NOVASTAR FINANCIAL INC Form 8-K June 13, 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

June 8, 2006

Date of Report (Date of earliest event reported)

NOVASTAR FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)

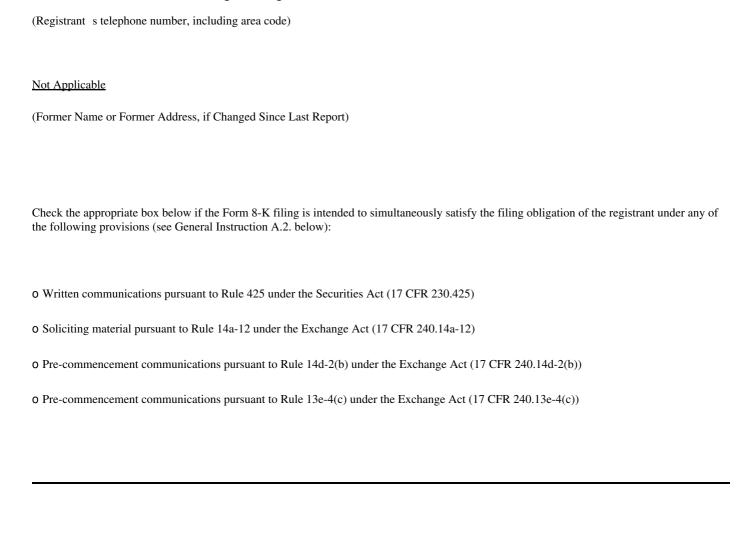
001-13533 (Commission File Number) 74-2830661 (I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(Zip Code)

(816) 237-7000



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 June 8, 2006, NovaStar Financial, Inc. (the Company) announced the completion of a \$1.2 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 June 7, 2006 by NovaStar Mortgage Funding Trust, Series 2006-MTA1 (the Trust).

RBS Greenwich Capital underwrote NovaStar Mortgage Funding Trust, Series 2006-MTA1, which closed June 8, 2006. The transaction offered 14 rated classes of notes with a face value of \$1,182,600,000.

NovaStar Certificates Financing LLC, an affiliate of NMI, retained the M-8 and M-9 notes, which collectively represent \$12 million in principal. Class M-8 is rated BBB+/Baa1 by S&P and Moody's, respectively. The Class M-9 is rated BBB-/Baa2 by S&P and Moody's, respectively. NCFC retained the class C certificates, the Class M-10 notes and the trust certificates, which were not covered by the prospectus. The Class M-10 is rated BB+/Ba1 by S&P and Moody's, respectively. The Class M-10 represents \$6 million in principal. The trust certificates represent the entire beneficial interest in the assets of the Trust subject to the debt represented by the Series 2006-MTA1 notes. Class C has a notional amount of \$1.2 billion, entitles the Company to excess cash flow from the underlying loan collateral and serves as overcollateralization. Class C is subordinated to the other classes. NMI retains the right to service the underlying mortgage loans.

The initial level of overcollateralization is approximately \$11.4 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 notes.

The 2006-MTA1 notes are characterized as debt for both tax and financial reporting purposes and represent obligations of the Trust. The 2006-MTA1 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

(c) Exhibits

Press Release dated June 13, 2006, NovaStar Closes \$1.2 billion Asset Backed Securitization.

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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: June 13, 2006

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

Exhibit Index

Exhibit

Number

99 Press Release dated June 13, 2006, NovaStar Closes \$1.2 billion Asset Backed Securitization.