

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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FILER

**NORWEST MORTGAGE INSURED 2 INC**

CIK: **740768** | IRS No.: **411485350** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-11606** | Film No.: **99574482**  
SIC: **6199** Finance services

Mailing Address  
405 SW 5TH ST  
DES MOINES IA 50309

Business Address  
405 SW FIFTH ST  
DES MOINES IA 50309  
5152376000

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.

20549

FORM 10-K

Annual Report Pursuant to Section 13  
or 15(d) of  
the Securities Exchange Act  
of 1934

For the calendar year ended December 31, 1998  
Commission file number 0-11301

NORWEST MORTGAGE INSURED 2, INC.  
(Exact name of registrant as  
specified in its charter)

Delaware 41-  
1485350  
(State or other jurisdiction of (I.R.S.  
Employer Identification No.)  
incorporation or organization)

1 Home Campus, Des Moines, Iowa  
50328  
(Address of principal executive offices)  
(Zip code)

Registrant's telephone number, including area code  
(515) 221-6000

Securities registered pursuant to Section 12(b) of  
the Act:

Title of each class	Name of each
exchange on which registered	

NOT APPLICABLE

Securities registered pursuant to Section 12(g) of  
the Act:

Common Stock, Par Value, \$1.00 Per Share  
(Title of class)

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

On March 26, 1999, 100 shares of the registrant's common stock were outstanding. All common stock of registrant is held by an affiliate.

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The following documents are incorporated herein by reference: PART IV-(i) Amendment No. 1 to Registrant's Registration Statement of Form S-3 (Registration No. 2-89484) as filed with the Commission on February 16, 1984 and (ii) Amendment No. 2 to Registrant's Registration Statement of Form S-3 (Registration No. 2-89484) as filed with the Commission on February 23, 1984.

## PART I

## Item 1. Business.

## Organization

Norwest Mortgage Insured 2, Inc., (the "Company") was incorporated in the State of Delaware on February 15, 1984, as a wholly owned, limited-purpose, financing subsidiary of Norwest Mortgage, Inc. Norwest Mortgage, Inc., is the principal mortgage banking business of Wells Fargo & Company (Wells Fargo), and derives its' income primarily from mortgage origination and servicing operations. Norwest Mortgage, Inc. is a wholly owned subsidiary of Norwest Nova, Inc., which is a wholly owned subsidiary of Wells Fargo. Wells Fargo is a \$202 billion diversified financial services organization providing banking, insurance, investment, and other financial services through a total of more than 6,000 stores in all 50 states, all 10 Canadian Provinces, and internationally.

## Issuance of GNMA-Collateralized Obligations

The Company was organized to engage in the authorization, issuance, and delivery of one series of obligations, consisting of four classes (the

"Obligations") collateralized by "fully-modified, pass-through" mortgage-backed certificates guaranteed as to timely payment of principal and interest by the Government National Mortgage Association and backed by the full faith and credit of the United States ("GNMA Certificates").

On March 29, 1984, the Company issued \$164,020,000 of Obligations and received proceeds of \$159,753,958. The Obligations were collateralized by GNMA Certificates with outstanding principal balances of approximately \$168,200,000.

Item 2. Properties.

The Company has no physical properties.

Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

Omitted pursuant to General Instruction J(2)(c) of Form 10-K.

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## PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

All authorized and outstanding shares of the Company's common stock, its sole class of equity securities, are owned by Norwest Mortgage, Inc. Accordingly, there is no public trading market for the Company's common stock. The Company has not paid any dividends with respect to its common stock.

Item 6. Selected Financial Data.

Omitted pursuant to General Instruction J(2)(a) of Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following narrative by management of the Company's results of operations is provided in accordance with General Instruction J(2)(a) of Form 10-K.

The Company was incorporated and commenced operations on February 15, 1984.

The Company had no net earnings for the years ended December 31, 1998, 1997 and 1996. The Company incurred no operating expenses for the years ended December 31, 1998, 1997 and 1996. The management contract requires available income of the Company be paid to Norwest Mortgage, Inc., as compensation for management services, reimbursement of expenses, and as additional purchase price for the GNMA Certificates securing the obligations.

Year 2000 Readiness Disclosure

The Company is aware of the issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000 problem" is pervasive and complex; virtually every computer operation will be affected in some way by the rollover of the two-digit year value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not

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properly recognize such information could generate erroneous data, fail or cause another system to fail. "Systems" include all hardware, networks, system and application software, commercial "off-the-shelf" software, data and voice communication devices, and embedded technology such as date-impacted processors in automated systems such as elevators, telephone systems, security systems, vault systems, heating and cooling systems and others.

The Company's year 2000 readiness projects are divided into four phases:

Phase I: comprehensive assessment and inventory of Systems intended to determine year 2000 vulnerability and risk;

Phase II: date detection on Systems intended to determine which Systems must be remediated and which Systems are compliant and require testing only; determination of required resources and costs; and the development of schedules and high-level testing plans for the repair, replacement and/or retirement of Systems that are not determined to be year 2000 compliant;

Phase III: repair, replacement and/or retirement of Systems that are not determined to be year 2000 compliant; conduct testing of individual Systems; and plan the integration testing for those Systems that have interfaces with other Systems both internal and external to the company, such as those of customers and suppliers; and

Phase IV: integration testing of applicable Systems to validate that interfaces with other Systems are year 2000 compliant; and the development of contingency plans, such as plans to recover operations and alternatives to mitigate the effects of counterparties whose own failure to properly address year 2000 issues may adversely impact their ability to perform certain functions.

The Company in respect to the year 2000 project: (i) has substantially completed Phases I, II and III; and(ii) anticipates Phase IV will be substantially complete by June 30, 1999.

The cost to address the Company's year 2000 projects are included as part of the management contract with its parent company.

In the event year 2000 problems arise out of a failure of the efforts described above any resulting disruptions could adversely affect the business operations.

Item 8. Financial Statements and Supplementary Data.

See Item 14 of this Form 10-K.

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Item 9. Disagreements of Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Omitted pursuant to General Instruction J(2) (c) of Form 10-K.

Item 11. Executive Compensation.

Omitted pursuant to General Instruction J(2) (c) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Omitted pursuant to General Instruction J(2) (c) of Form 10-K.

Item 13. Certain Relationships and Related Transactions.

Omitted pursuant to General Instruction J(2) (c) of Form 10-K.



PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) Financial Statements

The following financial statements of the Company are submitted in response to Item 8 of Part II of the Form 10-K.

Independent Auditor's Report.

Balance Sheets - December 31, 1998, and December 31, 1997.

Statements of Operations - For the years ended December 31, 1998, 1997 and 1996.

Statements of Stockholder's Equity - For the years ended December 31, 1998, 1997 and 1996.

Notes to Financial Statements.

(a) (2) Financial Statement Schedules

All schedules to the financial statements normally required by Form 10-K are omitted since they are either not applicable or the required information is shown in the financial statements or notes thereto.

(a) (3) Exhibits

The following exhibits are submitted in response to Item 601 of Regulation S-K:

3.1 Restated Certificate of Incorporation of the Registrant, which was filed as Exhibit 3.1 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (Registration No. 2-89484) as filed with the Commission on February 16, 1984, is hereby incorporated by reference.

3.2 By-Laws of Registrant, which were filed as Exhibit 3.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-3 (Registration No. 2-89484) as filed with the Commission on February 16, 1984, is hereby incorporated by reference.

4.1 Indenture, which was filed as Exhibit 4.1 to Amendment No. 2 to Registrant's Registration Statement on Form S-3 (Registration No. 2-89484) as filed with the Commission on February 23, 1984, is hereby incorporated by reference.

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10.1 Management Contract with Norwest Mortgage, Inc., which was filed as Exhibit 10.1 to Amendment No. 2 to Registrant's Registration Statement on Form S-3 (Registration No. 2-89484) as filed with the Commission on February 23, 1984, is hereby incorporated by reference.

All other exhibits required by Item 601 of Regulation S-K to be filed with Form 10-K are not applicable and have been omitted.

(b) Reports on Form 8-K:

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Norwest Mortgage Insured 2, Inc.

Dated: March 26, 1999

Stephen Morrison

President

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature

Title

Date

March 26, 1999  
Stephen Morrison

President (Principal  
Executive Officer)  
and Sole Director

Officer

March 26, 1999  
Robert K. Chapman

Chief Financial  
(Principal Accounting  
and Financial  
Officer)

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INSURED 2, INC.

NORWEST MORTGAGE

(a wholly owned subsidiary  
of Norwest Mortgage, Inc.)

STATEMENTS

FINANCIAL

December 31,

1998, 1997 and 1996

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INSURED 2, INC.  
of Norwest Mortgage, Inc.)

NORWEST MORTGAGE  
(a wholly owned subsidiary

SHEETS

BALANCE

1998 and 1997

December 31,

Assets	1998
1997	
Note receivable from parent	\$ 2,682
\$ 2,682	
Total assets	\$ 2,682
\$ 2,682	
Stockholder's Equity	
Common stock, \$1 par value:	
100 shares authorized, issued	
and outstanding	\$ 100
\$ 100	
Additional paid-in capital	2,582
2,582	
Total stockholder's equity	\$ 2,682
\$ 2,682	

See accompanying notes to financial statements.

NORWEST MORTGAGE

INSURED 2, INC.

(a wholly owned subsidiary of  
Norwest Mortgage, Inc.)

STATEMENTS OF  
OPERATIONS

For the years ended December  
31, 1998, 1997 and 1996

1998	1997	1996
Income:		
Total income		\$ --
\$ --	\$ --	
Total operating expenses		--
--	--	
Net income before income taxes		--
--	--	
Provision for income taxes		--
--	--	
Net income		\$ --
\$ --	\$ --	

See accompanying notes to financial statements.

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NORWEST MORTGAGE INSURED  
2, INC.  
(a wholly owned subsidiary of  
Norwest Mortgage, Inc.)

STATEMENTS OF STOCKHOLDER'S  
EQUITY

For the year ended December 31,  
1998, 1997 and 1996

Additional in Capital	Total	Common Stock	Paid
Balance, December 31, 1995 2,682	\$100	2,582	
Net income --	--	--	
Balance, December 31, 1996 2,682	\$100	2,582	
Net income --	--	--	
Balance, December 31, 1997 2,682	\$100	2,582	
Net income --	--	--	
Balance, December 31, 1998 2,682	\$100	2,582	



See accompanying notes to financial statements.

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NORWEST MORTGAGE INSURED  
2, INC.  
(a wholly owned subsidiary of  
Norwest Mortgage, Inc.)

NOTES TO FINANCIAL  
STATEMENTS  
December 31, 1998,  
1997 and 1996

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain accounting policies and procedures that the Company believes are important to understand the accompanying financial statements are described below.

Nature of Operations

Norwest Mortgage Insured 2, Inc., (the "Company") was incorporated in the State of Delaware on February 15, 1984, as a wholly owned, limited-purpose, financing subsidiary of Norwest Mortgage, Inc. Norwest Mortgage, Inc., is the principal mortgage banking business of Wells Fargo & Company

(Wells Fargo), and derives its' income primarily from mortgage origination and servicing operations. Norwest Mortgage, Inc. is a wholly owned subsidiary of Norwest Nova, Inc., which is a wholly owned subsidiary of Wells Fargo. The Company was organized to issue and sell one series of obligations, consisting of four classes, collateralized by fully-modified, pass-through, mortgage-backed certificates guaranteed as to principal and interest by the Government National Mortgage Association (GNMA) and does not intend to engage in any other business activities except activities incidental and necessary to the foregoing.

#### Issuance of GNMA-collateralized Mortgage Obligations

The Company has issued GNMA-Collateralized Obligations (the Obligations). The issuance of the Obligations and the simultaneous delivery of the GNMA Certificates to an irrevocable trust has been accounted for as a sale of the GNMA Certificates. Accordingly, neither the GNMA Certificates nor the Obligations appear on the balance sheets. All costs of issuance were reimbursed by the parent company.

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NORWEST MORTGAGE INSURED  
2, INC.  
(a wholly owned subsidiary of  
Norwest Mortgage, Inc.)

NOTES TO FINANCIAL  
STATEMENTS  
December 31, 1998,  
1997 and 1996

ISSUANCE OF GNMA-COLLATERALIZED OBLIGATIONS

On March 29, 1984, the Company issued \$164,020,000 of Obligations which were secured by GNMA Certificates delivered to an irrevocable trust. At December 31, 1998, there were approximately \$1,909,061 of Obligations outstanding which were secured by assets placed in trust with outstanding principal balances and cash of approximately \$2,042,333.

Proceeds of \$159,753,958 were received from the issuance of the obligations and were applied to purchase the GNMA certificates from the parent company. The GNMA Certificates and the obligations do not appear on the balance sheet.

Monthly principal and interest payments from the GNMA Certificates are remitted directly to USBank (trustee). Investment income, the difference between interest received on the GNMA Certificates and interest paid on the Obligations, and principal payments on the GNMA Certificates remaining with the trustee following each semi-annual payment of principal and interest on the Obligations are remitted from the trust to the parent company as additional compensation and expense reimbursement.

KPMG PEAT MARWICK LLP  
2500 Ruan Center  
PO Box 772  
Des Moines, IA 50303

INDEPENDENT

AUDITORS' REPORT

The Board of Directors  
Norwest Mortgage Insured 2, Inc.:

We have audited the accompanying balance sheets of Norwest Mortgage Insured 2, Inc. (the Company) (a wholly owned subsidiary of Norwest Mortgage, Inc.) as of December 31, 1998 and 1997, and the related statements of operations and stockholder's equity for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norwest Mortgage Insured 2, Inc. (a wholly owned subsidiary of Norwest Mortgage, Inc.) at December 31, 1998 and 1997, and the results of its operations for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG

Peat Marwick LLP  
January 19, 1999

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