

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 CONVENTIONAL 1 INC

CIK: **731162** | IRS No.: **411462646** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-11281** | Film No.: **99574448**
SIC: **6153** Short-term business credit institutions

Mailing Address
405 SW FIFTH 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 0-11281

NORWEST MORTGAGE CONVENTIONAL 1, INC.
(Exact name of registrant as
specified in its charter)

Delaware 41-
1462646
(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, 1000 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. 2-87358) as filed with the Commission on January 20, 1984 and (ii) Amendment No. 2 to registrant's Registration Statement of Form S-3 (Registration No. 2-87358) as filed with the Commission on February 2, 1984.

PART I

Item 1. Business.

Organization

Norwest Mortgage Conventional 1, Inc., (the "Company"), was incorporated in the State of Delaware on October 20, 1983, 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, of bonds

in the form of collateralized mortgage obligations of the Company (the "Obligations") secured by mortgage pass through certificates (the "Certificates") representing the entire interest in one or more pools of conventional mortgage loans secured by first liens on one- to four-family residential properties.

On February 15, 1984, the Company issued \$352,200,000 of Obligations and received proceeds of \$348,560,000. The Obligations were collateralized by Certificates with outstanding principal balances of approximately \$354,860,000.

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 on October 20, 1983, but did not commence operations until 1984.

The Company had no net earnings for the years ended December 31, 1998, 1997 and 1996. The Company recorded \$2,587, \$4,543, and (\$0), respectively, of interest income from money market investments in 1998, 1997, and 1996. Pursuant to the management contract with Norwest Mortgage, Inc., the Company paid a management fee of \$2,587, \$4,543, and \$0, respectively in 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 certain expenses, and as additional purchase price of the pass-through 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

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.

Statements of Cash Flows - For the years ended December 31, 1998, 1997, 1996.

Notes to Financial Statements.

(a)(2) Financial Statement Schedules

All schedules required by Article 5 of Regulation S-X are not applicable and, therefore, have been omitted.

(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. 2-87358) as filed with the Commission on January 20, 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. 2-87358) as filed with the Commission on February 2, 1984, is hereby incorporated by reference.

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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. 2-87358) as filed with the Commission on February 2, 1984, is hereby incorporated by reference.

28.1 Management Contract with Norwest Mortgage, Inc., which was filed as Exhibit 28.1 to Amendment No. 2 to Registrant's Registration Statement on Form S-3 (Registration No. 2-87358) as filed with the Commission on February 2, 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 filed:

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 Conventional 1, 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

President (Principal

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NORWEST MORTGAGE
CONVENTIONAL 1, INC. (a wholly owned subsidiary
of Norwest Mortgage, Inc.)

BALANCE

SHEETS

December 31,

1998 and 1997

Assets

1998

1997

Money market investment, at cost	\$ 48,467	
\$ 45,879		
Investment securities, at cost,		
market value \$1,218,975 and		
\$1,100,370 in 1998 and 1997,		
respectively (Note 2)		169,605
169,605		
Due from parent company	10,107	
12,695		
Total assets		\$228,179
\$228,179		
Stockholder's Equity		
Common stock, \$1 par value:		
1000 shares authorized, issued		
and outstanding	\$ 1,000	
\$ 1,000		
Additional paid-in capital	227,179	
227,179		
Total stockholder's equity	\$228,179	
\$228,179		

See accompanying notes to financial statements.

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NORWEST MORTGAGE CONVENTIONAL

1, INC.

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

STATEMENTS OF

OPERATIONS

For the years ended December

31, 1998, 1997, 1996

1998	1997	1996
Income:		
Other interest income		\$ 2,587
4,543	\$ --	
Other miscellaneous income		--
--	--	
Total income		2,587
4,543	--	
Operating expenses:		
Parent company management fee		2,587
4,543	--	
Total operating expenses		2,587
4,543	--	
Net income before income taxes		--
--	--	
Provision for income taxes		--
--	--	
Net income		\$ --
\$ --	\$ --	

See accompanying notes to financial statements.

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NORWEST MORTGAGE CONVENTIONAL
1, INC.
(a wholly owned subsidiary of
Norwest Mortgage, Inc.)

STATEMENTS OF CASH
FLOWS

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

1998	1997	1996
Cash flows from operating activities:		
Net income		\$ --
\$ --	\$ --	
Adjustments to reconcile net income to net cash used in operating activities:		
(17)	--	--
other assets (Increase)/Decrease in receivable from parent company		
4,543	--	(2,588)
Net cash used in/provided by operating activities		
--	--	(2,588)
Cash flows from financing activities:		
Return of capital to parent company		
--	--	--
Increase in cash and cash equivalents		
4,526	--	2,588
Cash and cash equivalents		

beginning of year	45,879
41,353	41,353
Cash and cash equivalents	
end of year	\$48,467
\$ 45,879	\$ 41,353

See accompanying notes to financial statements.

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NORWEST MORTGAGE CONVENTIONAL
 1, INC.
 (a wholly owned subsidiary of
 Norwest Mortgage, Inc.)

STATEMENTS OF STOCKHOLDER'S
 EQUITY

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

Additional			Common	Paid in
Retained			Stock	
Capital	Earnings	Total		
Balance, December 31, 1995			\$1,000	
227,179	--	228,179		
Net income			--	
--			--	--
Balance, December 31, 1996			\$1,000	
227,179	--	228,179		

Net income			--
--	--	--	
Balance, December 31,			
1997			\$1,000
227,179	--	228,179	
Net income			--
--	--	--	
Balance, December 31,			
1998			\$1,000
227,179	--	228,179	

See accompanying notes to financial statements.

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NORWEST MORTGAGE CONVENTIONAL
1, 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 Conventional 1, Inc., (the Company), was incorporated in the State of Delaware on October 20, 1983, as a wholly owned, limited-purpose, financing subsidiary of Norwest Mortgage, Inc (the Parent). The Parent is the principal mortgage banking business of Wells Fargo & Company (Wells Fargo), and derives its' income primarily from mortgage origination and servicing operations. The Parent 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 conventional mortgage pass-through certificates (the "Certificates") and does not intend to engage in any other business activities except activities incidental and necessary to the foregoing.

Issuance of Collateralized Mortgage Obligations

The Company has issued Collateralized Mortgage Obligations (the Obligations). The issuance of the Obligations and the simultaneous delivery of the Certificates to an irrevocable trust has been accounted for as a sale of the Certificates. Accordingly, neither the 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 CONVENTIONAL
1, 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
(Continued)

Income Taxes

The Company's taxable income or loss is included in the consolidated federal income tax return of Wells Fargo & Company. Federal and state income taxes of the Company have been assumed by and will be paid by the Parent company.

Statement of Cash Flows

For the purposes of the statement of cash flows, the Company considers short-term investments purchased with a maturity of three months or less to be cash equivalents.

(2) ISSUANCE OF GNMA-COLLATERALIZED OBLIGATIONS

On February 15, 1984, the Company issued \$352,200,000 of Obligations, which were secured by Certificates delivered to an irrevocable trust. At December 31, 1998, there was \$2,419,895 of Obligations outstanding, which was secured by assets placed in trust with outstanding principal balances and cash of \$3,879,796.

Proceeds of approximately \$348,560,000 were received from the issuance of the Obligations and were applied to purchase the Certificates from the Parent company. The Certificates and the Obligations do not appear on the balance sheet.

Monthly principal and interest payments from the Certificates are remitted directly to the USBank (trustee). Investment income, the difference between interest received on the Certificates and interest paid on the Obligations, and principal payments on the 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.

NOTES TO FINANCIAL

STATEMENTS

December 31, 1998,

1997 and 1996

(2) ISSUANCE OF GNMA-COLLATERALIZED OBLIGATIONS
(Continued)

Pursuant to the indenture agreement between the Company and the trustee, the money market investment and investment securities are restricted assets set aside as reserve funds. These reserve funds may be used by the trustee for required payments of principal and interest on the Obligations to the extent that funds received in the form of principal and interest on the Certificates are not sufficient to make such required payments. After each semi-annual payment date, the trustee will remit to the Parent company any amounts in the money market investment which exceed one percent of the outstanding principal amount of the Obligations.

Investment securities represent a Certificate of Accrual on Treasury Securities (CAT) with a par value of \$1,500,000 at maturity in May, 2003. No accretion of discount on the CAT is recorded by the Company since any increase in value of the CAT accrues to the holders of the obligations until the Obligations are completely retired. Any proceeds from the CAT after May, 2003, which are not needed to retire the Obligations, will be remitted to the Parent company.

(3) MANAGEMENT FEES AND OTHER OPERATING EXPENSES

The Company has entered into a management agreement with the Parent to provide management services and assistance to the Company. The management agreement requires available income of the Company be paid to the Parent as compensation for management services, reimbursement of certain expenses, and as additional purchase price of the pass-through certificates securing the Obligations.

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

INDEPENDENT

AUDITORS' REPORT

The Board of Directors
Norwest Mortgage Conventional 1, Inc.:

We have audited the accompanying balance sheets of Norwest Mortgage Conventional 1, Inc. (the Company) (a wholly owned subsidiary of Norwest Mortgage, Inc.) as of December 31, 1998 and 1997, and the related statements of operations, stockholder's equity and cash flows 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 Conventional 1, Inc. (a wholly owned subsidiary of Norwest

Mortgage, Inc.) at December 31, 1998 and 1997, and the results of its operations and cash flows 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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