loans originated today would be based upon discounted values that have occurred as a result of market value declines from borrowers that can document their ability to pay in this environment.* Additionally, the loan to value ratios obtained on individual loans funded can be well below our historic 75% LTV maximum investment criteria at the time of origination. In short, we believe that new loans put in inventory in the coming months will be the safest loan investments CAIMF has ever made. CAIMF currently has unused credit lines in

¹ Inman News, Friday, August 22, 2008

² DQ News, a service of DataQuick, Monthly reports-State of California www.dataquick.com

excess of \$10 million. By utilizing these lines of credit, CAIMF can use modest leverage to originate \$100 in loans for every \$33 in capital that it has. Since the annual cost of CAIMF's credit lines is currently less than 7%, if we originate a loan at 11.5%, the annualized return on CAIMF's capital can be greater than 20%. For example: a \$100,000 loan @ 11.5% interest rate per year (less the cost of financing \$67,000 @ 7% = \$4,690) equals \$6,810 net income per year. \$6,810 per year divided by \$33,000 generates a 20.6% annual return.

Challenges and Opportunities

In order for CAIMF to maintain Shareholder Equity and its overall value and to continue paying any distributions, an immediate infusion of additional capital is needed to stabilize its portfolio and to give CAIMF the liquidity necessary to work through the challenges posed by these difficult times.

Enclosed you will find an Executive Summary which describes a \$8,500,000 Convertible Debenture Offering being made on behalf of Capital Alliance Institutional Mortgage Fund, LLC. These Debentures are being offered through a Private Offering Memorandum which is available for your review. For 30 days, existing Investors in CAIMF will have the first right to acquire these Debentures which have a five-year term, are convertible into Shares of CAIMF at the Investor's option, and have a 13% interest rate compounded. *Payments of interest and principal on these Debentures will have priority over any distributions made to existing Investors.* After 30 days, these Debentures will be offered for sale to outside investors.

With the help of your Registered Representative and/or Investment Advisor, we intend to personally contact every Investor in CAIMF to explain this Offering and its implications toward stabilizing CAIMF and assuring continued distributions to its Investors. If you would like a copy of the Offering Memorandum or have any questions, please email us at **debentures@calliance.com** or call **(415) 288-9575**. Although, Capital Alliance did not cause the current economic conditions which we are in today, we are taking the necessary actions to protect our current investors as much as possible from the effects of it.

We look forward to talking with you soon.

Sincerely,

s/s Dennis R. Konczal

Dennis R. Konczal
President

Enc: Executive Summary

EXECUTIVE SUMMARY

Private Placement of Convertible Debenture Units for Capital Alliance Institutional Mortgage Fund, LLC

PRINCIPAL TERMS OF THE \$8,500,000 CONVERTIBLE DEBENTURE OFFERING

This offering is for investors seeking income who believe that an investment in the residential real estate sector, given its current unsettled conditions, could result in above market rates of returns as the sector stabilizes and rebounds, and who seek safety for their principal investment through having a preference for payment of principal and interest ahead of any payments or distributions to the Equity Shareholders of the Capital Alliance Institutional Mortgage Fund, LLC (the “Company”).

Amount to be Raised:	A minimum of \$1,250,000 (the “Minimum Offering”) and a maximum of \$8,500,000 (the “Maximum Offering”) subject to the requirements as set forth in the Private Offering Memorandum (the “Offering”).
Type of Security:	Each Unit consists of one \$10,000 convertible debenture (“Debenture”). These Debentures have the same investment characteristics as a corporate bond.
Investors:	Existing shareholders of the Company shall have a 30 days First Right of Refusal to acquire any or all of the Debentures before the Offering is made available to outside Accredited Investors.
Purchase Price:	\$10,000 per Unit.
Number of Units:	Minimum of 125 Units Maximum of 850 Units.
Coupon Rate:	13% per annum compounded monthly.
Pay Rate	10% per annum will be paid monthly. The balance of the interest (3%) shall accrue till the maturity of the Debentures. At that time, the holders of each Unit would receive \$10,000 plus Deferred Interest equal to \$2,100, generating an internal rate of return of 13% over the five-year hold.

Rank:	The Debentures shall be senior to the Company's Shareholders' Equity. At June 30, 2008, the Company had Total Assets of \$49.3 million and Shareholder's Equity of \$20.7 million. As a result, the Company's Shareholder's Equity would provide a safety buffer to the holders of the Debentures. The Debentures would be subordinate to the Company's existing senior indebtedness. No additional senior secured debt or debentures will be issued without raising additional Shareholder's Equity.
Minimum Purchase:	\$20,000 (two Units).
Voluntary Conversion:	The holders of Debentures have the right to convert all or any portion of the \$10,000 per Unit principal amount, a prorata portion of each Unit's Deferred Interest and all accumulated interest accrued into Shares of the Company at any time during the term of the Debenture into Common Shares of the Company at the rate of \$7.00 per share. At 6/30/08, the Net Asset Value per Common Share was \$8.00.
Term:	Five years from the date of issuance of the Debenture.
Right of Redemption:	The Company has the right to call and retire Debentures prior to the five-year term with 20 days written notice.
Use of Proceeds:	The Company intends to use the proceeds of this Offering to originate or acquire new loans, to acquire and hold certain residential real property assets, and for working capital purposes.
Information Rights:	Debentureholders will receive quarterly reports from the Company's Manager. Upon conversion of the Debentures, they will have the same information rights as all other holders of the class of Shares into which they are converted or exercised.
Private Placement Memorandum and Subscription Agreement:	The investment shall be made pursuant to a Private Placement Memorandum ("Memorandum") dated October, 2008 and upon execution of a subscription agreement, which agreement shall contain, among other things, appropriate and customary representations and warranties of the Company and of the Investor, as well as appropriate and customary conditions of closing.

This is not an Offer to Purchase or Sell Securities. This overview is for informational purposes and is not an offer to sell or a solicitation of an offer to buy any securities in Capital Alliance Institutional Mortgage Fund, LLC.