

THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(Baltimore Division)**

In re:

Novation Companies, Inc., *et al.*,

Debtors.¹

Chapter 11

Case No. 16-19745, 19747, 19748 (DER)

(Jointly Administered)

**DISCLOSURE STATEMENT REGARDING
CHAPTER 11 PLAN OF REORGANIZATION OF
NOVASTAR MORTGAGE, LLC F/K/A NOVASTAR MORTGAGE, INC.**

Dated: December 26, 2017

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-and-

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¹ The debtors in these chapter 11 cases are: (i) Novation Companies, Inc. f/k/a NovaStar Financial, Inc., (ii) NovaStar Mortgage LLC f/k/a NovaStar Mortgage, Inc., and (iii) NovaStar Mortgage Funding Corporation. The Plan proponent herein is solely NovaStar Mortgage LLC f/k/a NovaStar Mortgage, Inc.

THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS 4:00 P.M., [_____, __, 2018] PREVAILING EASTERN TIME UNLESS EXTENDED BY THE PLAN DEBTOR. TO BE COUNTED, COUNSEL FOR THE PLAN DEBTOR MUST ACTUALLY RECEIVE YOUR BALLOT ON OR BEFORE THE VOTING DEADLINE.

CERTAIN INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT, THE PLAN AND ANY EXHIBITS ATTACHED HERETO IS SPECULATIVE, AND PERSONS SHOULD NOT RELY ON SUCH DOCUMENTS IN MAKING INVESTMENT DECISIONS WITH RESPECT TO (A) THE PLAN DEBTOR OR (B) ANY OTHER ENTITIES THAT MAY BE AFFECTED BY THE PLAN DEBTOR'S CHAPTER 11 CASE.

NOVASTAR MORTGAGE LLC F/K/A NOVASTAR MORTGAGE, INC. AS PLAN DEBTOR IS PROVIDING THE INFORMATION IN THE DISCLOSURE STATEMENT FOR THE CHAPTER 11 PLAN OF REORGANIZATION OF NOVASTAR MORTGAGE LLC F/K/A NOVASTAR MORTGAGE, INC. TO HOLDERS OF CLAIMS AND INTERESTS FOR PURPOSES OF SOLICITING VOTES TO ACCEPT OR REJECT THE PLAN. YOU SHOULD NOT RELY UPON OR USE THE INFORMATION IN THE DISCLOSURE STATEMENT FOR ANY OTHER PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN.

THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS 4:00 P.M. (PREVAILING EASTERN TIME) ON [_____, __, 2018], UNLESS EXTENDED BY THE PLAN DEBTOR (THE "VOTING DEADLINE"). TO BE COUNTED, BALLOTS MUST BE RECEIVED BY COUNSEL FOR THE PLAN DEBTOR ON OR BEFORE THE VOTING DEADLINE.

THE DISCLOSURE STATEMENT HAS BEEN PREPARED PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(B) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND IS NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER SIMILAR LAWS. THE PLAN DEBTOR BELIEVES THAT THE SOLICITATION OF VOTES ON THE PLAN MADE BY THE DISCLOSURE STATEMENT.

THE PLAN DEBTOR WILL BE FILING A PLAN SUPPLEMENT NO LATER THAN THREE (3) DAYS PRIOR TO THE CONFIRMATION HEARING.

IF THE PLAN IS CONFIRMED BY THE BANKRUPTCY COURT AND THE EFFECTIVE DATE OCCURS, ALL HOLDERS OF CLAIMS AGAINST, AND HOLDERS OF INTERESTS IN, THE PLAN DEBTOR (INCLUDING, WITHOUT LIMITATION, THOSE HOLDERS OF CLAIMS OR INTERESTS WHO DO NOT SUBMIT BALLOTS TO ACCEPT OR REJECT THE PLAN OR WHO ARE NOT ENTITLED TO VOTE ON THE PLAN) WILL BE BOUND BY THE TERMS OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

THE DISCLOSURE STATEMENT MAY CONTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS CONSIST OF ANY STATEMENT OTHER THAN A RECITATION OF HISTORICAL FACT AND CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "EXPECT," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. THE READER IS CAUTIONED THAT ALL FORWARD-LOOKING STATEMENTS ARE NECESSARILY SPECULATIVE AND THERE ARE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE REFERRED TO IN SUCH FORWARD-LOOKING STATEMENTS. THE DISTRIBUTION PROJECTIONS AND OTHER INFORMATION CONTAINED HEREIN AND ATTACHED HERETO ARE ESTIMATES ONLY, AND THE TIMING AND AMOUNT OF ACTUAL DISTRIBUTIONS TO HOLDERS OF ALLOWED CLAIMS MAY BE AFFECTED BY MANY FACTORS THAT CANNOT BE PREDICTED. THEREFORE, ANY

ANALYSES, ESTIMATES OR RECOVERY PROJECTIONS MAY OR MAY NOT TURN OUT TO BE ACCURATE. DUE TO THESE UNCERTAINTIES, READERS CANNOT BE ASSURED THAT ANY FORWARD-LOOKING STATEMENTS WILL PROVE TO BE CORRECT. THE PLAN DEBTOR IS UNDER NO OBLIGATION TO (AND EXPRESSLY DISCLAIMS ANY OBLIGATION TO) UPDATE OR ALTER ANY FORWARD-LOOKING STATEMENTS WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS, OR OTHERWISE, UNLESS INSTRUCTED TO DO SO BY THE BANKRUPTCY COURT.

NO LEGAL OR TAX ADVICE IS PROVIDED TO YOU BY THE DISCLOSURE STATEMENT. THE PLAN DEBTOR URGES EACH HOLDER OF A CLAIM OR AN INTEREST TO CONSULT WITH ITS OWN ADVISORS WITH RESPECT TO ANY LEGAL, FINANCIAL, SECURITIES, TAX OR BUSINESS ADVICE IN REVIEWING THE DISCLOSURE STATEMENT, THE PLAN AND EACH OF THE PROPOSED TRANSACTIONS CONTEMPLATED THEREBY. FURTHERMORE, THE BANKRUPTCY COURT'S APPROVAL OF THE ADEQUACY OF DISCLOSURE CONTAINED IN THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE THE BANKRUPTCY COURT'S APPROVAL OF THE MERITS OF THE PLAN.

IT IS THE PLAN DEBTOR'S POSITION THAT THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF FACT, LIABILITY, STIPULATION OR WAIVER. RATHER, HOLDERS OF CLAIMS AND INTERESTS AND OTHER ENTITIES SHOULD CONSTRUE THE DISCLOSURE STATEMENT AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS RELATED TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER PENDING OR THREATENED LITIGATION OR ACTIONS.

NO RELIANCE SHOULD BE PLACED ON THE FACT THAT A PARTICULAR CAUSE OF ACTION, CLAIM OR PROJECTED OBJECTION TO A PARTICULAR CLAIM IS, OR IS NOT, IDENTIFIED IN THE DISCLOSURE STATEMENT. THE PLAN DEBTOR MAY SEEK TO INVESTIGATE, FILE AND PROSECUTE CLAIMS AND MAY OBJECT TO CLAIMS AFTER THE CONFIRMATION OR EFFECTIVE DATE OF THE PLAN IRRESPECTIVE OF WHETHER THE DISCLOSURE STATEMENT IDENTIFIES ANY SUCH CLAIMS OR OBJECTIONS TO CLAIMS. THE PLAN RESERVES FOR THE PLAN DEBTOR THE RIGHT TO BRING CAUSES OF ACTION (DEFINED IN THE PLAN) AGAINST ANY ENTITY OR PARTY IN INTEREST EXCEPT THOSE SPECIFICALLY RELEASED.

THE DISCLOSURE STATEMENT CONTAINS, AMONG OTHER THINGS, SUMMARIES OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN EVENTS IN THE PLAN DEBTOR'S CHAPTER 11 CASE AND CERTAIN DOCUMENTS RELATED TO THE PLAN THAT ARE ATTACHED HERETO AND INCORPORATED HEREIN BY REFERENCE. ALTHOUGH THE PLAN DEBTOR BELIEVES THAT THESE SUMMARIES ARE FAIR AND ACCURATE, THESE SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY TO THE EXTENT THAT THE SUMMARIES DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS OR EVERY DETAIL OF SUCH EVENTS. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THE DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN OR ANY OTHER DOCUMENTS INCORPORATED HEREIN

BY REFERENCE, THE PLAN OR SUCH OTHER DOCUMENTS WILL GOVERN FOR ALL PURPOSES. FACTUAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE PLAN DEBTOR'S MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE PLAN DEBTOR DOES NOT REPRESENT OR WARRANT THAT THE INFORMATION CONTAINED HEREIN OR ATTACHED HERETO IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

THE PLAN DEBTOR'S MANAGEMENT HAS REVIEWED THE FINANCIAL INFORMATION PROVIDED IN THE DISCLOSURE STATEMENT. ALTHOUGH THE PLAN DEBTOR HAS USED REASONABLE BUSINESS JUDGMENT TO ENSURE THE ACCURACY OF THIS FINANCIAL INFORMATION, NO ENTITY HAS AUDITED THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THE DISCLOSURE STATEMENT.

THE PLAN DEBTOR IS MAKING THE STATEMENTS AND PROVIDING THE FINANCIAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFICALLY NOTED. ALTHOUGH THE PLAN DEBTOR MAY SUBSEQUENTLY UPDATE THE INFORMATION IN THE DISCLOSURE STATEMENT, THE PLAN DEBTOR HAS NO AFFIRMATIVE DUTY TO DO SO. HOLDERS OF CLAIMS AND INTERESTS REVIEWING THE DISCLOSURE STATEMENT SHOULD NOT INFER THAT, AT THE TIME OF THEIR REVIEW, THE FACTS SET FORTH HEREIN HAVE NOT CHANGED SINCE THE PLAN DEBTOR FILED THE DISCLOSURE STATEMENT. HOLDERS OF CLAIMS AND INTERESTS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN MUST RELY ON THEIR OWN EVALUATION OF THE PLAN DEBTOR AND THEIR OWN ANALYSIS OF THE TERMS OF THE PLAN, INCLUDING, WITHOUT LIMITATION, ANY RISK FACTORS CITED HEREIN, IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN.

PRIOR TO DECIDING WHETHER AND HOW TO VOTE ON THE PLAN, EACH HOLDER OF A CLAIM IN A VOTING CLASS SHOULD CONSIDER CAREFULLY ALL OF THE INFORMATION IN THE DISCLOSURE STATEMENT, INCLUDING THE RISK FACTORS DESCRIBED IN GREATER DETAIL HEREIN.

ALL CAPITALIZED TERMS IN THE DISCLOSURE STATEMENT NOT OTHERWISE DEFINED HEREIN HAVE THE MEANINGS GIVEN TO THEM IN THE PLAN, ATTACHED TO THE DISCLOSURE STATEMENT AS EXHIBIT A.

THE PLAN DEBTOR SUPPORTS CONFIRMATION OF THE PLAN AND URGES ALL HOLDERS OF CLAIMS WHOSE VOTES ARE BEING SOLICITED TO ACCEPT THE PLAN.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AND INTERESTS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THE DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF CLAIMS OR INTERESTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE

IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE PLAN DEBTOR OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF CLAIMS AND INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREWITH.

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EXHIBITS

EXHIBIT A Plan of Reorganization

THE PLAN DEBTOR HEREBY ADOPTS AND INCORPORATES EACH EXHIBIT ATTACHED TO THIS DISCLOSURE STATEMENT BY REFERENCE AS THOUGH FULLY SET FORTH HEREIN.

ARTICLE I

INTRODUCTION AND OVERVIEW

Section 1.01 General.

NovaStar Mortgage LLC f/k/a NovaStar Mortgage, Inc. (“NMI” or the “Plan Debtor”), as a debtor and debtor in possession, hereby transmits the Disclosure Statement (as may be amended, supplemented or otherwise modified from time to time, the “Disclosure Statement”) pursuant to section 1125 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as amended (the “Bankruptcy Code”), in connection with the Plan Debtor’s solicitation of votes (the “Solicitation”) to confirm the Chapter 11 Plan of Reorganization dated as of December 22, 2017, a copy of which is attached to the Disclosure Statement as *Exhibit A* (as may be amended, the “Plan”).²

The purpose of the Disclosure Statement is to set forth information concerning: (i) the history of the Plan Debtor and its business; (ii) the Chapter 11 Case; and (iii) the Plan and alternatives to the Plan. The Disclosure Statement also notifies Holders of Claims and Interests of their rights under the Plan, and guides Holders of Claims entitled to vote on the Plan, so they may make an informed judgment regarding whether they should vote to accept or reject the Plan.

On [_____] , 2018, after notice and a hearing, the Bankruptcy Court entered an order: (a) Granting Approval of the Proposed Disclosure Statement to Accompany the Chapter 11 Plan of Reorganization of NovaStar Mortgage LLC f/k/a NovaStar Mortgage, Inc.; (b) Scheduling a Hearing to Confirm the Chapter 11 Plan of Reorganization; (c) Prescribing Notice and Solicitation Procedures; and (d) Establishing Deadlines and Procedures for Filing Objections to the Confirmation of Plan. **The Order establishes [] , 2018 at 4:00 p.m. (prevailing Eastern Time) as the deadline for the return of Ballots accepting or rejecting the Plan (the “Voting Deadline”).**

APPROVAL OF THE DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan, and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each Holder of a Claim entitled to vote on the Plan should read the Disclosure Statement and the Exhibits hereto, including the Plan and the Disclosure Statement Order, as well as the instructions accompanying the Ballot in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Interests for voting purposes and the tabulation of votes. No solicitation of votes may be made except pursuant to the Disclosure Statement and section 1125 of the Bankruptcy Code. In voting on the Plan, Holders of Claims entitled to vote should not rely

² Capitalized terms used but not defined herein shall have the meanings ascribed to them in Section 1.01 of the Plan.

on any information relating to the Plan Debtor and its business other than the information contained in the Disclosure Statement, the Plan and all Exhibits hereto and thereto.

The Plan Debtor submits that, because unsecured creditors would receive materially less recoveries under a liquidation, the Plan presents the best options for such Holders.

THE DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN. THE DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT THAT REVIEW. THE DESCRIPTION OF THE PLAN HEREIN IS ONLY A SUMMARY. HOLDERS OF CLAIMS AND INTERESTS AND OTHER PARTIES-IN-INTEREST ARE CAUTIONED TO REVIEW THE PLAN AND ANY RELATED EXHIBITS AND ATTACHMENTS FOR A FULL UNDERSTANDING OF THE PLAN'S PROVISIONS. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.

Additional copies of the Disclosure Statement (including the Exhibits hereto) are available upon request made to the Plan Debtor's counsel Shapiro, Sher, Guinot & Sandler.

In addition, a Ballot for voting to accept or reject the Plan is enclosed with the Disclosure Statement for the Holders of Claims that are entitled to vote to accept or reject the Plan. If you are a Holder of a Claim entitled to vote on the Plan and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the procedures for voting on the Plan, please contact the co-counsel for the Plan Debtor at the address and phone number listed above.

Each Holder of a Claim entitled to vote on the Plan should read the Disclosure Statement, the Plan, the other Exhibits attached hereto and the instructions accompanying the Ballots in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Interests for voting purposes and the tabulation of votes.

The Plan organizes the Plan Debtor's creditor and equity constituencies into groups called "Classes." For each Class, the Plan describes (a) the underlying "Claim" or "Interest," (b) the recovery available to the Holders of Claims or Interests in that Class under the Plan, (c) whether the Class is "Impaired" under the Plan, meaning that each Holder will receive less than the full value on account of its Claim or Interest or that the rights of Holders under law will be altered in some way (such as receiving stock instead of holding a Claim) and (d) the form of consideration (*e.g.*, Cash, stock or a combination thereof), if any, that such Holders will receive on account of their respective Claims or Interests.

The table below provides a summary of the classification, treatment and estimated recoveries of Claims and Interests under the Plan. This information is provided in summary form below for illustrative purposes only, is subject to material change based on contingencies related to the claims reconciliation process, and is qualified in its entirety by reference to the provisions of the Plan.

THE ESTIMATED PROJECTED RECOVERIES SET FORTH IN THE TABLE BELOW ARE ESTIMATES ONLY AND ARE THEREFORE SUBJECT TO CHANGE.

**SUMMARY OF TREATMENT OF CLAIMS AND INTERESTS
AND ESTIMATED RECOVERIES³**

<u>Class</u>	<u>Treatment of Claims and Interests</u>	<u>Estimated Aggregate Claims</u>	<u>Estimated Percent Recovery</u>
<u>Class 1:</u> Priority Non-Tax Claims	The legal, equitable and contractual rights of the holders of Class 1 Claims are unaltered by the Plan. Except to the extent a Holder of a Priority Non-Tax Claim agrees to different treatment, each Holder of an Allowed Priority Non-Tax Claim will be paid, in full and complete satisfaction, settlement, and release of and in exchange for such Allowed Priority Non-Tax Claim, the Allowed Amount of such Allowed Priority Non-Tax Claim in full in Cash on later of the Effective Date and the first Distribution Date subsequent to the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim.	\$0.00	100%

³ The foregoing table represents claims as scheduled and/or filed and have not yet been allowed. The Plan Debtor reserves right to object to, or estimate, any filed claim, as well as any disputed, contingent, or unliquidated claims.

<u>Class</u>	<u>Treatment of Claims and Interests</u>	<u>Estimated Aggregate Claims</u>	<u>Estimated Percent Recovery</u>
<p><u>Class 2:</u> New Jersey Carpenters Settled Claims</p>	<p>A. Except to the extent that a Holder of an Allowed New Jersey Carpenters Settled Claim agrees to different treatment, each Holder of an Allowed New Jersey Carpenters Settled Claim against NMI shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Claim payment as provided in the New Jersey Carpenters Health Fund Settlement. If the New Jersey Carpenters Health Fund Settlement is approved on a final basis by a Final Order of the United States District Court for the Southern District of New York and consummated by its terms, the settlement compensation provided thereunder to the lead plaintiff and the certified class (other than any class members that timely exclude themselves from the New Jersey Carpenters Health Fund Settlement pursuant to the terms thereof) in the New Jersey Carpenters Health Fund Case will serve as full and final satisfaction of the Claims they have asserted in these Chapter 11 Cases in lieu of the treatment provided by this Plan.</p> <p>B. In the event (x) the New Jersey Carpenters Health Fund Settlement is not approved by a Final Order of the United States District Court for the Southern District of New York</p>	<p>\$11,000,000</p>	<p>Resolved per New Jersey Carpenters Health Fund Settlement</p>

<u>Class</u>	<u>Treatment of Claims and Interests</u>	<u>Estimated Aggregate Claims</u>	<u>Estimated Percent Recovery</u>
	or (y) a class member timely opted out of the settlement (collectively, the “Non-Settled Class 2 Claimants”), then such Non-Settled Class 2 Claimants may seek payment solely from and to the extent of the applicable coverage under such insurance policies. In the event there is not insurance coverage then such Non-Settled Class 2 Claimants shall be shall be paid its Pro Rata Share of Available Funds		
<u>Class 3:</u> FHFA Claims	Except to the extent that a Holder of an FHFA Claim agrees to different treatment, each Holder of an Allowed FHFA against NMI shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Claim, its Pro Rata Share of Available Funds.	\$0.00	undetermined

<u>Class</u>	<u>Treatment of Claims and Interests</u>	<u>Estimated Aggregate Claims</u>	<u>Estimated Percent Recovery</u>
<u>Class 4:</u> Indemnification Claims	Except to the extent that a Holder of an Indemnification Claim agrees to different treatment, each Holder of an Allowed Indemnification Claim against NMI shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Claim, (x) to the extent such claim is covered by an insurance policy, payment solely from and to the extent of the applicable coverage under such insurance policies or (y) in the event such claim is not covered by an insurance policy, its Pro Rata Share of Available Funds, unless such claims are disallowed of subordinated pursuant to a Final Order. The Class 4 Indemnification Claims are Impaired Claims, and holders of such Claims are entitled to vote to accept or reject the Plan.	\$0.00	undetermined
<u>Class 5:</u> Interests	The Holders of existing Interests in NMI shall retain their Interests but not receive and distributions until all creditors with Allowed Claims are paid in full.		Retained, but no distributions until Holders of Allowed Claims are paid in full.

The Plan Debtor believes that the Plan provides the best recoveries possible for Holders of Allowed Claims and Interests and strongly recommends that, if such Holders are entitled to vote, they vote to accept the Plan.

Section 1.02 Classification of Claims and Interests.

The following table designates the Classes of Claims against and Interests in the Plan Debtor, and specifies which Classes are (a) Impaired or Unimpaired by the Plan, (b) entitled to vote to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code, or (c) deemed to accept or reject the Plan.

<u>Class</u>	<u>Designation</u>	<u>Impairment</u>	<u>Entitled to Vote</u>
Class 1	Priority Non-Tax Claims	No	No (deemed to accept)
Class 2	New Jersey Carpenters Settled Claims	Yes	Yes
Class 3	FHFA Claims	Yes	Yes
Class 4	Indemnification Claims	Yes	Yes
Class 5	Interests	Yes	Yes

Section 1.03 Voting; Holders of Claims Entitled to Vote.

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired and that are not deemed to have rejected a plan of reorganization are entitled to vote to accept or reject such proposed plan. Generally, a claim or interest is impaired under a plan if the holder's legal, equitable or contractual rights are altered under such plan. Classes of claims or equity interests under a chapter 11 plan in which the holders of claims or equity interests are unimpaired are deemed to have accepted such plan and are not entitled to vote to accept or reject the proposed plan. In addition, classes of claims or equity interests in which the holders of claims or equity interests will not receive or retain any property on account of their claims or equity interests are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

In connection with the Plan:

- Claims in Classes 2, 3 and 4, are Impaired and the Holders of such Allowed Claims will receive distributions under the Plan. Holders of Claims in Classes 2, 3, 4, and 5 are entitled to vote to accept or reject the Plan;
- Claims in Class are 1 Unimpaired. As a result, Holders of Claims in Class 1 deemed to have accepted the Plan and are not entitled to vote to accept or reject the Plan;

The Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan. **Your vote on the Plan is important.** The Bankruptcy Code requires as a condition to confirmation of a plan of reorganization that each class that is impaired and entitled to vote under a plan vote to accept such plan, unless the provisions of section 1129(b) of the Bankruptcy Code are met.

The Plan Debtor may request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. Section 1129(b) of the Bankruptcy Code permits the confirmation of a plan of reorganization notwithstanding the non-acceptance of a plan by one or more impaired classes of claims or equity interests, so long as at least one impaired class of claims or interests votes to accept the plan. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each non-accepting class.

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. The Disclosure Statement, the Exhibits attached hereto, the Plan and the related documents are the only materials the Plan Debtor are providing to creditors for their use in determining whether to vote to accept or reject the Plan, and such materials may not be relied upon or used for any purpose other than to vote to accept or reject the Plan.

Please complete, execute and return your Ballot(s) to co-counsel for the Plan Debtor at the address below:

BALLOTS MUST BE RETURNED TO SHAPIRO SHER GUINOT & SANDLER BY FIRST CLASS MAIL, HAND DELIVERY OR OVERNIGHT MAIL TO:

NovaStar Mortgage LLC
c/o Shapiro Sher Guinot & Sandler
Joel I. Sher, Esquire
250 W. Pratt Street, Suite 2000
Baltimore, Maryland 21201

TO BE COUNTED, YOUR ORIGINAL BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE ACTUALLY RECEIVED BY COUNSEL FOR THE PLAN DEBTOR NO LATER THAN 4:00 P.M., PREVAILING EASTERN TIME, ON [], 2018, UNLESS EXTENDED BY THE PLAN DEBTOR. YOUR BALLOT MAY BE SENT VIA MAIL, OVERNIGHT COURIER OR MESSENGER. ALL BALLOTS MUST BE SIGNED.

The Ballots have been specifically designed for the purpose of soliciting votes on the Plan from the Classes entitled to vote with respect thereto. Accordingly, in voting on the Plan, please use only the Ballots sent to you with the Disclosure Statement or provided by the Plan Debtor's counsel.

The Plan Debtor has fixed **4:00 p.m. (prevailing Eastern Time) on [], 2018** (the "Voting Record Date"), as the time and date for the determination of Persons who are entitled to receive a copy of the Disclosure Statement and all of the related materials and to vote whether to accept or reject the Plan. Accordingly, only Holders of record of Claims as of the Voting Record Date that are entitled to vote on the Plan, will receive a Ballot and may vote on the Plan.

All properly completed Ballots received prior to the Voting Deadline will be counted for purposes of determining whether a voting Class of impaired Claims has accepted the Plan. Counsel for the Plan Debtor will prepare and file with the Bankruptcy Court a certification of the results of the balloting with respect to the Class entitled to vote.

THE PLAN DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS IN THE BEST INTERESTS OF ALL HOLDERS OF CLAIMS AND RECOMMENDS THAT ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN.

The Plan Debtor's legal advisor is Olshan Frome Wolosky LLP, and can be contacted at:

Olshan Frome Wolosky LLP

Attention: Adam Friedman, Esq.

afriedman@olshanlaw.com

Shapiro Sher Guinot & Sandler

Attention: Joel I. Sher, Esq.

jis@shapirosher.com

Section 1.04 Solicitation Process.

The following documents and materials will constitute the Plan Debtor's Solicitation Package which may be sent, at the Plan Debtor's option, by hard copy book or CD-ROM:

- Plan;
- Disclosure Statement;
- Order approving the Disclosure Statement and related Solicitation Procedures ("Disclosure Statement Order");
- Notice of the hearing at which confirmation of the Plan will be considered ("Confirmation Hearing Notice");
- Appropriate ballot and voting instructions; and
- Pre-addressed, postage prepaid return envelope.

The Plan Debtor intends to distribute the Solicitation Packages no fewer than twenty-eight (28) calendar days before the Voting Deadline or on such other schedule as is approved by the Bankruptcy Court. The Plan Debtor submits that distribution of the Solicitation Packages at least twenty-eight (28) calendar days prior to the Voting Deadline or on such other schedule as is approved by the Bankruptcy Court will provide the requisite materials to Holders of Claims entitled to vote on the Plan in compliance with Bankruptcy Rules 3017(d) and 2002(b).

The Solicitation Package will be distributed to Holders of Claims in Classes 2, 3, 4, and 5 as of the Voting Record Date and in accordance with the Solicitation Procedures. The Solicitation Package (except the Ballots) is also available by email at jis@shapirosher.com or by writing NovaStar Mortgage LLC, c/o Shapiro Sher Guinot & Sandler, Joel I. Sher, 250 W. Pratt Street, Suite 2000, Baltimore, Maryland 21201.

Other parties entitled to receive the Solicitation Packages, including the IRS and other relevant taxing authorities, will be served paper or electronic copies of the order approving the Disclosure Statement, the Disclosure Statement and all Exhibits to the Disclosure Statement, including the Plan, and the Confirmation Hearing Notice.

Section 1.05 Confirmation Hearing.

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan. Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the Plan.

The Confirmation Hearing will commence on [], 2018 at [:]m., prevailing Eastern Time, before the Honorable David E. Rice, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Maryland (Baltimore). The Confirmation Hearing may be adjourned from time to time without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any adjournment thereof.

The Plan Objection Deadline is 4:00 p.m. prevailing Eastern Time on [], 2018. All objections to the Plan must be filed with the Bankruptcy Court and served on the Plan Debtor and certain other parties in accordance with the Disclosure Statement Order on or before the Plan Objection Deadline. In accordance with the Confirmation Hearing Notice filed with the Bankruptcy Court, objections to the Plan or requests for modifications to the Plan, if any, must:

- Be in writing;
- Conform to the Bankruptcy Rules and the Local Bankruptcy Rules;
- State the name and address of the objecting Creditor and the amount and nature of the Claim or Interest of such Creditor;
- State with particularity the basis and nature of the objection to the Plan and, if practicable, a proposed modification to the Plan that would resolve such objection; and
- Be filed, contemporaneously with proof of service, with the Bankruptcy Court and served so that it is **actually received** by the notice parties identified in the Confirmation Hearing Notice on or prior to the Plan Objection Deadline.

THE BANKRUPTCY COURT MAY NOT CONSIDER OBJECTIONS TO THE PLAN UNLESS THEY ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE PROCEDURES SET FORTH IN THE DISCLOSURE STATEMENT ORDER.

Section 1.06 Important Matters.

The Disclosure Statement contains projected financial information and certain other forward-looking statements, all of which are based on various estimates and assumptions and will not be updated to reflect events occurring after the date hereof. Such information and statements are subject to inherent uncertainties and to a wide variety of significant business, economic and competitive risks, including, among others, those described herein. Consequently, actual events, circumstances, effects and results may vary significantly from those included in or contemplated by such projected financial information and such other forward-looking statements. The projected financial information contained herein and in the Exhibits annexed hereto is, therefore, not necessarily indicative of the future financial condition or results of operations of the Plan Debtor, which in each case may vary significantly from those set forth in such projected financial information. Consequently, the projected financial information and other forward-looking statements contained herein should not be regarded as representations by the Plan Debtor, the

Reorganized Plan Debtor, its advisors, or any other Person that the projected financial conditions or results of operations can or will be achieved.

ARTICLE II

BACKGROUND TO THESE CHAPTER 11 CASES

Section 2.01 The Debtors' Business.

a. The Debtors' Operations.

On July 20, 2016, NMI and non-Plan Debtors Novation Companies, Inc., f/k/a/ NovaStar Financial, Inc. ("Novation") and NovaStar Mortgage Funding Corporation ("NMFC" and collectively with NMI and Novation, the "Debtors") each filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the stated intent of restructuring the Debtors and their outstanding indebtedness. The Debtors have operated and remained Debtors-In-Possession.

The Debtors are headquartered at 500 Grand Boulevard, Suite 210B, Kansas City, Missouri 64106. Prior to 2008, the Debtors originated, purchased, securitized, sold, invested in and serviced residential nonconforming mortgage loans and mortgage securities. At the height of their operations, the debtors originated and securitized more than \$11 billion annually in mortgage loans. After the Debtors ceased their primary mortgage operations and completed a sale of its servicing portfolio in 2007, Novation was engaged in the business of acquiring and starting up various businesses. Novation has sold or otherwise disposed of all of these businesses. The last of these was sold in January of 2016. These disposals generated a significant amount of cash, much of which Novation continues to hold on its balance sheet, as further described in Section 2.03 herein.

NMI is an indirect subsidiary of Novation that was engaged in the business of originating, acquiring, securitizing and servicing residential mortgage loans. NMI conducted numerous sales and securitizations of mortgage loans. The Plan Debtor is winding down its operations and resolving outstanding litigation claims. The Plan filed herein seeks to maximize the value of all remaining assets of NMI and pay the proceeds of such assets to creditors, if any, in order of priority, with any remaining assets, if any, to be up streamed to NMI's ultimate parent, Novation.

b. Employees.

As of the Petition Date, the Debtors employed six people. Approximately three of those employees are currently employed at least part-time by the Plan Debtor. None of the employees are represented by a collective bargaining unit.

c. Officers.

As of the date hereof, the officers of the Plan Debtor are Carolyn K. Campbell, President and Angela DiGiovanni, Vice President.

d. Corporate Structure.

The Plan Debtor is a wholly-owned subsidiary of Novation Holding, Inc., which is a wholly-owned subsidiary of Novation. Novation Holding, Inc. is the sole member and manager of the Plan Debtor.

Section 2.02 Unsecured Indebtedness.

The Plan Debtor has no secured debt. The Plan Debtor's assets are unencumbered.

Section 2.03 Summary of Prepetition Assets.

As of the date of this Disclosure Statement, NMI has two primary assets: its cash on hand and a residential mortgage backed security known as the NovaStar Home Equity Loan Asset Backed Certificate, Series 2003-4 bearing CUSIP number 66987XHT5 (the "CT Bond"). According to the Expert Report of Faten Sabry, Ph.D., dated May 11, 2017, submitted into evidence before the Bankruptcy Court (the "Expert Report"), as of the date of the Expert Report, the CT Bond was expected to generate future cash flows of \$7.93 million through its maturity (Base Case) (*See*, Expert Report, Exhibit 8). In the Expert Report Dr. Sabry also opined that the present value (mid-range) of the CT Bond is \$3.50 million (*See*, Expert Report, Exhibit 17). Dr. Sabry also opined that a further liquidity discount could be expected if NMI attempted to sell the bond, and that \$3.50 million represented the upper range of the proceeds it would obtain from the sale of the CT Bond. In fact, Dr. Sabry further opined that NMI may not be able to sell the CT Bond at or near the above market value. Therefore, it is to be expected that in a forced liquidation, NMI would not obtain \$3.50 million for the CT Bond.

ARTICLE III**EVENTS LEADING TO THIS CHAPTER 11 CASE****Section 3.01 Pending Litigation and Legal Proceedings.****a. New Jersey Carpenters.**

On May 21, 2008, a class action case was filed in the Supreme Court of the State of New York, New York County, by the New Jersey Carpenters' Health Fund, on behalf of itself and all others similarly situated. The Plan Debtor and Debtor NMFC (which is not a Plan Debtor) were named as defendants, along with certain former individual directors and officers, several securitization trusts sponsored by Novation and several unaffiliated investment banks and credit rating agencies. The case was removed to the United States District Court for the Southern District of New York (the "SDNY District Court"). On June 16, 2009, the plaintiff filed an amended complaint. On April 17, 2009, the SDNY District Court entered an order appointing the New Jersey Carpenters' Health Fund as lead plaintiff (in such capacity, "Lead Plaintiff"). On March 9, 2015, Lead Plaintiff filed the Third Amended Class Action Complaint seeking monetary damages, and alleging, inter alia, that the defendants violated sections 11, 12 and 15 of the Securities Act of 1933, as amended, by making allegedly false statements regarding mortgage loans that served as collateral for securities purchased by the plaintiff and the purported class members. On November 4, 2016, the SDNY District Court entered an order certifying the proposed class. As discussed

below, this case has been settled and the Plan Debtor does not expect that it will have to use any cash on hand to resolve the litigation.

The claim of New Jersey Carpenters Health Fund is listed on Schedule F in an unknown amount as contingent, unliquidated and disputed. The following proofs of claim have been filed against the Plan Debtor with respect to the New Jersey Carpenters Action:

Debtor	Creditor per POC	POC No.	Amount
NMI	New Jersey Carpenters Health Fund, Lead Plaintiff	4	\$ unknown
NMI	65 Livingston Avenue (addendum provides New Jersey Carpenters Health Fund, individual capacity)	5	\$ unknown
NMI	Iowa Public Employees' Retirement System	6	\$ unknown

b. FHFA.

On February 28, 2013 the Federal Housing Finance Agency, as conservator for the Federal Home Loan Mortgage Corporation (Freddie Mac) and on behalf of the Trustee of the NovaStar Mortgage Funding Trust, Series 2007-1 (the "Trust"), a securitization trust in which Novation retains a residual interest, filed a summons with notice in the Supreme Court of the State of New York, County of New York against Novation and NMI. The notice provides that this is a breach of contract action with respect to certain, unspecified mortgage loans and defendant's failure to repurchase such loans under the applicable agreements. Subsequently, Deutsche Bank National Trust Company ("Deutsche Bank"), solely in its capacity as Trustee of the Trust, filed a Complaint in the action. Plaintiff alleges that defendants, from the closing date of the transaction that created the Trust, were aware of the alleged breach of the representations and warranties made and failed to notice and cure such breaches, and due to the failure of defendants to cure any breach, notice to defendants would have been futile. Plaintiff seeks specific performance of repurchase obligations of an unspecified number of the 11,400 loans backing the underlying \$1.813 billion offering; compensatory, consequential, recessionary and equitable damages for breach of contract; specific performance and damages for anticipatory breach of contract; and indemnification (indemnification against NMI only), together with prejudgment interest. Plaintiff has not specified the amount of damages that it seeks to recover, and the amount of any recovery (or the monetary expenditure associated with specific performance) would depend largely on the number and value of any mortgages that were later found to have been in breach of any representations and warranties made by the Debtors. On October 9, 2013, Novation and NMI filed a motion to dismiss plaintiff's complaint. This motion to dismiss was withdrawn after plaintiff filed an amended complaint on January 28, 2014, and on March 4, 2014, Novation and NMI filed a motion to dismiss the amended complaint.

On December 5, 2017, the Debtors received a favorable ruling in connection with their motion to dismiss Deutsche Bank's complaint. The state court granted the motion and dismissed with prejudice Deutsche Bank's First Cause of Action (for specific performance of NMI's contractual "repurchase" obligation as to any loans that breached the representations and warranties that NMI made in the transaction documents), Third Cause of Action (for anticipatory breach of contract) and Fifth Cause of Action (for breach of the covenant of good faith and fair dealing).

The state court denied the motion without prejudice as to (1) Deutsche Bank’s second cause of action (for breach of contract) to the extent that it is based on a “failure to notify” theory; and (2) the Fourth Cause of Action, seeking a declaration that Deutsche Bank is entitled to indemnification of its legal fees incurred in enforcing its contractual rights.

The failure to notify cause of action relates to Deutsche Bank’s claim that NMI breached a contractual obligation to notify the Trustee and investors of loans that NMI allegedly knew breached the contractual representations and warranties, and that the statute of limitations for this claim has not yet run. The Debtors remain confident these remaining claims will be dismissed, although cannot predict the result of such future decisions. Similar claims have been raised in a number of RMBS “putback” cases pending before the same state court judge, and they are being addressed on a coordinated basis. The other surviving claim, the claim for indemnification, should only arise if Deutsche Bank prevails on the failure to notify claim.

The claim of the Federal Housing Finance Agency is listed on Schedule F in an unknown amount as contingent, unliquidated and disputed. The following proofs of claim have been filed against the Plan Debtor with respect to this action.

Debtor	Creditor per POC	POC No.	Amount
NMI	Deutsche Bank National Trust Company, as Trustee	7	\$ unknown

In addition to the foregoing alleged claims, the following investment banks filed the following series of proof of claims related to indemnification claims:

c. RBS Claimants.

The RBS Claimants are: (1) RBS Securities, Inc.; (2) RBS Acceptance Inc.; (3) RBS Financial Products Inc.; (4) Greenwich Capital Derivatives Inc.; and (5) The Royal Bank of Scotland, plc. The RBS Claimants specifically seek indemnification, cure, repurchase, substitution, contribution and other obligations with respect to 9 actions in which RBS has been named as a defendant, including indemnification for the New Jersey Carpenters Health Fund suit and the NCUAB suit, as well as several other suits. The RBS Claimants filed the following proofs of claim against the Plan Debtor:

Debtor	Creditor	Claim No.	Amount
NMI	RBS Securities Inc.	9	\$0.00
NMI	RBS Acceptance Inc.	10	\$0.00
NMI	RBS Financial Products Inc.	11	\$0.00
NMI	The Royal Bank of Scotland plc	13	\$0.00
NMI	Greenwich Capital Derivatives, Inc.	14	\$0.00

d. Wells Fargo Claimants.

The Wells Fargo Claimants are: (1) Wells Fargo Securities, LLC; (2) Wells Fargo Advisors, LLC; (3) Wells Fargo Bank, N.A.; (4) Wachovia Investment Holdings, LLC; (5) Wells Fargo & Company. The Wells Fargo Claimants specifically seek indemnification, cure,

repurchase, substitution, contribution and other obligations with respect to 2 actions in which Wells Fargo has been named as a defendant, including indemnification for the New Jersey Carpenters Health Fund suit and the NCUAB suit. The Wells Fargo Claimants filed the following proofs of claim against the Plan Debtor:

Debtor	Creditor	Claim No.	Amount
NMI	Wells Fargo Securities, LLC	12	\$0.00
NMI	Wells Fargo Advisors	15	\$0.00
NMI	Wells Fargo Bank, N.A.	16	\$0.00
NMI	Wachovia Investment Holdings, LLC	17	\$0.00
NMI	Wells Fargo & Company	18	\$0.00

e. Deutsche Bank Claimants.

The Deutsche Bank Claimants are: (1) Deutsche Bank Securities Inc.; (2) Deutsche Bank AG; (3) Deutsche Bank National Trust Company; (4) DB Structured Products, Inc. The Deutsche Bank Claimants specifically seeks indemnification, cure, repurchase, substitution, contribution and other obligations with respect to 7 actions in which DB has been named as a defendant, including indemnification for the New Jersey Carpenters Health Fund suit, as well as several other suits. The Deutsche Bank Claimants filed the following proofs of claim against the Plan Debtor:

Debtor	Creditor	Claim No.	Amount
NMI	Deutsche Bank National Trust Company	19	\$0.00
NMI	Deutsche Bank Securities Inc.	20	\$0.00
NMI	DB Structured Products, Inc.	21	\$0.00
NMI	Deutsche Bank AG	22	\$0.00

Section 3.02 RMBS Litigation Claims Estimation and Defenses.

As noted in Section 3.01 above, three of the groups named as defendants in the New Jersey Carpenters action (the RBS Claimants, Wells Fargo Claimants and the Deutsche Bank Claimants (“Underwriters”)) have filed proofs of claim seeking indemnification or contribution in connection with cases in which they were sued for underwriting certificates sponsored or issued by the Plan Debtor, Novation and/or NMFC. On or about March 8, 2017, those Underwriters, together with the Plaintiffs, Plan Debtor, Novation, NMFC and Individual Defendants entered into a settlement agreement that provides for a release all claims by members of the Settlement Class against Defendants (including the Debtor Defendants) and various individuals and entities related to the Defendants, including their respective affiliates, agents, insurers, reinsurers, officers, directors and employees.

On May 1, 2017, the Bankruptcy Court entered an order (the “Bankruptcy Court 9019 Order”) (a) authorizing the two Debtors that are defendants in the New Jersey Carpenters Health Fund Case, NMFC (which is not a Plan Debtor) and the Plan Debtor (together, the “Debtor Defendants”) to enter into the New Jersey Carpenters Health Fund Settlement and (b) to the extent authorization is required, authorizing certain of the Debtors’ insurers to fund the portion of the

cash settlement consideration allocated to the Debtor Defendants and the individual defendants in the New Jersey Carpenters Health Fund Case, totaling \$11 million in the aggregate (the “Insured Payment”). The New Jersey Carpenters Health Fund Settlement also requires final approval by the United States District Court for the Southern District of New York. (the “SDNY District Court”), for which a motion has been filed and is pending. The Debtors’ insurers are paying the entire Insured Payment from proceeds of applicable insurance policies and no payment is being made by any of the Debtors. If the New Jersey Carpenters Health Fund Settlement is ultimately approved by a Final Order of the SDNY District Court, consummation of the New Jersey Carpenters Health Fund Settlement will fully resolve all claims that the lead plaintiff and the Settlement Class Members in the New Jersey Carpenters Health Fund Case have asserted against the Debtor Defendants.

In light of the settlement of the New Jersey Carpenters case, the Underwriters have agreed to file amended proofs of claim that delete the New Jersey Carpenters case from among those for which they seek indemnity or contribution.

In addition, the settlement by RBS in the NCUA case was accompanied by a court order barring any claims by RBS for indemnity or contribution relating to that case. The Plan Debtor believes that the claims for indemnity or contribution in the remaining cases for which the Underwriters have filed proofs of claim (as discussed in Section 3.01) have no merit for the following reasons. The Securities and Exchange Commission is of the view that claims for indemnification against liability under Section 11 of the Securities Act are against public policy and that contract provisions for such indemnification are unenforceable (*see, e.g.*, Item 512(i) of Regulation S-K), and courts have expressed the same view (*see, e.g., Eichenholtz v. Brennan*, 52 F.3d 478, 483 (3d Cir. 1995)). While Section 11 contains an express right of contribution in certain circumstances, the Plan Debtor believes that it is unavailable to the Underwriters here because they did not make any such claims in a timely manner, have not previously notified the Plan Debtor of the cases for which they seek contribution, and have not specified any amounts they have paid in connection with those cases or provided any grounds for seeking contribution for any portion of such amounts. In that regard most of the various cases for which the Underwriters have asserted contributions claims have either been dismissed or settled.

The Plan Debtor and Novation intend to file a motion to object to, or in the alternative to subordinate, all or most of the Class 4 Indemnification Claims. The Plan Debtor believes there is no liability to the estate on the RMBS Litigation Claims, which may include the Underwriters claims and the claims filed by the former officers and directors. The Underwriters’ claims are contingent and disputed. Courts have made clear that where the claimant is unlikely to recover under applicable non-bankruptcy law, the claim may properly be estimated at zero. *See Bittner v. Borne Chem. Co., Inc.*, 691 F.2d at 137; *In re Corey*, 892 F.2d 829, 834 (9th Cir. 1989) (claims correctly estimated at zero due to their “highly speculative” nature); *In re Frontier Airlines, Inc.*, 137 BR 811, 814 (D. Co. 1992) (section 502(c)(1) claim estimation allows both, for allowance and disallowance of claims (through zero valuation)). Related to the Underwriters’ Claims, indemnification claims were filed by former officers and directors against NMI, seeking indemnification relating to the New Jersey Carpenters action. These claims were filed in the amount of \$20 million per individual claim.

ARTICLE IV

ADMINISTRATION OF THE CHAPTER 11 CASES

Section 4.01 Overview of Chapter 11.

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor is authorized to reorganize its business for the benefit of itself, its creditors and its equity interest holders. In addition to permitting the rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the Commencement Date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the bankruptcy court makes the plan binding upon the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity interest holder of a debtor. Subject to certain limited exceptions, the order approving confirmation of a plan discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes the obligations specified under the confirmed plan.

In general, a chapter 11 plan of reorganization (a) divides claims and equity interests into separate classes, (b) specifies the property, if any, that each class is to receive under the plan, and (c) contains other provisions necessary to the reorganization of the debtor and that are required or permitted by the Bankruptcy Code.

Pursuant to section 1125 of the Bankruptcy Code, acceptance or rejection of a plan may not be solicited after the commencement of the Chapter 11 Cases until such time as the court has approved the Disclosure Statement as containing adequate information. Pursuant to section 1125(a) of the Bankruptcy Code, "adequate information" is information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding the plan. To satisfy applicable disclosure requirements, the Plan Debtor submits the Disclosure Statement to holders of Claims that are impaired and not deemed to have rejected the Plan.

Section 4.02 Relevant Case Background.

On July 20, 2016, the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Honorable David E. Rice is presiding over the Chapter 11 Cases. The Plan Debtor continues to operate its business and manage its property as a debtor and debtor in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. As of the date hereof, no request has been made for the appointment of a trustee or examiner in these cases. The Creditors' Committee was appointed on August 1, 2016. The Creditors' Committee was dissolved on July 27, 2017, the Effective Date of the Novation Plan.

The following is a brief description of certain significant events that have occurred during the pendency of the Chapter 11 Cases. Creditors may also look on the docket on file with the Bankrupt Court for copies of any specific motions or order other case background.

a. Joint Administration.

On July 20, 2016, the Debtors filed a motion seeking an order seeking joint administration of the Debtors' bankruptcy cases. On July 25, 2016, the Bankruptcy Court entered an [Dkt. No. 40] approving the motion.

b. Retention of Professionals.

To assist in carrying out its duties as a debtor in possession, and to otherwise represent their interests in the Chapter 11 Cases, the Debtors, on July 20, 2016, filed with the Bankruptcy Court applications seeking entry of orders authorizing the Debtors to retain a number of professionals, *nunc pro tunc* to the Petition Date, including Olshan Frome Wolosky LLP ("Olshan") as counsel and Shapiro Sher Guinot & Sandler ("SSGS") as co-counsel. On August 2, 2016, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain Oberon Securities, LLC ("Oberon") as Investment Banker. On August 11, 2016, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain Boulay PLLP ("Boulay") as auditor. On August 15, 2016, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain Orrick, Herrington & Sutcliffe LLP ("Orrick") as Special Litigation Counsel. On September 27, 2016, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain Holland & Knight LLP ("Holland & Knight") as Investment Company Act Compliance Counsel. On November 16, 2016, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain Deloitte Tax LLP ("Deloitte") as Tax Services Provider. On November 29, 2016, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain National Economic Research Associates, Inc. ("NERA") as Valuation Expert. On December 15, 2017, the Debtors filed with the Bankruptcy Court an application seeking entry of an order authorizing the Debtors to retain The Law Office of Steven J. Fink PLLC ("Fink") as Special Litigation Counsel.

On August 9, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of Olshan [Dkt. No. 69] and SSGS [Dkt. No. 70], and on August 23, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of Oberon [Dkt. No. 93]. On August 31, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of Boulay [Dkt. No. 105]. On September 30, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of Orrick [Dkt. No. 155]. On October 18, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of Holland & Knight [Dkt. No. 172]. On December 7, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of Deloitte [Dkt. No. 233]. On December 13, 2016, the Bankruptcy Court entered an order approving the Debtors' retention of NERA [Dkt. No. 233]. The Debtors expect the Bankruptcy Court to enter an order approving the Debtors' retention of Fink.

On August 18, 2016, the Creditors' Committee also filed with the Bankruptcy Court its application to employ Hunton & Williams LLP ("Hunton & Williams") as legal counsel to the Creditors' Committee. On August 19, 2016, the Creditors' Committee also filed with the Bankruptcy Court its application to employ Carl Marks Advisory Group LLC ("Carl Marks") as Financial Advisor for the Creditors' Committee. The Creditor's Committee was dissolved on the Effective Date of the Novation Plan.

On September 1, 2016, the Bankruptcy Court entered an order approving the Creditors' Committee's retention of Carl Marks [Dkt. No. 108] and on September 30, 2016, the Bankruptcy Court entered an order amending the order approving the Creditors' Committee's retention of Carl Marks [Dkt. No. 156]. On September 8, 2016, the Bankruptcy Court entered an order approving the Creditors' Committee's retention of Hunton & Williams [Dkt. No. 117].

c. Employment Obligations.

The Debtors believe they have a valuable asset in its workforce, and that the efforts of the Debtors' employees are critical to a successful reorganization. On July 20, 2016, the Debtors filed with the Bankruptcy Court a motion for an order authorizing the Debtors to pay certain prepetition employee wage and benefit obligations. On July 25, 2016, the Bankruptcy Court entered an order [Dkt. No. 43] approving the motion.

d. Cash Management.

The Debtors believe they would have been disruptive to its operations if it was forced to change significantly its cash management system upon the commencement of the Chapter 11 Case. Accordingly, on July 20, 2016, the Debtors filed with the Bankruptcy Court a motion seeking entry of an order authorizing the Debtors to maintain its current cash management system. On July 25, 2016, the Bankruptcy Court entered an order [Dkt. No. 46] approving the motion.

e. Leases.

On July 20, 2016, the Debtors filed a motion seeking entry of an order authorizing the Debtors to reject two leases. On August 12, 2016, the Bankruptcy Court entered an order [Dkt. No. 80] approving the motion.

f. NOL's.

On July 20, 2016, the Debtors filed a motion seeking entry of an order (A) limiting certain transfers of claims against the debtors and (B) approving related notice procedures. On August 12, 2016, the Bankruptcy Court entered an order [Dkt. No. 81] approving the motion.

g. Schedules and Statements.

On August 23, 2016, the Debtors filed with the Bankruptcy Court the Schedules and Statement of Financial Affairs (collectively, the "Schedules").

h. Section 341 Meeting.

The meeting of creditors pursuant to section 341(a) of the Bankruptcy Code took place on August 17, 2016 and September 28, 2016.

i. Exclusive Periods.

The Bankruptcy Code provides for an initial period of one hundred twenty (120) days after the commencement of a chapter 11 case during which the debtor has the exclusive right to file a chapter 11 plan (the “Exclusive Filing Period”) and an exclusive period of one hundred eighty (180) days from the commencement of the chapter 11 case to solicit acceptances of and confirm such a plan (the “Exclusive Solicitation Period,” and, together with the Exclusive Filing Period, the “Exclusive Periods”). On October 19, 2016, the Debtors filed a motion (the “Motion to Extend Exclusivity”) to extend the Exclusive Periods each by 90 days to allow the Debtors sufficient time to stabilize their operations and negotiate a Plan of Reorganization without making rushed decisions.

On November 7, 2016, the Creditors’ Committee filed an objection to the Motion to Extend Exclusivity. After an evidentiary hearing on the motion and the Creditors’ Committee’s objection, the Bankruptcy Court overruled the Creditors’ Committee’s objection by entry of an order [Dkt. No. 202] on November 14, 2016, granting the Debtors’ motion and extending the Exclusive Filing Period to February 15, 2017, and extending the Exclusive Solicitation Period to April 17, 2017. On March 24, 2017 the Debtors filed a second Motion to Extend Exclusivity, by which the Debtors sought to extend the Exclusive Solicitation Period to July 17, 2017 in order to provide the Debtors, among other things, ample time to solicit acceptance of and seek confirmation of the Plan. On April 12, 2017, the Bankruptcy Court granted the Debtors’ motion in part, extending the Exclusive Solicitation Period to June 30, 2017. On June 27, 2017 the Debtors filed a third Motion to Extend Exclusivity, by which the Debtors sought to extend Exclusive Filing Period to September 30, 2017 and the Exclusive Solicitation Period to November 30, 2017. On August 8, 2017, the Bankruptcy Court granted the Debtors’ motion, extending the Exclusive Filing Period to September 30, 2017, and extending the Exclusive Solicitation Period to November 30, 2017. On September 28, 2017 NMI and NMFC filed a further Motion to Extend Exclusivity, by which they sought to extend their Exclusive Filing Period to December 29, 2017 and their Exclusive Solicitation Period to February 28, 2018, in order to provide, among other things, ample time to solicit acceptance of and seek confirmation of the Plan. On October 19, 2017, the Bankruptcy Court granted the motion, extending the Exclusive Filing Period to December 29, 2017, and extending the Exclusive Solicitation Period to February 28, 2018.

j. Novation’s Plan Is Confirmed Without NMI.

Novation and the Plan Debtor filed a plan of reorganization for the resolution of the outstanding claims against and interests in Novation and the Plan Debtor pursuant to Section 1121(a) of the Bankruptcy Code (as amended and supplemented, the “Novation Plan”) and a related disclosure statement. Prior to the Confirmation Hearing, NMI determined not to proceed with the plan as previously filed. On May 31st, June 5th and June 9th, 2017, the Court held a series of hearings to consider confirmation of the Novation Plan, following which the Court entered its Findings of Fact, Conclusions of Law and Order Confirming, Pursuant to Sections

1129(a) and (b) of the Bankruptcy Code, the Second Amended Plan of Reorganization of Novation Companies, Inc. (the “Novation Plan Confirmation Order”) [Dkt. No. 542]. The Novation Plan Confirmation Order approved the Novation Plan with respect to Novation only. The Effective Date of the Novation Plan as to Debtor Novation was July 27, 2017.

k. Novation/NMI Allocation of Expenses.

On September 15, 2017, the Debtors filed the Debtors’ Motion to Allocate Fees and Expenses of Estate Professionals (the “Allocation Motion”) [Dkt. No. 625]. Under the Allocation Motion, the Debtors sought to allocate fees and expenses by (i) pro rating them based upon the relative value of the assets of the four Debtors, and (ii) with respect to those fees and expenses that can be clearly allocated to a specific Debtor, to so allocate them to that Debtor.

On October 16, 2017, Deutsche Bank National Trust Company (“DB”) filed an Objection to the Allocation Motion [Dkt. No. 648]. After a contested hearing the Court entered its Order Granting Debtors’ Motion to Allocate Fees and Expenses of Estate Professionals (the “Allocation Order”) [Dkt. No. 656]. In the Allocation Order that Court directed that with respect to any fees not directly attributable to a specific Debtor, the fees and expenses of estate professionals, other than Orrick, be allocated as follows: Novation 93%; NMI 6% and 2114 Central 1%. The Court also authorized the Debtors to true-up as between themselves the fees and expenses paid in satisfaction of the related final fee applications.

Thereafter, by Order entered December 5, 2017 [Dkt. No. 689], the Court approved the final fee application of Orrick, based upon the allocation formula set forth in the Allocation Order, except as to those fees and expenses attributable to services related to the FHFA Litigation, for which fees and expenses could be allocated as follows: Novation 50% and NMI 50%.⁴ The Court also authorized a true-up similar to that approved in the Allocation Order.

As the Court has already considered the allocation and trueing-up of estate expenses based upon its review of the facts and circumstances related to the specific expenses at issue, the Debtors believe that it is also appropriate and necessary to allocate among all of the Debtors the other operating expenses of the respective Debtors, for which Novation has already paid for such expenses. Accordingly, the Debtors have filed a Debtors’ Motion to Allocate Wages and Other Operating Expenses of Respective Debtors [Dkt. No. 691], which seeks to allocate other operating expenses, such as overhead, employee wages, data center expenses for the electronic storage costs relating to NMI and technical support services necessary to manage NMI’s data and records.

⁴ The FHFA Litigation refers to proceeding known as *Deutsche Bank National Trust Company v. Novation Companies, Inc. et. al.* pending in the Supreme Court of the State of New York, County of New York, Index No 650693/2013. As noted above, on December 5, 2017, the Supreme Court of the State of New York granted in part and denied in part the Debtors’ motion to dismiss the FHFA Litigation. All of DB’s claims related to the so called “put back” allegations were dismissed, and the remaining claims related to the purported failure to notify claims were dismissed without prejudice, to be considered in a coordinated briefing schedule along with a number of other similar litigation matters pending before that court.

l. Interim Funding Agreement and Issues Relating Thereto.

The Debtors were involved in disputes regarding insurance coverage with their insurer, Allied World Assurance Company (U.S.), Inc. on behalf of Newmarket Underwriters Insurance Company (“Allied World”). On December 20, 2016, the court entered an Amended Order [Dkt. No. 242] amending the original Order [Dkt. No. 203] (collectively, the “Interim Funding Order”) authorizing the Debtors to enter into the Interim Funding and Non-Waiver Agreement (the “Agreement”), dated as of October 18, 2016, by and among Allied World, Novation, NMI, and NMFC, and Scott F. Hartman, Gregory S. Metz, W. Lance Anderson and Mark Herpich.

Following the entry of the Interim Funding Order, a dispute arose between the Debtors and Allied World regarding the subject policy’s coverage as to certain defense expenses for costs incurred and to be incurred by the Debtors for the storage of documents required to be retained by the Debtors in connection with the RMBS Litigation referenced in the Agreement. The Debtors and Allied World have agreed to resolve their differences regarding coverage and payment for said storage costs as defense expenses under the subject policy in accordance with the terms described in a Stipulation and Consent Order re Payments of Insurance Proceeds Pursuant to the Interim Funding and Non-Waiver Agreement [Dkt. No. 693] (the “Interim Funding Stipulation”). The Interim Funding Stipulation generally provides, among other things, that:

- (a) Allied World shall promptly pay to NMI 60% of the \$143,362.76 in costs incurred for storage of documents through September 30, 2017 in connection with the RMBS Litigation, as itemized on Exhibit B to the Motion for an Order For Payment of Insurance Proceeds Pursuant to the Interim Funding and Non-Waiver Agreement Concerning Proceeds of Certain Insurance Policies [Dkt. No. 668], or a total of \$87,817.66;
- (b) Allied World shall promptly reimburse to NMI 60% of the costs incurred for storage of documents after September 30, 2017 in connection with the RMBS Litigation; and
- (c) Allied World’s reservation and non-waiver of rights in Section 5 of the Agreement, its reservation of the right to seek repayment from the insureds of moneys advanced or reimbursed under the terms of the subject policy in Section 8 of the Agreement, and its right to terminated advancements in Section 9 of the Agreement shall not apply to the payments required under paragraphs a and b above.

m. Preference Actions.

The Plan Debtor does not believe that any material preference actions exist.

n. RMBS Litigation Claims Estimation and Objection.

As noted in Section 3.01 above three of the groups named as defendants in the New Jersey Carpenters action (the RBS Claimants, Wells Fargo Claimants and the Deutsche Bank Claimants (“Underwriters”)) have filed proofs of claim seeking indemnification or contribution in connection with cases in which they were sued for underwriting certificates sponsored or issued by the Plan Debtor and/or NMFC. On or about March 8, 2017, those Underwriters, together with the Plaintiffs, Plan Debtor, Novation, NMFC and Individual Defendants entered into a settlement

agreement that provides for a release all claims by members of the Settlement Class against Defendants (including the Debtor Defendants) and various individuals and entities related to the Defendants, including their respective affiliates, agents, insurers, reinsurers, officers, directors and employees. On May 1, 2017, the Court entered an order approving the settlement agreement. The settlement agreement was also preliminarily approved by the United States District Court for the Southern District of New York on May 9, 2017 and is subject to final approval. In light of the settlement of the New Jersey Carpenters case, Debtors and the Underwriters entered into a stipulation allowing the RMBS Litigations Claims solely for voting purposes on the Novation Plan, which the court allowed on June 9, 2017. The Debtors expect to enter into a similar stipulation for the instant Plan.

In addition, the settlement by RBS in the NCUA case was accompanied by a court order barring any claims by RBS for indemnity or contribution relating to that case. The Plan Debtor believes that the claims for indemnity or contribution in the remaining cases for which the Underwriters have filed proofs of claim (as discussed in Section 3.01) have no merit for the following reasons. The Securities and Exchange Commission is of the view that claims for indemnification against liability under Section 11 of the Securities Act are against public policy and that contract provisions for such indemnification are unenforceable (see, e.g., Item 512(i) of Regulation S-K), and courts have expressed the same view (see, e.g., *Eichenholtz v. Brennan*, 52 F.3d 478, 483 (3d Cir. 1995)). While Section 11 contains an express right of contribution in certain circumstances, the Plan Debtor believes that it is unavailable to the Underwriters here because they did not make any such claims in a timely manner, have not previously notified the Plan Debtor of the cases for which they seek contribution, and have not specified any amounts they have paid in connection with those cases or provided any grounds for seeking contribution for any portion of such amounts. In that regard most of the various cases for which the Underwriters have asserted contributions claims have either been dismissed or settled.

The Plan Debtor believes there is no liability to the estate on the RMBS Litigation Claims and intends to file motions to estimate and/or object to or subordinate each of the claims. Indemnification claims were also filed by former officers and directors, seeking indemnification relating to the New Jersey Carpenters action. These claims, which are included in Class 2, were filed by four individuals against the Plan Debtor and Novation in the amount of \$20 million per individual claim.

ARTICLE V

SUMMARY OF THE PLAN

Section 5.01 Summary.

THE FOLLOWING IS A SUMMARY OF SOME OF THE SIGNIFICANT ELEMENTS OF THE PLAN. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED INFORMATION SET FORTH IN THE PLAN AND THE EXHIBITS AND SCHEDULES THERETO.

The Plan classifies Claims and Interests separately in accordance with the Bankruptcy Code and provides different treatment for different Classes of Claims and Interests. Claims and

Interests shall be included in a particular Class only to the extent such Claims or Interests qualify for inclusion within such Class. The Plan separates the various Claims (other than those that do not need to be classified) into five separate Classes. These Classes take into account the differing nature and priority of Claims against, and Interests in, the Plan Debtor. Unless otherwise indicated, the characteristics and amounts of the Claims or Interests in the following Classes are based on the books and records of the Plan Debtor.

The Plan is intended to enable the Plan Debtor to continue its present operations without the likelihood of a subsequent liquidation or the need for further financial reorganization. The Plan Debtor believes that it will be able to perform all of its obligations under the Plan and meet their expenses after the Effective Date without further financial reorganization. Also, the Plan Debtor believes that the Plan permits fair and equitable recoveries, while expediting the reorganization of the Plan Debtor.

The Confirmation Date will be the date that the Confirmation Order is entered by the Clerk of the Bankruptcy Court. The Effective Date will be the first Business Day on or after the Confirmation Date on which all of the conditions to the Effective Date specified the Plan have been satisfied or waived and the parties have consummated the transactions contemplated by the Plan.

The Plan Debtor anticipates that the Effective Date will occur or or prior to April 30, 2018. Resolution of any challenges to the Plan may take time and, therefore, the actual Effective Date cannot be predicted with certainty.

Other than as specifically provided in the Plan, the treatment under the Plan of each Claim and Interest will be in full satisfaction, settlement, release and discharge of all Claims or Interests. The Reorganized Plan Debtor will make all payments and other distributions to be made under the Plan unless otherwise specified.

Section 5.02 Effective Date Funding.

On the Effective Date, the Plan Debtor shall use cash on hand to fund all payments required under the Plan to be paid on such date. To the extent required, the Plan Debtor may transfer all of its assets, including Available Funds, to a grantor trust for the benefit of creditors with Allowed Claims, the form of which shall be filed with the Plan Supplement or annexed to the Confirmation Order.

Section 5.03 [Reserved].

Section 5.04 Provisions for Treatment of Unclassified Claims.

a. Administrative Expense Claims.

Except to the extent that a Holder of an Allowed Administrative Claim agrees to less favorable treatment, or as otherwise provided for in the Plan, the Plan Debtor shall pay to each Holder of an Allowed Administrative Claim Cash in an amount equal to the amount of such Allowed Administrative Claim on, or as soon thereafter as is reasonably practicable, the later of (i) the Effective Date, and (ii) the first Business Day after the date that is thirty (30) calendar days

after the date an Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as is reasonably practicable; provided, however, that Allowed Ordinary Course Administrative Claims may be paid by the Plan Debtor in the ordinary course of business of the Reorganized Plan Debtor consistent with past practice and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.

The Confirmation Order or separate bankruptcy court order will establish the Administrative Claims Bar Date for filing applications for the allowance of Administrative Claims (except for Fee Claims, claims pursuant to section 503(b)(9) of the Bankruptcy Code, Ordinary Course Administrative Claims, and any fees or charges assessed against the Estates under section 1930 of title 28 of the United States Code and any applicable interest thereon). A notice setting forth the Administrative Claim Bar Date shall be filed on the Bankruptcy Court's docket. Any requests for payment of an Administrative Claim that are not properly filed and served by the Administrative Claim Bar Date shall be disallowed automatically without the need for any objection from the Plan Debtor or the Reorganized Plan Debtor or any action by the Bankruptcy Court. The Reorganized Plan Debtor shall have until 120 days after the Administrative Claims Bar Date (or such longer period as may be allowed by order of the Bankruptcy Court) to review and object to all applications for the allowance of Administrative Claims. Unless the Plan Debtor or the Reorganized Plan Debtor object to a timely-filed and properly served Administrative Claim, such Administrative Claim shall be deemed Allowed in the amount requested.

b. Fee Claims.

Any entity seeking an award by the Bankruptcy Court of compensation or reimbursement of Fee Claims pursuant to sections 327, 328, 330, 331, 503 or 1103 of the Bankruptcy Code for services rendered prior to the Effective Date file and serve on the Reorganized Plan Debtor and their counsel, the United States Trustee, and such other entities who are designated by the Bankruptcy Rules, the Confirmation Order or any other order(s) of the Court, its final application for allowance of such compensation and/or reimbursement by no later than ninety (90) days after the Effective Date or such other date as may be fixed by the Bankruptcy Court. Holders of Fee Claims that are required to file and serve applications for final allowance of their Fee Claims and that do not file and serve such applications by the required deadline shall be forever barred from asserting such Fee Claims against the Plan Debtor, the Reorganized Plan Debtor or their respective properties, and such Fee Claims shall be deemed discharged as of the Effective Date. Objections to any Fee Claims must be filed and served on the Reorganized Plan Debtor and their counsel and the requesting party no later than thirty (30) days (or such longer period as may be allowed by order of the Bankruptcy Court) after the date on which an application for final allowance of such Fee Claims was filed and served. The Professionals employed by the Debtors shall be entitled to reasonable compensation and reimbursement of actual, necessary expenses for post-Effective Date activities, including the preparation, filing and prosecution of Fee Claims, or objecting to other Professional's Fee Claims, solely to the extent the expenses relating to the preparation, filing and prosecution of such Fee Claims, or objections to such Fee Claims, are allowable pursuant to the Bankruptcy Code. Any such fees or expenses shall be subject to approval and allowance by the Court pursuant to Section 330 of the Bankruptcy Code.

The Reorganized Plan Debtor may, without application to or approval by the Bankruptcy Court, retain professionals and pay reasonable professional fees and expenses in connection with services rendered to the Reorganized Plan Debtor after the Effective Date.

c. United States Trustee Fees.

On the Effective Date or as soon as practicable thereafter, the Plan Debtor or Reorganized Plan Debtor shall pay all United States Trustee Fees.

d. Priority Tax Claims.

Except to the extent that a Holder of an Allowed Priority Tax Claim agrees to a different treatment, or the Bankruptcy Court has previously ordered otherwise, each Holder of an Allowed Priority Tax Claim shall receive, in full and complete satisfaction, settlement, and release of, and in exchange for such Allowed Priority Tax Claim, at the sole option of the Reorganized Plan Debtor, (a) on, or as soon thereafter as is reasonably practicable, the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date a Priority Tax Claim becomes an Allowed Claim, Cash in an amount equal to such Allowed Priority Tax Claim, or (b) deferred Cash payments following the Effective Date, over a period ending not later than five (5) years after the Petition Date, in an aggregate amount equal to the Allowed amount of such Priority Tax Claim (with any interest to which the holder of such Priority Tax Claim may be entitled to be calculated in accordance with section 511 of the Bankruptcy Code). All Allowed Priority Tax Claims which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business. The Reorganized Plan Debtor shall retain the right to pay any Allowed Priority Tax Claim, or any remaining balance of such claim, in full at any time without premium or penalty.

Section 5.05 Provisions for Treatment of Classified Claims.

a. Class 1 – Priority Non-Tax Claims.

A. Treatment. The legal, equitable and contractual rights of the holders of Class 1 Claims are unaltered by the Plan. Except to the extent a Holder of a Priority Non-Tax Claim agrees to different treatment, each Holder of an Allowed Priority Non-Tax Claim will be paid, in full and complete satisfaction, settlement, and release of and in exchange for such Allowed Priority Non-Tax Claim, the Allowed Amount of such Allowed Priority Non-Tax Claim in full in Cash on later of the Effective Date and the first Distribution Date subsequent to the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim.

B. Voting. In accordance with section 1126(f) of the Bankruptcy Code, the holders of Allowed Priority Non-Tax Claims are conclusively presumed to accept the Plan and the votes of such holders will not be solicited with respect to such Allowed Priority Non-Tax Claims.

b. Class 2 – New Jersey Carpenters Settled Claims Against NMI.

A. Treatment. Except to the extent that a Holder of an Allowed New Jersey Carpenters Settled Claim agrees to different treatment, each Holder of an Allowed New Jersey Carpenters Settled Claim against NMI shall receive, in full and complete satisfaction, settlement

and release of and in exchange for such Claim payment as provided in the New Jersey Carpenters Health Fund Settlement. If the New Jersey Carpenters Health Fund Settlement is approved on a final basis by a Final Order of the United States District Court for the Southern District of New York and consummated by its terms, the settlement compensation provided thereunder to the lead plaintiff and the certified class (other than any class members that timely opt out from the New Jersey Carpenters Health Fund Settlement pursuant to the terms thereof) in the New Jersey Carpenters Health Fund Case will serve as full and final satisfaction of the Claims they have asserted in these Chapter 11 Cases in lieu of the treatment provided by this Plan.

B. In the event (x) the New Jersey Carpenters Health Fund Settlement is not approved by a Final Order of the United States District Court for the Southern District of New York or (y) a class member timely opted out of the settlement (collectively, the “Non-Settled Class 2 Claimants”), then such Non-Settled Class 2 Claimants may seek payment solely from and to the extent of the applicable coverage under such insurance policies. In the event there is not insurance coverage then such Non-Settled Class 2 Claimants shall be shall be paid its Pro Rata Share of Available Funds, payable on a bi-annual basis.

C. Voting. The New Jersey Carpenters Settled Claims are Impaired Claims, and holders of such Claims are entitled to vote to accept or reject the Plan.

c. Class 3 – FHFA Claims Against NMI.

A. Treatment. Except to the extent that a Holder of an FHFA Claim agrees to different treatment, each Holder of an Allowed FHFA Claim, if any, against NMI shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Claim, its Pro Rata Share of Available Funds, payable on a bi-annual basis.

B. Voting. FHFA Claims are Impaired Claims, and holders of such Claims are entitled to vote to accept or reject the Plan.

d. Class 4 – Indemnification Claims Against NMI.

A. Treatment. Except to the extent that a Holder of an Indemnification Claim agrees to different treatment, each Holder of an Allowed Indemnification Claim against NMI shall receive, in full and complete satisfaction, settlement and release of and in exchange for such Claim, (x) to the extent such claim is covered by an insurance policy, payment solely from and to the extent of the applicable coverage under such insurance policies or (y) in the event such claim is not covered by an insurance policy, its Pro Rata Share of Available Funds, payable on a bi-annual basis, unless such claims are disallowed of subordinated pursuant to a Final Order. The Class 4 Indemnification Claims are Impaired Claims, and holders of such Claims are entitled to vote to accept or reject the Plan.

B. Voting. The Holders of existing Interests in NMI shall retain their Interests but not receive any distributions until all creditors with Allowed Claims are paid in full.

e. Class 5 – Interests in NMI.

A. Treatment. Treatment. The Holders of existing Interests in NMI shall retain their Interests but not receive and distributions until all creditors with Allowed Claims are paid in full.

B. Voting. The Holders of Interests in NMI are Impaired and as a result such Holders are entitled to vote to accept or reject the Plan.

Section 5.06 Acceptance or Rejection of the Plan.

a. Each Impaired Class Entitled to Vote Separately.

Each Impaired Class of Claims that is to receive a Distribution under the Plan will be entitled to vote separately to accept or reject the Plan. Except as provided herein, each Person that, as of the Voting Record Date, holds a Claim in an Impaired Class will receive a Ballot that will be used to cast its vote to accept or reject the Plan. In the event of a controversy as to whether any Class of Claims or Interests is Impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy.

b. Acceptance by a Class of Claims.

In accordance with section 1126(c) of the Bankruptcy Code, and except as provided in section 1126(e) of the Bankruptcy Code, an Impaired Class of Claims will be deemed to accept the Plan if the Plan is accepted by the Holders of Claims in such Class that hold at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed Claims of such Class that have voted to accept or reject the Plan.

Section 5.07 “Confirmation Pursuant to Section 1129(b) of the Bankruptcy Code or “Cram down.”

Should any Class reject the Plan, the Plan Debtor will seek confirmation of the Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code. The Plan Debtor reserves the right to alter, amend, modify, revoke or withdraw the Plan or any Plan Document in order to satisfy the requirements of section 1129(b) of the Bankruptcy Code, if necessary.

Section 5.08 Voting Classes.

If a Class contains Claims or Interests eligible to vote and no Holders of Claims or Interests eligible to vote in such Class vote to accept or reject the Plan, the Plan shall be deemed accepted by the Holders of such Claims or Interests in such Class.

Section 5.09 Confirmation of Case.

Except as otherwise specified herein, the Plan shall not be deemed to have been confirmed unless and until the Plan has been confirmed as to the Plan Debtor.

ARTICLE VI

MEANS OF PLAN IMPLEMENTATION

Section 6.01 Introduction.

The Plan Debtor intends on using present and future Available Funds to fund distributions under the Plan.

Section 6.02 Corporate Action.

On and after the Effective Date, the Reorganized Plan Debtor shall have full authority and are authorized to take such actions and execute such documents as may be necessary to effectuate the transactions provided for in the Plan. The Reorganized Plan Debtor's post-Effective Date authority shall include the right to operate their business as a going concern; to commence and prosecute actions and proceedings; to open, maintain and close bank accounts and/or other investments on behalf of the Estates; to make and File Objections to, or otherwise contest the amount, validity and/or priority of, all Claims; to calculate and make Distributions consistent with the Plan; to prosecute and resolve Objections regarding all Claims; to engage in arbitration or mediation; to engage or retain Professionals and to pay the fees and disbursements thereof; to file tax information and returns as required and, in connection therewith, to make such determinations of tax liability, challenge assessments, make tax elections, pay taxes and take other, related actions; to hold and dispose of any unclaimed Distributions; and to close the case and any related proceedings. Subsequent to the Effective Date, the Plan Debtor's operating agreement shall be amended to prohibit the issuance of non-voting securities and to otherwise comply with the terms and conditions of section 1123(a)(6) of the Bankruptcy Code.

On and after the Effective Date, the Managing Member of the Reorganized Plan Debtor is authorized to, and may direct any officer to, issue, execute, deliver, file, or record such contracts, securities, instruments, releases, and other agreements or documents and take such action as may be necessary or appropriate to effectuate, implement, and further evidence the terms and conditions of the Plan and the securities issued pursuant to the Plan in the name of, and on behalf of the Reorganized Plan Debtor, without the need for any approvals, authorizations, or consents except for those required pursuant to the Plan.

The selection of members of Reorganized Plan Debtor, and all other actions contemplated by the Plan shall be authorized and approved in all respects (subject to the provisions of the Plan) by the Confirmation Order. All matters provided for in the Plan involving the structure of the Plan Debtor or the Reorganized Plan Debtor, and any action required by the Plan Debtor or the Reorganized Plan Debtor in connection with the Plan, shall be deemed to have timely occurred in accordance with applicable law and shall be in effect, without any requirements or further action by the security holders, directors, or managers of the Plan Debtor or Reorganized Plan Debtor. On the Effective Date, as applicable, the appropriate officers of the Plan Debtor and /or Reorganized Plan Debtor and members of the boards of directors or managers of the Plan Debtor and/or Reorganized Plan Debtor are authorized and directed to issue, execute and deliver, and cause the Reorganized Plan Debtor to perform, the agreements, documents, securities and instruments

contemplated by the Plan in the name of and on behalf of the Plan Debtor and/or Reorganized Plan Debtor.

Section 6.03 Effective Date Transactions.

a. Effective Date Funding.

On the Effective Date, the Plan Debtor shall use Available Funds to fund all payments required under the Plan to be paid on such date.

Section 6.04 [Intentionally Deleted]

Section 6.05 Corporate Governance.

On the Effective Date, the Members of the Reorganized Plan Debtor shall consist of those individuals set forth in the Plan Supplement.

Section 6.06 Obligations Incurred After the Effective Date.

Payment obligations incurred after the Effective Date, including, without limitation, the professional fees of the Plan Debtor, will not be subject to application or proof of claim and may be paid by the Reorganized Plan Debtor in the ordinary course of business and without further Bankruptcy Court approval.

Section 6.07 Post-Confirmation Operating Reports and United States Trustee Fees.

The Reorganized Plan Debtor shall be responsible for the preparation and filing of operating reports until entry of a final decree in this case. Quarterly fees payable to the United States Trustee pursuant to 28 U.S.C. § 1930 and any applicable interest thereon shall be paid by the Reorganized Plan Debtor until the entry of an order converting, dismissing or granting a final decree in this case.

ARTICLE VII

PRESERVATION AND PROSECUTION OF CAUSES OF ACTION HELD BY THE DEBTORS

Section 7.01 Preservation and Prosecution of Causes of Action.

In accordance with section 1123(b) of the Bankruptcy Code, all claims and causes of action of the Reorganized Plan Debtor are retained and preserved. The Reorganized Plan Debtor shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action. The Reorganized Plan Debtor's right to commence, prosecute, settle, or abandon their Causes of Action shall be preserved, notwithstanding the occurrence of the Effective Date. No entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Plan Debtor or Reorganized Plan Debtor, as applicable, will not pursue any and all available Causes of Action against them. Unless

any Causes of Action against an entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, the Reorganized Plan Debtor expressly reserves all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation Order. In accordance with section 1123(b)(3) of the Bankruptcy Code, any Causes of Action against any entity shall vest in the Reorganized Plan Debtor.

ARTICLE VIII

PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

Section 8.01 Objections to Claims.

The Reorganized Plan Debtor shall have the right to object to the allowance of any Claims or Interests with respect to which they dispute liability, priority, and/or amount. Any Objections to Claims that have been filed on or before the Confirmation Date, shall be served and filed as soon as practicable, but, in each instance, no later than: (a) 180 days after the Effective Date; or (b) such other date as may be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clause (a) hereof. The Filing of a motion to extend such objection deadline shall automatically extend such deadline until a Final Order is entered on such motion. In the event that such a motion to extend the objection deadline is denied by the Bankruptcy Court, or approved by the Bankruptcy Court and reversed on appeal, such objection deadline shall be the later of the current deadline (as previously extended, as applicable) or 30 days after entry of a Final Order denying the motion to extend the objection deadline.

Section 8.02 No Payment or Distribution Pending Allowance.

Notwithstanding any other provision in the Plan, if any portion of a Claim is a Disputed Claim, no payment or Distribution of Property provided for hereunder shall be made on account of such Claim unless and until the Disputed Claim becomes an Allowed Claim. To the extent a Disputed Claim is Disallowed in whole or in part, the Holder of such Claim will not receive any Distribution on account of the portion of such Claim (including the whole, if applicable) that is Disallowed.

Section 8.03 Disputed Distributions.

If any dispute arises as to the identity of a Holder of an Allowed Claim who is to receive any Distribution, in lieu of making a distribution to such Person, the Disbursing Agent may reserve or deposit the Distribution at issue (or the disputed portion thereof into a segregated account for Disputed Distributions until the disposition thereof is determined by a Final Order or by written agreement among the interested parties to such dispute.

Section 8.04 Estimation.

The Reorganized Plan Debtor shall have the right, but not the obligation, at any time to seek an order of the Bankruptcy Court, after notice and a hearing (which hearing may be held on

an expedited basis), estimating for final Distribution purposes any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code, regardless of whether the Plan Debtor, the Reorganized Plan Debtor previously objected to such Claim. If the Bankruptcy Court estimates any contingent, Disputed or unliquidated Claim, the estimated amount shall constitute either the Allowed Amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court, including for purposes of the Disputed Claims Reserve; provided, however, that if the estimate constitutes the maximum limitation on such Claim, the Plan Debtor or the Reorganized Plan Debtor as the case may be, may elect to pursue supplemental proceedings to object to any ultimate allowance of such Claim. On or after the Confirmation Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

Section 8.05 Reserve Account for Disputed Claims.

On or after the Effective Date, the Disbursing Agent shall hold in their respective Disputed Claims Reserves, Cash or other consideration in an aggregate amount sufficient to compensate each Holder of a Disputed Claim, which the Disbursing Agent is ultimately responsible for disbursing, with (i) the amount that such Holder would have been entitled to receive under the Plan if such Claim had been an Allowed Claim on the Effective Date, (ii) to the extent the value of a Disputed Claim has been estimated, the estimated value of such Disputed Claim, or (iii) such other amount as may be agreed upon by the Holder of such Disputed Claim and the Reorganized Debtor.

Section 8.06 Release of Funds from Claims Reserves.

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, the Disbursing Agent, shall distribute to the Holder thereof the distribution, if any, to which such Holder is then entitled under the Plan. To the extent a Disputed Claim is Disallowed or Allowed in a lesser amount than has been reserved for such Disputed Claim, the Cash reserved for such Disputed Claim or the difference between the amount reserved for such Disputed Claim and the lesser amount at which such Disputed Claim is ultimately Allowed, as applicable, be returned from the Disputed Claims Reserve to the Reorganized Plan Debtor.

ARTICLE IX

DISTRIBUTIONS UNDER THE PLAN

Section 9.01 Limitation to Full Recovery.

Notwithstanding anything herein to the contrary, no Holder of any Claim will be entitled to a Distribution in excess of 100% of the Allowed amount of its Claims.

Section 9.02 Timing of Distributions.

Distributions under the Plan shall be made (i) as set forth in the Plan or as soon as reasonably practicable thereafter; or (ii) as agreed between the Plan Debtor or the Reorganized Plan Debtor, as applicable, and the particular Creditor, or as soon as reasonably practicable thereafter. If a Claim is not an Allowed Claim as of the Effective Date, Distributions will be made only if and when the Claim is Allowed and, to the extent a Disputed Claim is the subject of

estimation in accordance with Section 7.04 of the Plan, in an amount no greater than the amount reserved in the Disputed Claims Reserve.

Section 9.03 Saturdays, Sundays, or Legal Holidays.

If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, and shall be deemed to have been completed as of the required date.

Section 9.04 Distribution Record Date.

Except as otherwise provided in a Final Order that is not subject to any stay, the transferees of Claims that are transferred pursuant to Bankruptcy Rule 3001 and Filed with the Bankruptcy Court on or prior to the Distribution Record Date will be treated as the Holders of such Claims for all purposes, notwithstanding that any period provided by Bankruptcy Rule 3001 for objecting to such transfer may not have expired by the Distribution Record Date. As of the close of business on the Distribution Record Date, any transfer ledgers, transfer books, registers and any other records will be closed and, for purposes of the Plan, there shall be no further changes in the record Holders of such Claims. The Plan Debtor shall have no obligation to recognize the transfer of any Claim occurring after the Distribution Record Date, and will be entitled for all purposes to recognize and deal only with those Holders of Claims and Interests as of the close of business on the Distribution Record Date, as reflected on the ledgers, books, registers or records of the Plan Debtor and the Bankruptcy Court.

Section 9.05 Delivery of Distributions.

Subject to the treatment of Disputed Distributions as set forth in Section 7.03 of the Plan, Distributions shall be made to Holders of Allowed Claims at the addresses set forth on the Plan Debtor's books and records or the Proofs of Claim, if any, Filed by such Creditors or at the last known addresses of such Creditors or, in the case of transferred Claims, on the notice of transfer Filed with the Bankruptcy Court pursuant to Bankruptcy Rule 3001, each as of the Distribution Record Date. If any such Creditor's Distribution is returned as undeliverable, no further Distribution shall be made to such Creditor unless and until the Plan Debtor is notified of such Creditor's then-current address, at which time any missed Distribution shall be made to such Creditor to the extent of Available Funds; provided that in no event is the Plan Debtor required to make Distributions to a Creditor whose Distribution is returned as undeliverable and becomes Unclaimed Property.

Section 9.06 Method of Cash Distributions.

The Disbursing Agent shall make all Distributions contemplated by the Plan. Any Cash payment to be made pursuant to the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank, at the option of the Disbursing Agent. If a Creditor holds more than one Claim in any one Class, all Allowed Claims of the Creditor in that Class may, at the Plan Debtor's option, be aggregated and one Distribution may be made with respect thereto.

Section 9.07 Unclaimed Property.

All Property distributed on account of Claims must be claimed within the later of ninety (90) days after (i) the Distribution Date and (ii) the date such Distribution is made to such Holder provided, however, in the case of a Distribution made in the form of a check, must be negotiated or a request for reissuance made directly to the Plan Debtor by the Creditor that was originally issued such check and shall be made within ninety (90) days after the date the Distribution is made to the applicable Creditor. Nothing contained in the Plan shall require the Plan Debtor to attempt to locate any Holder of an Allowed Claim, other than as provided herein. Pursuant to Bankruptcy Code sections 347(b) and 1143, all Claims in respect of Unclaimed Property shall be deemed Disallowed and the Holder of any Claim Disallowed is forever barred, expunged, estopped and enjoined from asserting such Claim in any manner against the Plan Debtor or the Estate.

Section 9.08 Compliance with Tax Requirements.

In connection with each Distribution with respect to which the filing of an information return (such as an IRS Form 1099 or 1042) or withholding is required, the Plan Debtor shall file such information return with the IRS and provide any required statements in connection therewith to the recipients of such Distribution or effect any such withholding and deposit all moneys so withheld as required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Plan Debtor within thirty (30) days from the date of any such request, the Plan Debtor may, at its option, withhold the amount required and distribute the balance to such Person or decline to make such Distribution until the information is received.

Section 9.09 Setoffs.

Except as otherwise provided in the Plan, the Confirmation Order, or in an agreement approved by a Final Order of the Bankruptcy Court, the Plan Debtor or the Reorganized Plan Debtor, as applicable, may, pursuant to applicable law (including section 553 of the Bankruptcy Code), setoff against any Distribution amounts related to any Claim before any Distribution is made on account of such Claim, any and all of the Claims, rights and causes of action of any nature that the Plan Debtor, the Estate or the Reorganized Plan Debtor may hold against the Holder of such Claim, provided, however, that neither the failure to effect such a setoff, the allowance of any Claim hereunder, any other act or omission of the Plan Debtor or the Disbursing Agent, nor any provision of the Plan (other than Article X of the Plan) will constitute a waiver or release by the Plan Debtor or the Reorganized Plan Debtor of any such claims, rights or causes of action that the Plan Debtor or the Reorganized Plan Debtor may possess against such Holder.

Section 9.10 Documentation Necessary to Release Lien.

Each Creditor who is a Holder of a Lien satisfied, discharged and released under the Plan and who is to receive a Distribution under the Plan shall not receive such Distribution until such Creditor executes and delivers any documents necessary to release all Liens arising under any applicable security agreement or non-bankruptcy law (in recordable form, if appropriate) in connection with such Claim and such other documents as the Plan Debtor may reasonably request to document satisfaction of the Lien.

Section 9.11 Distributions Under Fifty Dollars.

No Distribution of Cash in an amount less than fifty dollars (\$50.00) will be made by the Disbursing Agent to any Holder of an allowed Claim unless a request is made in writing to the Disbursing Agent. If no such request is made, all such Distributions will be treated as Unclaimed Property.

ARTICLE X

**EXECUTORY CONTRACTS AND UNEXPIRED LEASES;
INDEMNIFICATION OBLIGATIONS**

Section 10.01 General Treatment.

Unless otherwise provided in the Plan, prior to the Effective Date, the Debtor will have rejected or filed a motion to assume or reject all executory contracts or unexpired leases of the Debtor not previously (a) assumed or (b) terminated or expired by their terms. Any executory contracts that were not expressly assumed, terminated or expired by their terms or rejected shall be deemed rejected upon entry of the Confirmation Order.

Section 10.02 Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan.

Claims arising out of the rejection of an Executory Contract or unexpired lease pursuant to Section 9.01 of the Plan must be filed with the Bankruptcy Court and served upon the Plan Debtor (or, on and after the Effective Date, Reorganized Plan Debtor) no later than thirty (30) days after the later of (i) notice of entry of an order approving the rejection of such Executory Contract or unexpired lease, and (ii) notice of entry of the Confirmation Order. All such Claims not filed within such time will be forever barred from assertion against the Plan Debtor and its estate or the Reorganized Plan Debtor and its Property.

Section 10.03 Treatment of Rejection Claims.

Any Allowed Claim arising out of the rejection of an Executory Contract or unexpired lease pursuant to the Plan (as opposed to a separate order of the Bankruptcy Court) shall, pursuant to section 502(g) of the Bankruptcy Code, be a General Unsecured Claim.

Section 10.04 Reinstatement and Continuation of Insurance Policies.

Unless otherwise assumed during the pendency of the Chapter 11 Cases, from and after the Effective Date, and notwithstanding Section 9.01 of the Plan, each of the Plan Debtor's insurance policies in existence on and as of the Confirmation Date shall be reinstated and continued in accordance with its terms and, to the extent applicable, shall be deemed assumed by the Reorganized Plan Debtor pursuant to section 365 of the Bankruptcy Code. Nothing contained in the Plan shall constitute or be deemed a waiver of any Cause of Action that the Plan Debtor may hold against any entity, including, without limitation, the insurer under any of the Plan Debtor's insurance policies.

The Plan Debtor's discharge and release from all Claims and Interests, as provided herein, shall not diminish or impair the enforceability of any insurance policy that may cover Claims against the Plan Debtor (including, without limitation, their officers and directors), the Reorganized Plan Debtor (including, without limitation, their officers and directors) or any other person or entity.

ARTICLE XI

EFFECT OF CONFIRMATION

Section 11.01 Binding Effect.

The Plan shall be binding and inure to the benefit of the Plan Debtor, all Holders of Claims and Interests, and their respective successors and assigns.

Section 11.02 Continued Limited Liability Existence.

Except as otherwise provided in the Plan, the Debtor shall continue to exist after the Effective Date as a separate limited liability company, with all the powers of a limited liability company, pursuant to the jurisdiction in which the Plan Debtor is formed and pursuant to the bylaws (or other formation documents) in effect prior to the Effective Date, except to the extent such amended certificate and bylaws (or other formation documents) are amended by the Plan or otherwise, and to the extent such documents are amended, such documents are deemed to be amended pursuant to the Plan and require no further action or approval.

Section 11.03 Vesting of Property.

On the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, and except as otherwise provided in the Plan, the Property of the Estate shall vest in the Reorganized Debtor, free and clear of all Claims, Liens, encumbrances, charges, and other Interests, except as provided herein or in the Confirmation Order. From and after the Effective Date, the Reorganized Plan Debtor may operate its business and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending case under any chapter or provision of the Bankruptcy Code, except as provided herein.

Section 11.04 Discharge of Claims Against and Interests in the Plan Debtor.

Upon the Effective Date and in consideration of the distributions to be made hereunder, except as otherwise provided herein or in the Confirmation Order, each Person that is a Holder (as well as any trustees and agents on behalf of such Person) of a Claim or Interest and any affiliate of such Holder shall be deemed to have forever waived, released, and discharged the Plan Debtor, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, Interests, rights, and liabilities that arose prior to the Effective Date. Except as otherwise provided herein, upon the Effective Date, all such Holders of Claims and Interests and their affiliates shall be forever precluded and enjoined, pursuant to sections 105, 524, 1141 of the Bankruptcy Code, from prosecuting or asserting any such discharged Claim against or terminated Interest in any Debtor.

Section 11.05 Injunction.

EXCEPT AS OTHERWISE PROVIDED IN THE PLAN, THE CONFIRMATION ORDER, OR SUCH OTHER ORDER OF THE BANKRUPTCY COURT THAT MAY BE APPLICABLE, AS OF THE EFFECTIVE DATE, ALL PERSONS WHO HAVE HELD, HOLD OR MAY HOLD CLAIMS AGAINST OR INTERESTS IN THE PLAN DEBTOR OR THEIR ESTATE THAT ARE DISCHARGED PURSUANT TO THE PLAN, ARE, WITH RESPECT TO ANY SUCH CLAIMS OR INTERESTS, PERMANENTLY ENJOINED FROM AND AFTER THE EFFECTIVE DATE FROM: (I) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING OF ANY KIND (INCLUDING, WITHOUT LIMITATION, ANY PROCEEDING IN A JUDICIAL, ARBITRAL, ADMINISTRATIVE OR OTHER FORUM) ON ANY SUCH CLAIM OR INTEREST AGAINST OR AFFECTING THE PLAN DEBTOR, THE REORGANIZED DEBTOR, THE ESTATE OR ANY OF THEIR PROPERTY, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO ANY OF THE FOREGOING PERSONS OR ANY PROPERTY OF ANY SUCH SUCCESSOR; (II) ENFORCING, LEVYING, ATTACHING (INCLUDING, WITHOUT LIMITATION, ANY PRE-JUDGMENT ATTACHMENT), COLLECTING OR OTHERWISE RECOVERING BY ANY MANNER OR MEANS, WHETHER DIRECTLY OR INDIRECTLY, ANY JUDGMENT, AWARD, DECREE OR ORDER AGAINST THE PLAN DEBTOR, THE REORGANIZED PLAN DEBTOR, THE ESTATE OR ANY OF THE PLAN DEBTOR'S PROPERTY, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO ANY OF THE FOREGOING PERSONS, OR ANY PROPERTY OF ANY SUCH SUCCESSOR; (III) CREATING, PERFECTING OR OTHERWISE ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY ENCUMBRANCE OF ANY KIND AGAINST THE PLAN DEBTOR, THE REORGANIZED PLAN DEBTOR, THE ESTATE, OR ANY OF THEIR PROPERTY, OR SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS; (IV) ACTING OR PROCEEDING IN ANY MANNER, IN ANY PLACE WHATSOEVER, THAT VIOLATES THE PROVISIONS OF THE PLAN; AND (V) COMMENCING OR CONTINUING, IN ANY MANNER OR IN ANY PLACE, ANY ACTION THAT VIOLATES THE PLAN.

Notwithstanding the foregoing, the FHFA case shall be allowed to continue in the ordinary course and the foregoing injunction shall not impact or apply to the FHFA Case

Section 11.06 Releases.

(a) RELEASES BY THE PLAN DEBTOR. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, AS OF THE EFFECTIVE DATE, THE PLAN DEBTOR, IN ITS INDIVIDUAL CAPACITY AND AS A DEBTOR IN POSSESSION, SHALL BE DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION AND LIABILITIES (OTHER THAN THE RIGHTS OF THE PLAN DEBTOR TO ENFORCE THE PLAN) WHETHER LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, KNOWN OR UNKNOWN, ARISING, IN LAW, EQUITY OR

OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO THE EFFECTIVE DATE IN ANY WAY RELATING TO THE PLAN DEBTOR, THE CHAPTER 11 CASE, THE PLAN OR THE DISCLOSURE STATEMENT, AND THAT COULD HAVE BEEN ASSERTED BY OR ON BEHALF OF THE PLAN DEBTOR OR ITS ESTATE, WHETHER DIRECTLY, INDIRECTLY, DERIVATIVELY OR IN ANY REPRESENTATIVE OR ANY OTHER CAPACITY, AGAINST ANY DEBTOR-RELEASED PARTIES. IN NO EVENT SHALL ANYTHING IN THIS SECTION BE CONSTRUED AS A RELEASE OF ANY PERSON'S FRAUD, GROSS NEGLIGENCE OR WILLFUL MISCONDUCT FOR MATTERS WITH RESPECT TO THE PLAN DEBTOR.

Section 11.07 Exculpation and Limitation of Liability.

NONE OF THE PLAN DEBTOR, THE REORGANIZED PLAN DEBTOR, THE DISBURSING AGENT, AND ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, MEMBERS, ATTORNEYS, CONSULTANTS, ADVISORS, AND AGENTS (BUT SOLELY IN THEIR CAPACITIES AS SUCH) SHALL HAVE OR INCUR ANY LIABILITY TO ANY HOLDER OF ANY CLAIM OR INTEREST FOR ANY ACT OR OMISSION UP TO AND INCLUDING THE EFFECTIVE DATE IN CONNECTION WITH, RELATED TO, OR ARISING OUT OF THE PLAN DEBTOR'S RESTRUCTURING AND THE CHAPTER 11 CASE, INCLUDING WITHOUT LIMITATION THE NEGOTIATION AND EXECUTION OF THE PLAN, THE CHAPTER 11 CASE, THE DISCLOSURE STATEMENT, THE SOLICITATION OF VOTES FOR AND THE PURSUIT OF THE PLAN, THE CONSUMMATION OF THE PLAN, OR THE ADMINISTRATION OF THE PLAN OR THE PROPERTY TO BE DISTRIBUTED UNDER THE PLAN, INCLUDING, WITHOUT LIMITATION, ALL DOCUMENTS ANCILLARY THERETO, ALL DECISIONS, ACTIONS, INACTIONS AND ALLEGED NEGLIGENCE OR MISCONDUCT RELATING THERETO AND ALL PREPETITION ACTIVITIES LEADING TO THE PROMULGATION AND CONFIRMATION OF THE PLAN EXCEPT FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT AS DETERMINED BY A FINAL ORDER OF THE BANKRUPTCY COURT.

Section 11.08 Injunction Related to Releases and Exculpation.

EXCEPT AS PROVIDED IN THE PLAN, THE CONFIRMATION ORDER SHALL PERMANENTLY ENJOIN THE COMMENCEMENT OR PROSECUTION BY ANY PERSON OR ENTITY, WHETHER DIRECTLY, DERIVATIVELY OR OTHERWISE, OF ANY CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION OR LIABILITIES RELEASED PURSUANT TO THE PLAN, INCLUDING BUT NOT LIMITED TO THE CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION OR LIABILITIES RELEASED IN THE PLAN AGAINST THE DEBTOR-RELEASED PARTIES.

NOTWITHSTANDING ANY PROVISION TO THE CONTRARY, NO PROVISION OF THE PLAN, DISCLOSURE STATEMENT, OR THE CONFIRMATION

ORDER SHALL (I) DISCHARGE OR RELEASE THE DEBTOR, THE REORGANIZED DEBTOR OR ANY PERSON OR ENTITY FROM ANY RIGHT, CLAIM, CAUSE OF ACTION, OR POWER OR INTEREST HELD OR ASSERTABLE BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR (II) ENJOIN, IMPAIR OR DELAY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION FROM COMMENCING OR CONTINUING ANY CLAIMS, CAUSES OF ACTION, PROCEEDINGS OR INVESTIGATIONS AGAINST THE PLAN DEBTOR, THE REORGANIZED DEBTOR OR ANY OTHER PERSON OR ENTITY IN ANY NON-BANKRUPTCY FORUM.

Section 11.09 Retention of Causes of Action/Reservation of Rights.

(a) Except as explicitly provided in the Plan, nothing contained in the Plan or the Confirmation Order shall be deemed to be a waiver, release, or relinquishment of any rights, claims or causes of action, rights of setoff, or other legal or equitable defenses (including, for avoidance of doubt, any cause of action to avoid a transfer under sections 303(c), 544, 547, 548, or 553(b) of the Bankruptcy Code, of any similar state law) that the Plan Debtor or the Reorganized Plan Debtor, or which the Reorganized Plan Debtor may choose to assert on behalf of its estate under any provision of the Bankruptcy Code or any applicable non-bankruptcy law, including, without limitation, (i) any and all Claims against any Person or entity, to the extent such Person or entity asserts a cross-claim, counterclaim, and/or Claim for setoff which seeks affirmative relief against the Plan Debtor or the Reorganized Plan Debtor, (ii) the turnover of any property of the Plan Debtor's Estate, and (iii) Causes of Action against current or former directors, officers, professionals, agents, financial advisors, underwriters, lenders or auditors relating to acts or omissions occurring prior to the Petition Date, subject to the limitations set forth in the Plan.

(b) Except as explicitly provided in the Plan, nothing contained in the Plan or the Confirmation Order shall be deemed to be a waiver, release or relinquishment of any rights, claims or causes of action, rights of setoff, or other legal or equitable defenses (including, for avoidance of doubt, any cause of action to avoid a transfer under sections 303(c), 544, 547, 548, or 553(b) of the Bankruptcy Code, of any similar state law) that the Plan Debtor had immediately prior to the Petition Date against or with respect to any Claim left Unimpaired. The Reorganized Plan Debtor as the case may be, shall have, retain, reserve, and be entitled to assert all such Claims, Causes of Action, rights of setoff and other legal or equitable defenses which they had immediately prior to the Petition Date fully as if the Chapter 11 Cases had not been commenced.

Section 11.10 Compromise and Settlement.

Notwithstanding anything contained in this Plan to the contrary, the allowance, classification and treatment of all Allowed Claims and their respective Distributions and treatments under this Plan take into account and conform to the relative priority and rights of the Claims and the Interests in each Class with due regard to any contractual, legal and equitable subordination rights relating thereto whether arising under general principles of equitable subordination, sections 510(b) and (c) of the Bankruptcy Code or otherwise. As of the Effective Date, any and all such rights described in the preceding sentence are settled and compromised pursuant to this Plan. The Confirmation Order will constitute the Court's finding and determination that the settlements reflected in this Plan are (1) in the best interests of the Plan

Debtor its Estate and all Holders of Claims, (2) fair, equitable and reasonable, (3) made in good faith and (4) approved by the Court pursuant to Bankruptcy Rule 9019.

ARTICLE XII

RETENTION OF JURISDICTION

Section 12.01 Exclusive Jurisdiction of Bankruptcy Court.

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction of all matters arising out of, arising in or related to, the Chapter 11 Cases, the Plan and the Confirmation Order to the fullest extent permitted by applicable law, including, without limitation, jurisdiction to:

(i) Allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim (whether Filed before or after the Effective Date and whether or not contingent, Disputed or unliquidated), including the compromise, settlement and resolution of any request for payment of any Claim, the resolution of any Objections to the allowance or priority of any Claim and the resolution of any dispute as to the treatment necessary to reinstate a Claim pursuant to the Plan and to hear and determine any other issue presented hereby or arising hereunder, including during the pendency of any appeal relating to any Objection to such Claim;

(ii) Grant or deny any applications for allowance of compensation or reimbursement of expenses for Professionals authorized pursuant to the Bankruptcy Code or the Plan, for periods ending on or before the Effective Date;

(iii) Hear and determine motions, applications, adversary proceedings, contested matters and other litigated matters pending on, Filed on or commenced after the Effective Date, including proceedings with respect to the rights of the Estate to recover Property under sections 542 or 543 of the Bankruptcy Code;

(iv) Determine and resolve any matters related to the assumption, assumption and assignment or rejection of any Executory Contract or unexpired lease to which the Plan Debtor is a party or with respect to which the Plan Debtor may be liable, and to hear, determine and, if necessary, liquidate any Claims arising therefrom;

(v) Ensure that all payments due under the Plan and performance of the provisions of the Plan are accomplished as provided herein and resolve any issues relating to Distributions to Holders of Allowed Claims pursuant to the provisions of the Plan;

(vi) Following the Effective Date and consistent with section 1142 of the Bankruptcy Code, construe, take any action and issue such orders as may be necessary for the enforcement, implementation, execution and consummation of the Plan and all contracts, instruments, releases and other agreements or documents created in connection with the Plan and the Confirmation Order, for the maintenance of the integrity of the Plan and protection of the Estate following consummation in accordance with sections 524 and 1141 of the Bankruptcy Code;

(vii) Determine and resolve any case, controversy, suit or dispute that may arise in connection with the consummation, interpretation, implementation or enforcement of the Plan or the Confirmation Order, including the indemnification, release and injunction provisions set forth in the Plan, or any Person's rights arising under or obligations incurred in connection therewith;

(viii) Modify the Plan after the Effective Date pursuant to section 1127 of the Bankruptcy Code and the Plan or modify the Plan Summary, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan, the Plan Summary or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Plan Summary, the Confirmation Order;

(ix) Issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Person with consummation, implementation or enforcement of the Plan or the Confirmation Order;

(x) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked or vacated;

(xi) Determine any other matters that may arise in connection with or relating to the Plan, the Plan Summary, the Confirmation Order and the Bankruptcy Code;

(xii) Determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(xiii) Continue to enforce the automatic stay through the Effective Date;

(xiv) Hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan, and issues presented or arising under the Plan, including but not limited to disputes among Holders or with the Reorganized Debtor and arising under agreements, documents or instruments executed in connection with or governed by the Plan;

(xv) Hear and determine any other matter relating to the Plan, its interpretation or enforcement; and

(xvi) Enter a final decree and close the Chapter 11 Cases.

Notwithstanding the foregoing, the Bankruptcy Court shall not accept jurisdiction over any dispute or claim arising from the Purchase Agreement; any such dispute or claim shall be governed in accordance with the terms of the Purchase Agreement.

ARTICLE XIII

CONFIRMATION AND EFFECTIVENESS OF THE PLAN

Section 13.01 Conditions Precedent to Confirmation.

The following conditions precedent to the occurrence or the confirmation must be satisfied unless any such condition shall have been waived by the Plan Debtor:

- (a) the Disclosure Statement having been approved by the Bankruptcy Court as having adequate information in accordance with section 1125 of the Bankruptcy Code; and
- (b) entry of the Confirmation Order in form and substance reasonably satisfactory to the Plan Debtor.

Section 13.02 Conditions Precedent to the Effective Date.

The following conditions precedent to the occurrence or the confirmation must be satisfied unless any such condition shall have been waived by the Plan Debtor:

- (a) the Confirmation Order, in form and substance satisfactory to the Plan Debtor, having become a Final Order;
- (b) the Plan and related documents, in form and substance satisfactory to the Plan Debtor, being executed and delivered, and any conditions (other than the occurrence of the Effective Date or certification by the Plan Debtor that the Effective Date has occurred) contained therein having been satisfied or waived in accordance therewith; and
- (c) all other actions and documents necessary to implement the Plan shall have been effected or executed and shall be reasonably acceptable to the Plan Debtor.

Section 13.03 Notice of Occurrence of the Effective Date.

The Plan Debtor or the Reorganized Plan Debtor shall file a Notice of the Occurrence of the Effective Date within five (5) Business Days after the Effective Date. Failure to file such Notice shall not prevent the effectiveness of the Plan, Plan Supplement or any related documents.

Section 13.04 [Reserved].

Section 13.05 Waiver of Conditions Precedent and Bankruptcy Rule 3020(e) Automatic Stay.

The Plan Debtor shall have the right to waive one or more of the conditions precedent set forth above at any time without leave of or notice to the Bankruptcy Court and without formal action other than proceeding with confirmation of the Plan.

If any condition precedent to the Effective Date is waived pursuant to this Section and the Effective Date occurs, the waiver of such condition shall benefit from the “mootness doctrine”,

and the act of consummation of the Plan shall foreclose any ability to challenge the Plan in any court.

Section 13.06 Consequences of Non-Occurrence of Effective Date.

If the Confirmation Order is vacated, (a) the Plan shall be null and void in all respects, and (b) any settlement or release of claims provided for hereby shall be null and void without further Order of the Bankruptcy Court.

Section 13.07 Statutory Confirmation Requirements.

Set forth below is a summary of the relevant statutory confirmation requirements.

a. Best Interests Test.

Each Holder of a Claim or Interest in an Impaired Class must either (i) accept the Plan or (ii) receive or retain under the Plan Cash or property of a value, as of the Effective Date of the Plan, that is not less than the value such Holder would receive or retain if the Plan Debtor were liquidated under chapter 7 of the Bankruptcy Code. The Bankruptcy Court will determine whether the Cash and property issued under the Plan to each Holder of a Claim or Interest equals or exceeds the value that would be allocated to such Holders in a liquidation under chapter 7 of the Bankruptcy Code (the “Best Interests Test”). As of December 18, 2017, NMI is holding \$1,212,505.00 in cash. As discussed herein, if the CT Bond is held to maturity it will generate approximately \$7.93 million, although if it is sold, it will likely generate far less than its present \$3.50 million intrinsic value, due to its illiquidity. Therefore it is axiomatic that the proposal set forth in the Plan will result in a greater return to all stake holders than if the Plan Debtors were liquidated.

The Plan Debtor believes the Holders of Claims against and Interests in the Plan Debtor will have an equal or greater recovery as a result of an orderly chapter 11 reorganization as discussed herein and under the Plan than could be realized in a chapter 7 liquidation for the following additional reasons:

To determine the value that a Holder of a Claim or Interest in an Impaired Class would receive if the Plan Debtor were liquidated under chapter 7, the Bankruptcy Court must determine the aggregate dollar amount that would be generated from the liquidation of the Plan Debtor’s Property if the Plan Debtor’s Chapter 11 Case had been converted to a chapter 7 liquidation case and the Plan Debtor’s Property were liquidated by a chapter 7 trustee (the “Liquidation Value”). The Liquidation value would consist of the net proceeds from the disposition of the Plan Debtor’s Property, augmented by Cash held by the Plan Debtor and reduced by certain increased costs and Claims that arise in a chapter 7 liquidation case that do not arise in a chapter 11 reorganization case.

As explained below, the Liquidation value available for satisfaction of Claims and Interests in the Plan Debtor would be reduced by: (a) the costs, fees and expenses of the liquidation under chapter 7, which would include disposition expenses and the compensation of a trustee and his or her counsel and other professionals retained, (b) the fees of the chapter 7 trustee, and (c) certain other costs arising from conversion of the Chapter 11 Case to chapter 7.

The Plan Debtor believes that Holders of Allowed General Unsecured Claims have benefited and will continue to clearly benefit from the reorganization of the Plan Debtor under the terms of the Plan. If the Plan Debtor's Property were liquidated by a chapter 7 trustee, the Plan Debtor projects that the maximum recovery for Holders of Allowed General Unsecured Claims would be less than provided under the Plan.

Moreover, under the Plan the Plan Debtor will avoid the increased costs and expenses of a chapter 7 liquidation, including the fees payable to a chapter 7 trustee and his or her professionals. The Cash to be distributed to Creditors would be reduced by the chapter 7 trustee's statutory fee, which is calculated on a sliding scale from which the maximum compensation is determined based on the total amount of moneys disbursed or turned over by the chapter 7 trustee. Bankruptcy Code § 326(a) permits reasonable compensation not to exceed 3% of the proceeds in excess of \$1 million distributable to creditors.⁵ The chapter 7 trustee's professionals, including legal counsel and accountants, would add substantial administrative expenses that would be entitled to be paid ahead of Allowed Claims and Interests against the Plan Debtor. Moreover, these chapter 7 trustee fees would reduce the funds available for distribution to the Plan Debtor's Creditors from additional recoveries such as preferential payments, expunged Administrative Expense Claims and the proceeds of successful Estate litigation or settlement.

It is also anticipated that a chapter 7 liquidation would result in a significant delay in payments being made to Creditors. Bankruptcy Rule 3002(c) provides that conversion of a chapter 11 case to chapter 7 will trigger a new bar date for filing claims against the Plan Debtor, and that the new bar date will be 90 days after the first date set for the meeting of creditors called under section 341 of the Bankruptcy Code. Not only would a chapter 7 liquidation delay distribution to Creditors, but it is possible that additional claims that were not asserted in the Chapter 11 Case, or were late-filed, could be filed against the Plan Debtor. Reopening the bar date in connection with conversion to chapter 7 would provide these and other claimants an additional opportunity to file claims against the Estates.

For the reasons set forth above, the Plan Debtor believes that the Plan provides a superior recovery for Holders of Claims and Interests, and the Plan meets the requirements of the Best Interests Test.

b. Financial Feasibility Test.

Even if the Plan is accepted by each Class of Claims and Interests voting on the Plan, and even if the Bankruptcy Court determines that the Plan satisfies the Best Interests Test, the Bankruptcy Code requires that, in order for the Plan to be confirmed by the Bankruptcy Court, it must be demonstrated that consummation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Plan Debtor.

The Reorganized Debtor will continue to collect the proceeds of the CT Bond. As discussed above, it is expected that the proceeds to be received from the CT Bond through the date

⁵ Bankruptcy Code § 326(a) permits a chapter 7 trustee to receive 25% of the first \$5,000 distributed to creditors, 10% of additional amounts up to \$50,000, 5% of additional distributions up to \$1 million and reasonable compensation up to 3% of distributions in excess of \$1 million.

of its maturity will be approximately \$7.93 million. These proceeds, together with cash on hand, should be more than sufficient to pay all allowed claims in full. Indeed, NMI expects that there will be excess proceeds that will be up streamed to its parent, Novation. The Plan Debtor believes that it will be able to make all payments required pursuant to the Plan while conducting ongoing business operations and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

c. Acceptance by Impaired Classes.

Bankruptcy Code § 1129(b) provides that a plan can be confirmed even if it has not been accepted by all impaired classes as long as at least one impaired class of claims has accepted it. The process by which non-accepting classes are forced to be bound by the terms of a plan is commonly referred to as “cram down.” The Bankruptcy Court may confirm the Plan at the request of the Plan Debtor notwithstanding the Plan’s rejection (or deemed rejection) by impaired classes as long as the Plan “does not discriminate unfairly” and is “fair and equitable” as to each impaired class that has not accepted it. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a dissenting class is treated equally with respect to classes of equal rank.

A class of claims under a plan accepts the plan if the plan is accepted by creditors that hold at least two-thirds in amount and more than one-half in number of the allowed claims in the class that actually vote on the plan. A class of interests accepts the plan if the plan is accepted by holders of interests that hold at least two-thirds in amount of the allowed interests in the class that actually vote on a plan.

A class that is not “impaired” under a plan is conclusively presumed to have accepted the plan. Solicitation of acceptances from such a class is not required. A class is “impaired” unless (i) the legal, equitable and contractual rights to which a claim or interest in the class entitles the holder are not modified, or (ii) the effect of any default is cured and the original terms of the obligation are reinstated.

A plan is fair and equitable as to a class of secured claims that rejects the plan if the plan provides (i)(a) that the holders of claims included in the rejecting class retain the liens securing those claims, whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and (b) that each holder of a claim of such class receives on account of that claim deferred cash payments totaling at least the allowed amount of that claim, of a value, as of the effective date of the plan, at least equal to the value of the holder’s interest in the estate’s interest in such property; (ii) for the sale, subject to Bankruptcy Code § 363(k), of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (i) or (ii) of this paragraph; or (iii) for the realization of the indubitable equivalent of such claims.

A plan is fair and equitable as to a class of unsecured claims that rejects the plan if the plan provides (i) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim, or (ii) that the holder of any claim or interest that is junior to the claims of

such rejecting class will not receive or retain on account of such junior claim or interest any property at all.

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (i) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greater of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest, or (ii) that the holder of any interest that is junior to the interest of such rejecting class will not receive or retain under the plan on account of such junior interest any property at all. The Plan Debtor believes the Plan to be both fair and equitable.

ARTICLE XIV

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion summarizes certain federal income tax consequences expected to result from the consummation of the Plan. This discussion is only for general information purposes and only describes the expected tax consequences to Holders entitled to vote on the Plan. It is not a complete analysis of all potential federal income tax consequences and does not address any tax consequences arising under any state, local or foreign tax laws or federal estate or gift tax laws. This discussion is based on the Internal Revenue Code of 1986, as amended, Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the IRS, all as in effect on the date of the Disclosure Statement. These authorities may change, possibly retroactively, resulting in federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS, and no legal opinion of counsel will be rendered, with respect to the matters discussed below. There can be no assurance that the IRS will not take a contrary position regarding the federal income tax consequences resulting from the consummation of the Plan or that any contrary position would not be sustained by a court.

This discussion does not address all federal income tax considerations that may be relevant to a particular Holder in light of that Holder's particular circumstances or to Holders subject to special rules under the federal income tax laws, such as financial institutions, insurance companies, brokers, dealers or traders in securities, commodities or currencies, tax-exempt organizations, tax-qualified retirement plans, partnerships and other pass-through entities, foreign corporations, foreign trusts, foreign Estate, Holders who are not citizens or residents of the U.S., Holders subject to the alternative minimum tax, and Holders who have a functional currency other than the U.S. dollar.

HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES TO THEM OF THE CONSUMMATION OF THE PLAN, AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL OR FOREIGN TAX LAWS, OR ANY OTHER FEDERAL TAX LAWS.

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, TAXPAYERS ARE HEREBY NOTIFIED THAT (a) ANY DISCUSSION OF U.S.

FEDERAL TAX ISSUES IN THE DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER UNDER THE INTERNAL REVENUE CODE, (b) ANY SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN, AND (c) TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Payments of interest, dividends and certain other payments are generally subject to backup withholding at the applicable withholding rate unless the payee of such payment furnishes such payee's correct taxpayer identification number (social security number or employer identification number) to the payer. The Plan Debtor may be required to withhold the applicable percentage of any payments made to a Holder who does not provide his, her or its taxpayer identification number. Backup withholding is not an additional tax, but an advance payment that may be refunded to the taxpayer by the IRS to the extent that the backup withholding results in an overpayment of tax by such taxpayer in such taxable year.

THE FOREGOING DISCUSSION OF FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN DESCRIBED HEREIN. NEITHER THE DEBTOR NOR THEIR PROFESSIONALS WILL HAVE ANY LIABILITY TO ANY PERSON OR HOLDER ARISING FROM OR RELATED TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN OR THE FOREGOING DISCUSSION.

a. Federal Income Tax Consequences to Holders of General Unsecured Claims.

Each Holder of an Allowed General Unsecured Claim will recognize gain or loss upon receipt of such Pro Rata Share equal to the difference between the "amount realized" by such Creditor and such Creditor's adjusted tax basis in his, her or its Claim. The amount realized is equal to the value of such Creditor's Pro Rata Share of the proceeds of the Plan Debtor's Property. Any gain or loss realized by an Unsecured Creditor should constitute ordinary income or loss to such creditor unless such Claim is a capital asset in the hands of such Unsecured Creditor. If a Claim is a capital asset and it has been held for more than one year, such Creditor will realize long-term capital gain or loss.

The federal income tax consequences to such Creditors will differ and will depend on factors specific to each such Creditor, including, but not limited to: (i) whether the Creditor's Claim (or a portion thereof) constitutes a Claim for principal or interest, (ii) the origin of the Creditor's Claim, (iii) the type of consideration received by the Creditor in exchange for the Claim, (iv) whether the Creditor is a United States person or a foreign person for United States federal income tax purposes, (v) whether the Creditor reports income on the accrual or cash basis method, and (vi) whether the Creditor has taken a bad debt deduction or otherwise recognized a loss with respect to the Claim.

b. Withholding and Reporting.

Payments of interest, dividends and certain other payments are generally subject to backup withholding at the rate at the applicable withholding rate unless the payee of such payment furnishes such payee's correct taxpayer identification number (social security number or employer identification number) to the payer. The Plan Debtor may be required to withhold the applicable percentage of any payments made to a Holder who does not provide his, her or its taxpayer identification number. Backup withholding is not an additional tax, but an advance payment that may be refunded to the taxpayer by the IRS to the extent that the backup withholding results in an overpayment of tax by such taxpayer in such taxable year.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCES TO EACH SUCH CREDITOR. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND IN SOME CASES UNCERTAIN. THEREFORE, IT IS IMPORTANT THAT EACH CREDITOR OBTAIN HIS, HER OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH CREDITOR AS A RESULT OF THE PLAN.

THE FOREGOING DISCUSSION OF FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN DESCRIBED HEREIN. NEITHER THE DEBTORS NOR THEIR PROFESSIONALS WILL HAVE ANY LIABILITY TO ANY PERSON OR HOLDER ARISING FROM OR RELATED TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN OR THE FOREGOING DISCUSSION.

Section 14.01 Consequences to the Plan Debtor.

Subject to certain exceptions, a debtor recognizes cancellation of debt ("COD") income upon satisfaction of its outstanding indebtedness equal to the excess of (i) the amount of the indebtedness discharged, over (ii) the issue price of any new indebtedness issued, the amount of cash paid, and the fair market value of any other consideration (including stock of the debtor) given in satisfaction of the indebtedness. As discussed below, there is an insolvency exception to the recognition of COD income which will apply to the Reorganized Plan Debtor in connection with the Plan.

The Reorganized Plan Debtor will not be required to include COD income to the extent Reorganized Plan Debtor is insolvent at the time of the discharge. IRC § §108(a)(1)(B) and 108(a)(3).

However, under IRC § 108(b)(2), the Reorganized Plan Debtor must reduce certain tax attributes (in general, first its Net Operating Loss carryovers and then certain tax credits, capital loss carryovers, the tax basis of its assets, and foreign tax credits) by the amount of COD income excluded from gross income by this exception.

ARTICLE XV

SUMMARY OF VOTING PROCEDURES

The Disclosure Statement, including all Exhibits hereto and the related materials included herewith, is being furnished to the Holders of Claims in Classes 2, 3, 4 and 5, which are the only Classes entitled to vote on the Plan.

All votes to accept or reject the Plan must be cast by using the ballot (the "Ballot") enclosed with the Disclosure Statement. No other votes will be counted. Consistent with the provisions of Bankruptcy Rule 3018, the Court has fixed [] at 4:00 p.m. (prevailing Eastern Time) as the Voting Record Date. Ballots must be RECEIVED by counsel for the Plan Debtor at the address set forth below (or as otherwise directed) no later than 4:00 p.m. (prevailing Eastern Time) on [], unless the Plan Debtor, at any time, extend such date by oral or written notice, in which event the period during which Ballots will be accepted will terminate at 4:00 p.m. (prevailing Eastern Time) on such extended date.

If the Ballot is damaged or lost, you may contact counsel for the Plan Debtor at the number set forth below.

Ballots received by facsimile, telecopy or other means of electronic transmission will not be accepted, except as otherwise agreed by the Plan Debtor.

Ballots previously delivered may be withdrawn or revoked at any time prior to the Voting Deadline by the beneficial owner on the Voting Record Date who completed the original Ballot. Only the person or nominee who submits a Ballot can withdraw or revoke that Ballot. A Ballot may be revoked or withdrawn either by submitting a superseding Ballot or by providing written notice to counsel for the Plan Debtor.

Acceptances or rejections may be withdrawn or revoked prior to the Voting Deadline by delivering a written notice of withdrawal or revocation to counsel for the Plan Debtor. To be effective, notice of revocation or withdrawal must: (a) be received on or before the Voting Deadline by counsel for the Plan Debtor at its address specified below; (b) specify the name of the Holder of the Claim whose vote on the Plan is being withdrawn or revoked; (c) contain the description of the Claim as to which a vote on the Plan is withdrawn or revoked; and (d) be signed by the Holder of the Claim who executed the Ballot reflecting the vote being withdrawn or revoked, in the same manner as the original signature on the Ballot. The foregoing procedures should also be followed with respect to a person entitled to vote on the Plan who wishes to change (rather than revoke or withdraw) its vote.

ARTICLE XVI

CERTAIN FACTORS TO BE CONSIDERED REGARDING THE PLAN

Holders of Claims and Interests against the Plan Debtor should read and consider carefully the factors set forth below, as well as the other information set forth in the Plan (and the documents delivered together herewith and/or incorporated by reference), prior to voting to accept or reject

the Plan. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

Section 16.01 Certain Bankruptcy Considerations.

a. General.

Although the Plan is designed to minimize the length of time remaining in the Chapter 11 Case, it is impossible to predict with certainty the amount of time that the Plan Debtor may spend in bankruptcy or to assure parties-in-interest that the Plan will be confirmed.

Even if the Plan is confirmed on a timely basis, the Chapter 11 Case could have an adverse effect on the Plan Debtor's business. Among other things, it is possible that any delays could adversely affect the Plan Debtor's relationships with its key vendors and suppliers, customers and employees. If the Plan Debtor is unable to obtain confirmation of the Plan on a timely basis because of a challenge to confirmation of the Plan or a failure to satisfy the conditions to consummation of the Plan, the Plan Debtor may be forced to continue the Chapter 11 Case for an extended period while the Plan Debtor tries to develop a different reorganization plan that can be confirmed. That would increase both the probability and the magnitude of the potentially adverse effects described herein.

b. Failure to Receive Requisite Acceptances.

Classes 2, 3, 4 and 5 are the only Classes that are entitled to vote to accept or reject the Plan. If the requisite acceptances are not received by at least one Impaired Class, the Plan Debtor will not be able to seek confirmation of the Plan under section 1129(b) of the Bankruptcy Code, because at least one Impaired Class will not have voted in favor of the Plan as required by section 1129(a)(10) of the Bankruptcy Code. Further, if the requisite acceptances are not received, the Plan Debtor may seek to accomplish an alternative restructuring of their capitalization and obligations to creditors and obtain acceptances to an alternative plan of reorganization for the Plan Debtor, or otherwise, the Plan Debtor may be required to liquidate the Estate under chapter 7 or 11 of the Bankruptcy Code. There can be no assurance that the terms of any such alternative restructuring arrangement or plan would be similar to or as favorable to the Plan Debtor's creditors as those proposed in the Plan.

c. Failure to Confirm the Plan.

Even if the requisite acceptances are received, the Bankruptcy Court, which, as a court of equity may exercise substantial discretion, may decide not to confirm the Plan. Section 1129 of the Bankruptcy Code requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization of the Plan Debtor, and that the value of distributions to dissenting Holders of Claims and Interests may not be less than the value such Holders would receive if the Plan Debtor were liquidated under chapter 7 of the Bankruptcy Code. Although the Plan Debtor believes that the Plan meets such test, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

Additionally, the contemplated solicitation must comply with the requirements of section 1125 of the Bankruptcy Code and the applicable Bankruptcy Rules with respect to the length of the solicitation period and the adequacy of the information contained in the Disclosure Statement.

d. Failure to Consummate the Plan.

There can be no assurance that conditions to consummation will be satisfied or waived. Accordingly, even if the Plan is confirmed by the Bankruptcy Court, there can be no assurance that the Plan will be consummated and the restructuring completed.

e. Objections to Classification of Claims.

Section 1122 of the Bankruptcy Code provides that a plan of reorganization may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests in such class. The Plan Debtor believes that the classification of Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

Section 16.02 Certain Tax Consequences of the Plan Raise Unsettled and Complex Legal Issues and Involve Factual Determinations.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Plan Debtor currently does not intend to seek any ruling from the IRS on the tax consequences of the Plan. Even if the Plan Debtor decides to request a ruling, there would be no assurance that the IRS would rule favorably or that any ruling would be issued before the Effective Date. In addition, in such case, there would still be issues with significant uncertainties, which would not be the subject of any ruling request. *Thus, there can be no assurance that the IRS will not challenge the various positions the Plan Debtor has taken, or intends to take, with respect to the tax treatment in the Plan, or that a court would not sustain such a challenge.*

As a result of the consummation of the Plan and the transactions contemplated thereby, the Reorganized Plan Debtor believes it will be subject to the fresh-start accounting rules. Fresh-start accounting allows for the assessment of every balance sheet account for possible fair value adjustment, resulting in the emergence of a new company recapitalized and revalued. This process is guided by purchase price allocation standards under GAAP.

In addition, the contents of the Disclosure Statement should **not** be construed as legal, business or tax advice. Each Holder of a Claim or Interest should consult his, her, or its own legal counsel and accountant as to legal, tax and other matters concerning his, her, or its Claim or Interest.

The Disclosure Statement is **not** legal advice to you. The Disclosure Statement may **not** be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

Section 16.03 [Reserved]

ARTICLE XVII

MISCELLANEOUS PROVISIONS

Section 17.01 Binding Effect of Plan.

The provisions of the Plan shall be binding upon and inure to the benefit of the Plan Debtor, any Holder of any Claim or Interest treated herein and each of their respective heirs, executors, administrators, representatives, predecessors, successors, assigns, agents, officers and directors, and, to the fullest extent permitted under the Bankruptcy Code and other applicable law, each other Person affected by the Plan.

Section 17.02 Severability.

Should the Bankruptcy Court determine prior to entry of the Confirmation Order, that any provision of the Plan is either illegal or unenforceable on its face or illegal or unenforceable as applied to any Claim or Interest, such provision shall be unenforceable as to all Holders of Claims or Interests or to the specific Holder of such Claim or Interest, as the case may be, as to which the provision is illegal. Unless otherwise determined by the Bankruptcy Court, such a determination shall in no way limit or affect the enforceability and operative effect of any other provisions of the Plan. The Plan Debtor reserves the right not to proceed with Confirmation and/or consummation of the Plan if any such ruling occurs.

Section 17.03 Governing Law.

Except to the extent that the Bankruptcy Code or Bankruptcy Rules or other federal laws are applicable, and subject to the provisions of any contract, instrument, release, or other agreement or document entered into in connection with the Plan, in particular the provision on governing law and jurisdiction of the Purchase Agreement, the construction, implementation and enforcement of the Plan and all rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without giving effect to conflicts of law principles which would apply the law of a jurisdiction other than the State of Maryland or the United States of America.

Section 17.04 Notices.

Any notice required or permitted to be provided under the Plan shall be in writing and served by either prepaid (i) certified mail, return receipt requested, (ii) hand delivery, or (iii) overnight delivery service, to be addressed as follows:

If to the Plan Debtor or Reorganized Plan Debtor:

OLSHAN FROME WOLOSKY LLP
Counsel for NovaStar Mortgage LLC et al.
1325 Avenue of the Americas
New York, New York 10019

Attn: Adam H. Friedman, Esquire

With a copy to:

SHAPIRO SHER GUINOT & SANDLER
250 W. Pratt Street, Suite 2000
Baltimore, Maryland 21201
Attn: Joel I. Sher, Esquire

Section 17.05 Filing of Additional Documents.

On or before substantial consummation of the Plan, or such later time as may be authorized by the Bankruptcy Court, the Plan Debtor is authorized to issue, execute, deliver or File with the Bankruptcy Court or record any agreements and other documents, and take any action as may be necessary or appropriate to effectuate, consummate and further evidence implementation of the terms and conditions of the Plan.

Section 17.06 Time.

Unless otherwise specified herein, in computing any period of time prescribed or allowed by the Plan, the day of the act or event from which the designated period begins to run shall not be included. The last day of the period so computed shall be included, unless it is not a Business Day, in which event the period runs until the end of next succeeding day that is a Business Day. Otherwise, the provisions of Bankruptcy Rule 9006 shall apply.

Section 17.07 Exhibits/Schedules.

All Exhibits and schedules to the Plan and any Plan Supplement are incorporated into and constitute a part of the Plan as if fully set forth herein.

Section 17.08 Defenses with Respect to Impaired or Unimpaired Claims.

Except as otherwise specifically provided in the Plan, nothing shall affect the parties' rights and/or legal and equitable defenses with respect to any Impaired or Unimpaired Claim, including but not limited to all rights relating to legal and equitable defenses to setoffs or recoupments against any Unimpaired Claim.

Section 17.09 No Injunctive Relief.

No Claim shall be entitled to specific performance or other injunctive, equitable or other prospective relief except as may be specified in the Plan.

Section 17.10 No Admissions.

Notwithstanding anything herein to the contrary, prior to the Effective Date, nothing contained in the Plan shall be deemed an admission by any party with respect to any matter set forth herein, including, without limitation, liability on any Claim or the propriety of any

classification of any Claim; provided, however, that the provisions of the Plan shall be treated as admissions under the Federal Rules of Evidence upon the Effective Date.

Section 17.11 Extension of Time.

Any period of time or deadline under the Plan may be extended by agreement of the parties affected thereby, or by order of the Bankruptcy Court upon good cause shown.

Section 17.12 Payment of Statutory Fees.

All fees payable on or before the Effective Date pursuant to section 1930 of title 28 of the United States Code, and any applicable interest thereon, shall be paid by the Plan Debtor on or before the Effective Date, and all such fees payable after the Effective Date shall be paid by the applicable Reorganized Plan Debtor as and when such fees become due. Any deadline for filing Administrative Claims shall not apply to fees payable pursuant to section 1930 of title 28 of the United States Code.

Section 17.13 Conflict.

To the extent that terms of Confirmation Order or the Plan are inconsistent with the Disclosure Statement or any agreement entered into between the Plan Debtor and any other party, the terms of the Plan control the Disclosure Statement and any such agreement, and the provisions of the Confirmation Order (and any Final Orders entered by the Bankruptcy Court after the date of the Plan) control the terms of the Plan.

Section 17.14 Reservation of Rights.

Except as expressly set forth herein, the Plan shall have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order. None of the filing of the Plan, any statement or provision contained herein, or the taking of any action by the Plan Debtor with respect to the Plan shall be or shall be, deemed to be, an admission or waiver of any rights of the Plan Debtor with respect to any Claims or Interests prior to the Effective Date.

Section 17.15 Modifications and Amendments.

The Plan Debtor may alter, amend, or modify the Plan or any Plan Document under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date.

The Plan Debtor shall provide parties-in-interest with notice of such amendments or modifications as may be required by the Bankruptcy Rules or order of the Bankruptcy Court. A Holder of a Claim or Interest that has accepted the Plan shall be deemed to have accepted the Plan, as altered, amended, modified, or clarified, if the proposed alteration, amendment, modification, or clarification does not materially and adversely change the treatment of the Claim or Interest of such Holder.

After the Confirmation Date and prior to substantial consummation (as defined in section 1101(2) of the Bankruptcy Code) of the Plan, the Plan Debtor or Reorganized Plan Debtor, as applicable, may, under section 1127(b) of the Bankruptcy Code, institute proceedings in the

Bankruptcy Court to remedy any defect or omission or to reconcile any inconsistencies in the Plan, the Disclosure Statement approved with respect to the Plan, or the Confirmation Order, and such matters as may be necessary to carry out the purpose and effect of the Plan so long as such proceedings do not adversely affect the treatment of Holders of Claims or Interests in the Plan Debtor under the Plan; provided, however, that, to the extent required, prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or an order of the Bankruptcy Court. A Holder of a Claim or Interest that has accepted the Plan shall be deemed to have accepted the Plan, as altered, amended, modified or clarified, if the proposed alteration, amendment, modification or clarification does not materially and adversely change the treatment of the Claim or Interest of such Holder.

Section 17.16 Continuing Exclusivity and Solicitation Period.

Subject to further order of the Bankruptcy Court, until the Effective Date, the Plan Debtor shall, pursuant to section 1121 of the Bankruptcy Code, retain the exclusive right to amend the Plan and to solicit acceptances thereof, and any modifications or amendments thereto.

Section 17.17 [Intentionally Deleted]

Section 17.18 Revocation, Withdrawal, or Non-Consummation.

The Plan Debtor reserves the right to revoke or withdraw the Plan at any time prior to the Confirmation Date and to File subsequent plans of reorganization. If the Plan Debtor revokes or withdraw the Plan prior to the Confirmation Date, or if the Confirmation or the Effective Date does not occur, then (a) the Plan shall be null and void in all respects, (b) any settlement or compromise embodied in the Plan (including the fixing or limiting to an amount certain any Claim or Class of Claims), assumption or rejection of Executory Contracts or Unexpired Leases effected by the Plan, and any document or agreement executed pursuant to the Plan shall be deemed null and void, and (c) nothing contained in the Plan, and not acts taken in preparation for consummation of the Plan, shall (i) constitute or to be deemed to constitute a waiver or release of any Claims against, or any Interests in, the Plan Debtor, or any Avoidance Actions or other claims by or against Plan Debtor or any Person or Entity, (ii) prejudice in any manner the rights of the Plan Debtor or any Person or Entity in any further proceedings involving the Plan Debtor, or (iii) constitute an admission of any sort by the Plan Debtor or any other Person or Entity.

ARTICLE XVIII

ALTERNATIVES TO CONFIRMATION OF THE PLAN

If the Plan is not consummated, the Plan Debtor's capital structure will remain over-leveraged and the Plan Debtor will remain unable to service its debt obligations. Accordingly, if the Plan is not confirmed and consummated, the alternatives include:

a. Liquidation Under the Bankruptcy Code.

The Plan Debtor could be liquidated under chapter 7 of the Bankruptcy Code. As demonstrated above, the Plan Debtor believes that liquidation would result in lower aggregate distributions being made to creditors than those provided for in the Plan. .

b. Alternative Plan(s) of Reorganization.

The Plan Debtor believes that failure to confirm the Plan will lead inevitably to an expensive and protracted Chapter 11 Case. In formulating and developing the Plan, the Plan Debtor has explored numerous other alternatives.

The Plan Debtor believes that not only does the Plan fairly adjust the rights of various Classes of Claims, but also that the Plan provides superior recoveries to the Plan Debtor's creditors over any alternative capable of rational consideration (such as a chapter 7 liquidation), thus enabling many stakeholders to maximize their returns. Rejection of the Plan in favor of some alternative method of reconciling the Claims and Interests will require, at the very least, an extensive and time consuming process (including the possibility of protracted and costly litigation) and will not result in a better recovery for any Class of Claims or Interests.

THE DEBTORS BELIEVE THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY ALTERNATIVE BECAUSE THE PLAN MAXIMIZES THE AMOUNT OF DISTRIBUTIONS TO ALL HOLDERS OF CLAIMS AND INTERESTS AND ANY ALTERNATIVE TO CONFIRMATION OF THE PLAN WILL RESULT IN SUBSTANTIAL DELAYS IN THE DISTRIBUTION OF ANY RECOVERIES. THEREFORE, THE DEBTORS RECOMMEND THAT ALL HOLDERS OF IMPAIRED CLAIMS ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN.

c. Dismissal of the Plan Debtor's Chapter 11 Case.

Dismissal of the Plan Debtor's Chapter 11 Case would have the effect of restoring (or attempting to restore) all parties to the status quo ante. Upon dismissal of the Plan Debtor's Chapter 11 Case, the Plan Debtor would lose the protection of the Bankruptcy Code, thereby requiring, at the very least, an extensive and time consuming process of negotiation with the creditors of the Plan Debtor, and possibly resulting in costly and protracted litigation in various jurisdictions. The Plan Debtor believes that these actions would seriously undermine its ability to obtain financing and could lead ultimately to the liquidation of the Plan Debtor under chapter 7 of the Bankruptcy Code. Therefore, the Plan Debtor believe that dismissal of the Plan Debtor's Chapter 11 Case is not a viable alternative to the Plan.

ARTICLE XIX

CONCLUSION

The Plan Debtor believes that confirmation and implementation of the Plan is preferable because it will provide the greatest recovery to Holders of Claims. Other alternatives could involve significant delay, uncertainty and substantial administrative costs and are likely to reduce any return to creditors who hold Claims. The Plan Debtor urges the Holders of Impaired Claims in Classes 2, 3, 4 and 5 who are entitled to vote on the Plan, to vote to accept the Plan and to evidence such acceptance by returning their Ballots to counsel for the Plan Debtor so that they will be received not later than 4:00 p.m. (prevailing Eastern Time) on [VOTING DEADLINE].

ARTICLE XX

DEBTORS' RECOMMENDATION

The Plan Debtor believes that confirmation and implementation of the Plan is preferable because it will provide the greatest recovery to Holders of Claims and Interests. All Holders of Impaired Classes are urged to vote to accept the Plan and to evidence such acceptance by returning the ballots in accordance with the Procedures set forth herein.

Dated: December 26, 2017

Respectfully submitted,

NOVASTAR MORTGAGE LLC F/K/A
NOVASTAR MORTGAGE, INC.

By: /s/ Carolyn Campbell

Name: Carolyn Campbell

Title: Chief Financial Officer