

Mail Stop 4561

September 18, 2008

Mr. W. Lance Anderson  
Chief Executive Officer  
NovaStar Financial, Inc.  
8140 Ward Parkway, Suite 300  
Kansas City, MO 64114

**Re: NovaStar Financial, Inc.  
Form 10-K for the Year Ended December 31, 2007  
Forms 10-Q for the Quarters Ended March 31, 2008 and June 30, 2008  
File No. 1-13533**

Dear Mr. Anderson:

We have reviewed your filings and have the following comments. In some of our comments, we may ask you to provide us with information so we may better understand your disclosure. After reviewing this information, we may raise additional comments.

Please understand that the purpose of our review process is to assist you in your compliance with the applicable disclosure requirements and to enhance the overall disclosure in your filing. We look forward to working with you in these respects. We welcome any questions you may have about our comments or any other aspect of our review. Feel free to call us at the telephone numbers listed at the end of this letter.

Form 10-Q for the Period Ended June 30, 2008

Note 3. Mortgage Loans – Held in Portfolio, page 11

1. Please tell us how you determined that as of June 30, 2008, you were no longer receiving excessive benefit from the derivative instruments relating to the NHES 2007-1 securitization and that you have relinquished all control over the receivables.

Exhibits 31.1 and 31.2

2. Please confirm to us that you will revise your certifications, in all future filings, to include the language “(the registrant's fourth fiscal quarter in the case of an annual

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report)” in paragraph 4(d), consistent with the language set forth in Item 601(b)(31) of Regulation S-K.

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Please respond to these comments via EDGAR within 10 business days or tell us when you will provide us with a response. Please understand that we may have additional comments after reviewing your responses to our comments.

We urge all persons who are responsible for the accuracy and adequacy of the disclosure in the filing to be certain that the filing includes all information required under the Securities Exchange Act of 1934 and that they have provided all information investors require for an informed investment decision. Since the company and its management are in possession of all facts relating to a company’s disclosure, they are responsible for the accuracy and adequacy of the disclosures they have made.

In connection with responding to our comments, please provide, in writing, a statement from the company acknowledging that:

- the company is responsible for the adequacy and accuracy of the disclosure in the filing;
- staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filings; and
- the company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

In addition, please be advised that the Division of Enforcement has access to all information you provide to the staff of the Division of Corporation Finance in our review of your filings or in response to our comments on your filing.

You may contact Jonathan Wiggins at (202) 551-3694 or me at (202) 551-3782 if you have questions regarding comments on the financial statements and related matters.

Sincerely,

Jessica Barberich  
Staff Accountant