

NOVASTAR FINANCIAL INC  
Form 8-K  
May 04, 2006  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

April 28, 2006

Date of Report (Date of earliest event reported)

NOVASTAR FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland	001-13533	74-2830661
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

8140 Ward Parkway, Suite 300, Kansas City, MO 64114

(Address of principal executive offices)

(Zip Code)

(816) 237-7000

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(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**INFORMATION TO BE INCLUDED IN THE REPORT**

**Item 2.03 - Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant**

On May 3, 2006, NovaStar Financial, Inc. (the Company) announced the completion of a \$1.35 billion Asset Backed Securitization by its wholly-owned subsidiaries, NovaStar Mortgage, Inc ( NMI ) and NovaStar Certificates Financing Corporation ( NCFC ). A prospectus supplement was filed, pursuant to Rule 424(b)(5), with the Securities and Exchange Commission on April 27, 2006 by NovaStar Mortgage Funding Trust, Series 2006-1 (the Trust ).

Lead managers RBS Greenwich Capital, Deutsche Bank and Wachovia Securities with co-manager Morgan Stanley, underwrote NovaStar Mortgage Funding Trust, Series 2006-1, which closed April 28, 2006. The transaction offered 16 rated classes of notes with a face value of \$1,343,250,000.

NovaStar Certificates Financing LLC, an affiliate of NMI, retained the M-9, M-10 and M-11 notes, which were not covered by the prospectus. Class M-9, M-10 and M-11, collectively, represent \$22.3 million in principal. Class M-9 is rated BBB by S&P and Fitch, respectively. The Class M-10 is rated BBB- by S&P. The Class M-11 is rated BB by S&P. NCFC retained the class C certificates and the trust certificates, which were not covered by the prospectus supplement. The certificates represent the entire beneficial interest in the assets of the Trust subject to the debt represented by the Series 2006-1 notes. Class C has a notional amount of \$1.35 billion, entitles the Company to excess and prepayment penalty fee cash flow from the underlying loan collateral and serves as overcollateralization. Other than prepayment penalty fee cash flow, Class C is subordinated to the other classes, all of which were offered pursuant to the prospectus supplement. NMI retains the right to service the underlying mortgage loans.

The initial level of overcollateralization is approximately \$6.7 million. On any distribution date after the closing date, the Trust is required to maintain or restore overcollateralization at the initial level. The overcollateralization is available for the benefit of all classes of the offered and class I certificates.

The 2006-1 notes are characterized as debt for both tax and financial reporting purposes and represent obligations of the Trust. The 2006-1 notes do not represent a direct financial obligation of the Company, but will be consolidated onto the Company's consolidated financial statements under general accepted accounting principles.

A copy of the press release announcing this securitization is included as Exhibit 99 and is incorporated herein by reference. References to the registrant's website in the press release do not incorporate by reference the information on the registrant's website into this Current Report and the registrant disclaims any such incorporation by reference.

**Item 9.01 Financial Statements and Exhibits**

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(c) Exhibits

99 Press Release dated May 3, 2006, NovaStar Closes \$1.35 billion Asset Backed Securitization.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NOVASTAR FINANCIAL, INC.

DATE: May 4, 2006

/s/ Gregory S. Metz  
Gregory S. Metz  
Chief Financial Officer

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**Exhibit Index**

Exhibit

Number

99 Press Release dated May 4, 2006 NovaStar Financial Announces First-Quarter Results and Earnings Conference Call.