

NovaStar Mortgage, Inc.
8140 Ward Parkway
Suite 300
Kansas City, MO 64114
866-270-0898 TOLL FREE

2007 MAR 19 AM 11: 28

March 14, 2007



Jim Turner
Chief, Rapid Response Section
Ohio Department of Job and Family Services
145 South Front Street
P.O. Box 1618
Columbus, OH 43216-1618
614-644-0564
Fax: 614-728-5938
Email: turnej02@odjfs.state.oh.us

Dear Mr. Turner:

Effective March 16, 2007 approximately 230 NovaStar Mortgage, Inc. employees located in Ohio will be released from employment. This action is being taken due to an economic downturn in our business. This layoff is expected to be long-term or permanent.

Your state is impacted by this reduction in force. Employees will be released from employment at the following Ohio facilities:

4059 Kincross Parkway
Suite 200
Richfield, OH 44286
Summit County, Ohio

6150 Oak Tree Blvd.
Suite 300
Independence, OH 44131
Cuyahoga County, Ohio

The facility in Richfield, Ohio will be a plant closing. The Independence, Ohio facility will experience a mass layoff.

Please note that the impacted employees will be paid for 60 additional days of employment, as if they were still working for the Company. Their employee benefits packages also will continue during this 60-day period. The 60-day period starts on March 17, 2007 and ends on May 15, 2007.

Effective immediately, the employees are released from any requirement to report to their work sites. Hopefully, this notice, the 60-day payment, and their time off will assist them in finding alternate employment.

There is no union involved in this situation. There is no provision in the Company's policies for transfer, bumping, or reassignment.

The Human Resources Department, Amy Freedman (216) 525-5913, is prepared to answer questions and assist in any way it can to help ease our employees through this transition.

Sincerely,

A handwritten signature in black ink that reads "Annette Regan". The signature is fluid and cursive, with the first name "Annette" and last name "Regan" clearly distinguishable.

Annette Regan
Employee Relations Director