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NOVASTAR FINANCIAL INC
Form 8-K
May 13, 2008

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

May 9, 2008
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
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(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

(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:

- 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))

Item 1.02 Termination of a Material Definitive Agreement.

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On May 9, 2007, NovaStar Financial, Inc. and certain of its affiliates (the "Company") repaid all outstanding amounts owed by the Company to Wachovia Bank N.A. and its affiliates ("Wachovia") under all master repurchase agreements between the Company and Wachovia, as listed in items 1-7 below (the "Repurchase Agreements"). The amount paid consisted of approximately \$4.4 million in short-term borrowings and accrued interest, and approximately \$60,000 in associated expenses.

Simultaneously, NovaStar Mortgage, Inc. ("NMI") paid to Wachovia the amount of \$275,000 in full settlement of certain claims asserted by Wachovia, and disputed by NMI, relating to certain prior sales of mortgage loans by NMI to Wachovia under certain master mortgage loan purchase and interim servicing agreements, as listed in items 8-9 below (the "Loan Purchase Agreements").

In connection with the foregoing, the Company and Wachovia entered into a Facility Termination, Claim Settlement and Release, dated May 9, 2008 (the "Termination Agreement"), which terminated the Repurchase Agreements and the Loan Purchase Agreements (collectively, the "Agreements"), and all rights and obligations thereunder, except for any obligations that survive termination of the Agreements pursuant to the terms thereof and the Termination Agreement. Pursuant to the Termination Agreement and upon payment of the amounts described above and remittance of certain servicing-related funds due to Wachovia for loans sold to Wachovia in 2007, Wachovia released its interests in, and agreed to return to the Company, all assets held under the Repurchase Agreements, consisting principally of mortgage securities previously financed under the Repurchase Agreements. As a result of the termination of the Repurchase Agreements, the Company no longer has any outstanding short-term borrowing facilities.

The Agreements affected by the Termination Agreement are the following:

1. Master Repurchase Agreement (2007 Whole Loan) dated as of May 9, 2007, among Wachovia Bank, National Association, NFI Repurchase Corporation, NMI Repurchase Corporation, NMI Property Financing, Inc., HomeView Lending, Inc., NovaStar Financial Inc., NFI Holding Corporation and NovaStar Mortgage, Inc.

2. Master Repurchase Agreement (2007 Non-investment Grade) dated as of May 31, 2007, among Wachovia Investment Holdings, LLC, Wachovia Capital Markets LLC, NovaStar Mortgage, Inc., NovaStar Certificates Financing LLC, and NovaStar Certificates Financing Corp.

3. Master Repurchase Agreement (2007 Investment Grade) dated as of May 31, 2007, among Wachovia Bank, National Association, Wachovia Capital Markets LLC, NovaStar Mortgage, Inc., NovaStar Certificates Financing LLC, and NovaStar Certificates Financing Corp.

4. Master Repurchase Agreement (New York) dated as of July 6, 2007, between Wachovia Bank, National Association and NovaStar Mortgage, Inc.

5. Guaranty and Pledge Agreement dated as of April 25, 2007 among NovaStar Financial, Inc., NovaStar Mortgage, Inc., NFI Holding Corporation, HomeView Lending Inc. and Wachovia Bank, National Association.

6. Guaranty and Pledge Agreement dated as of May 31, 2007 among NovaStar Financial, Inc., NFI Holding Corporation, and Wachovia Bank, National Association.

7. Guaranty and Pledge Agreement dated as of May 31, 2007 among NovaStar Financial, Inc., NFI Holding Corporation, and Wachovia Investment Holdings, LLC.

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8. Master Mortgage Loan Purchase and Interim Servicing Agreement, as amended and restated as of June 1, 2005, between NovaStar Mortgage, Inc. and Wachovia Bank, National Association.

9. Master Mortgage Loan Purchase and Interim Servicing Agreement, as amended and restated as of December 1, 2005, between NovaStar Mortgage, Inc. and Wachovia Bank, National Association.

The foregoing is a summary of the terms of the Termination Agreement. This summary is qualified in its entirety by reference to the full text of the Termination Agreement, which is attached hereto as Exhibit 10.1 and is incorporated herein by reference.

In addition to the financing agreements listed above, Wachovia in the past has routinely engaged in other ordinary course financial transactions with the Company, including but not limited to financial derivative transactions, and has acted as an underwriter for certain securitizations sponsored by the Company.

Item 9.01 Financial Statement and Exhibits

(d) Exhibits.

Exhibit No.	Document
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10.1	Facility Termination, Claim Settlement and Release, dated May 9, 2008, by and among NovaStar Mortgage, Inc., NovaStar Certificates Financing LLC, NovaStar Certificates Financing Corporation, NFI Repurchase Corporation, NMI Repurchase Corporation, NMI Property Financing, Inc., HomeView Lending, Inc., NovaStar Financial, Inc., NFI Holding Corporation, Wachovia Bank, N.A., Wachovia Capital Markets, LLC, and Wachovia Investment Holdings, LLC

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 hereunto duly authorized.

NOVASTAR FINANCIAL, INC.

DATE: May 13, 2008

/s/ Rodney Schwatken

Rodney Schwatken
Chief Financial Officer

Index to Exhibits

Exhibit No.	Document
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10.1 Facility Termination, Claim Settlement and Release, dated May 9, 2008, by and among NovaStar Mortgage, Inc., NovaStar Certificates Financing LLC, NovaStar Certificates Financing Corporation, NFI Repurchase Corporation, NMI Repurchase Corporation, NMI Property Financing, Inc., HomeView Lending, Inc., NovaStar Financial, Inc., NFI Holding Corporation, Wachovia Bank, N.A., Wachovia Capital Markets, LLC, and Wachovia Investment Holdings, LLC