

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**

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FILER

AMERICAN SOUTHWEST FINANCIAL CORP

CIK: **706236** | IRS No.: **860439495** | State of Incorp.: **AZ** | Fiscal Year End: **0630**

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 2-81457

AMERICAN SOUTHWEST FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Arizona	86-0439495
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2390 East Camelback Road, Suite 225, Phoenix, AZ	85016
(Address of principal executive offices)	(Zip Code)

(602) 381-8960
(Registrant's telephone number including area code)

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 ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of shares of common stock outstanding as of May 10, 1994:

Class A - 18,000	Class B - 35,200
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AMERICAN SOUTHWEST FINANCIAL CORPORATION

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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN SOUTHWEST FINANCIAL CORPORATION
BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	March 31 1994	June 30 1993
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
Cash and cash equivalents	\$ 5,096,837	\$ 3,989,969
Receivables pursuant to Funding Agreements - Notes 2 and 3		
Principal - (Net of issue discount of \$13,843,128 and \$22,885,638, respectively)	487,201,936	904,618,248
Interest	11,662,959	20,100,416
Mortgage Securities - Notes 2 and 3		
Principal - (Net of purchase discount of \$34,263,258 and \$52,776,968, respectively)	748,984,644	1,146,695,390
Interest	8,471,775	12,683,480
Other receivables, primarily interest and prepaid income taxes	595,939	431,685
Advances to affiliates		660,000
	-----	-----
Total Assets	\$ 1,262,014,090	\$ 2,089,179,188
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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AMERICAN SOUTHWEST FINANCIAL CORPORATION
BALANCE SHEETS (CONT'D)

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>

<CAPTION>

	March 31 1994	June 30 1993
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
Liabilities		
Bonds Payable - Notes 2 and 3		
Principal - (Net of issue discount		
of \$48,106,386 and \$75,662,606,		
respectively)	\$ 1,235,085,837	\$ 2,050,490,494
Interest	20,118,223	32,771,892
Accounts payable - Note 3	45,212	229,316
Payable to affiliates - Note 4	225,100	400,000
	-----	-----
Total Liabilities	1,255,474,372	2,083,891,702
	-----	-----
Shareholders' Equity		
Class A Common Stock, \$.10 par value; 100,000		
shares authorized, 25,000 shares issued;		
18,000 shares outstanding at March 31, 1994		
and 19,000 shares outstanding at June 30, 1993	2,500	2,500
Class B Common Stock, \$.10 par value; 50,000		
shares authorized, 36,200 shares issued;		
35,200 shares outstanding at March 31, 1994		
and 36,200 shares outstanding at June 30, 1993	3,620	3,620
Capital in excess of par value	99,480	99,480
Retained earnings	6,648,377	5,250,606
	-----	-----
	6,753,977	5,356,206
Less: Treasury stock - at cost, Class A Common		
Stock, 7,000 shares at March 31, 1994 and		
6,000 shares at June 30, 1993; Class B Common		
Stock, 1,000 shares at March 31, 1994	214,259	68,720
	-----	-----
Total Shareholders' Equity	6,539,718	5,287,486
	-----	-----
Total Liabilities and		
Shareholders' Equity	\$ 1,262,014,090	\$ 2,089,179,188
	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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AMERICAN SOUTHWEST FINANCIAL CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	For the three months ended March 31 1994	For the three months ended March 31 1993	For the nine months ended March 31 1994	For the nine months ended March 31 1993
<S> REVENUES	<C>	<C>	<C>	<C>
Interest				
Pursuant to Funding				
Agreements -				
Notes 2 and 3	\$ 14,290,800	\$ 28,252,085	\$ 53,301,158	\$ 96,692,478
Mortgage Securities -				
Notes 2 and 3	21,391,605	30,846,617	73,157,593	100,479,015
Other	210,714	243,743	858,198	1,152,303
Management fees	15,605	18,262	51,308	57,872
Redemption income -				
Note 3		725,961	2,627,328	1,582,669
	35,908,724	60,086,668	129,995,585	199,964,337
COSTS AND EXPENSES				
Interest on Bonds - Note 3	35,619,639	59,068,759	126,143,601	196,923,787
Interest on other				
obligations - Notes				
2 and 3				114,555
Interest on loan from				
affiliates - Note 3	542		44,009	
Management fees - Note 4	425,000	375,000	1,400,000	1,000,000
Other expenses	8,226	291,000	93,205	1,774,867
	36,053,407	59,734,759	127,680,815	199,813,209
(LOSS) INCOME BEFORE				
TAXES	(144,683)	351,909	2,314,770	151,128
(Benefit) Provision				
for Income Taxes	(57,000)	122,000	917,000	52,000
NET (LOSS) INCOME	\$ (87,683)	\$ 229,909	\$ 1,397,770	\$ 99,128
(LOSS) EARNINGS PER				
SHARE - Note 5	\$ (4.87)	\$ 11.11	\$ 74.88	\$ 4.60
Weighted average				
number of Class A				
shares outstanding	18,000	20,692	18,668	21,564

</TABLE>

The accompanying notes are an integral part of these financial statements.

AMERICAN SOUTHWEST FINANCIAL CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	For the nine months ended March 31 1994	For the nine months ended March 31 1993
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,397,770	\$ 99,128
	-----	-----
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Principal accretion on receivables pursuant to Funding Agreements	(12,348,070)	(18,614,284)
Principal accretion on Mortgage Securities	(5,046,562)	(7,994,196)
Principal accretion on Bonds Payable	17,394,632	26,608,480
Amortization of discount on receivables pursuant to Funding Agreements	(9,042,510)	(10,288,670)
Amortization of discount on Mortgage Securities	(18,513,710)	(15,162,805)
Amortization of discount on Bonds Payable	27,556,220	25,451,475
Decrease in interest receivable pursuant to Funding Agreements	8,437,457	11,359,388
Decrease in interest receivable on Mortgage Securities	4,211,705	3,568,186
(Increase) decrease in other receivables	(164,254)	21,543
Decrease in advances to affiliates	660,000	760,063
Decrease in interest payable - Bonds	(12,653,669)	(14,769,396)
Decrease in interest payable on other obligations		(124,230)
Decrease in accounts payable	(184,104)	(2,628,258)
Decrease in payable to affiliates	(174,900)	(452,387)
	-----	-----
Total Adjustments	132,235	(2,265,091)
	-----	-----
Net cash provided by (used in) operating activities	1,530,005	(2,165,963)
	-----	-----

</TABLE>

The accompanying notes are an integral part of these financial statements.

<TABLE>
<CAPTION>

	For the nine months ended March 31 1994	For the nine months ended March 31 1993
<S>	<C>	<C>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of receivables pursuant to Funding Agreements	438,806,893	526,559,111
Principal payments on Mortgage Securities	421,271,018	414,050,929
	-----	-----
Net cash provided by investing activities	860,077,911	940,610,040
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal reduction of Bonds Payable	(860,355,509)	(933,513,152)
Reduction in other obligations		(4,497,028)
Acquisition of Class A Treasury Stock	(145,439)	(15,821)
Acquisition of Class B Treasury Stock	(100)	(100)
	-----	-----
Net cash used in financing activities	(860,501,048)	(938,026,101)
	-----	-----
Net increase in cash and cash equivalents	1,106,868	417,976
Cash and cash equivalents at beginning of period	3,989,969	4,203,830
	-----	-----
Cash and cash equivalents at end of period	\$ 5,096,837	\$ 4,621,806
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 1,195,000	\$ 2,031,172
	=====	=====
Cash paid for interest	\$ 111,285,059	\$ 186,356,263
	=====	=====

</TABLE>

Disclosure of accounting policy:

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

AMERICAN SOUTHWEST FINANCIAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization

American Southwest Financial Corporation (the "Company") was organized for the purpose of issuing mortgage-collateralized bonds ("Bonds") in series ("Series") consisting of one or more classes (each a "Class") to facilitate the financing of long-term residential mortgage loans secured by single-family residences. The Company last issued a Series of Bonds in September 1988. The Bonds are collateralized by certificates of the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (collectively, all such certificates are referred to as "Mortgage Certificates") and by conventional mortgage loans (together with Mortgage Certificates referred to as "Mortgage Collateral"). The Company does not have and is not expected to have any significant assets other than cash and the assets pledged to secure specific Series of Bonds.

Each Series of Bonds that has been issued is a nonrecourse obligation of the Company payable solely from the Mortgage Collateral and other collateral (together the "Collateral") pledged to secure such Series of Bonds. Neither the Company, the participating finance companies ("Finance Companies") nor the holders of the residual interest in the REMICs (defined below), as applicable, have guaranteed, or otherwise are obligated to pay the Bonds of a Series except from the proceeds of the Collateral securing such Series of Bonds. The Company has made elections to treat the arrangement by which the Collateral securing certain Series of Bonds is held as "real estate mortgage investment conduits" ("REMICs") for federal income tax purposes. The residual interests in the REMICs (generally, the right to receive the remaining cash flow available on Collateral after debt service

and payment of administrative expenses on Bonds) are owned by persons other than the Company.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements included in the Annual Report on Form 10-K for the year ended June 30, 1993. In the opinion of Management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended March 31, 1994 are not necessarily indicative of the results that may be expected for the year ending June 30, 1994.

NOTE 2 - MORTGAGE COLLATERAL

As a result of the elections by the Company to treat the arrangement by which the Collateral securing certain Series of Bonds is held as REMICs, the related income and expense of each such Series is reported as a separate entity for federal income tax purposes. For financial statement purposes, the Mortgage Collateral securing the Bonds of a Series, including the REMICs, is presented on the balance sheets as (i) "Receivables Pursuant to Funding Agreements" (defined below) if the Mortgage Collateral securing such Series is owned by Finance Companies and pledged by such Finance Companies to the Company pursuant to funding agreements, or (ii) "Mortgage Securities" if the Mortgage Collateral securing such

Series is owned by the Company. The Bonds secured by the Mortgage Collateral are presented as "Bonds Payable".

With respect to a Series of Bonds for which the Mortgage Collateral securing such Series is owned by the Finance Companies and pledged to the Company, the Company and each Finance Company participating in such Series enter into a funding agreement ("Funding Agreement") with respect to such Series pursuant to which the Company lends and such Finance Company borrows all or a portion of the proceeds from the sale of the Bonds of such Series. Each participating Finance Company agrees to repay its loan from the Company by causing payments to be made to the trustee (the "Trustee") for the related Series of Bonds on behalf of the Company in such amounts as are necessary to pay the principal of and interest on the Finance Company's loan from the Company as it becomes due, and each Finance Company pledges to the Company Collateral as security for its loan. The Company assigns to the Trustee its entire right, title and interest in the Collateral and all proceeds thereof pledged under the Funding Agreements as security for such Series of Bonds.

Funds generated by principal and interest payments on the Mortgage Collateral securing a Series of Bonds are held by the Trustee until the payment dates for the Bonds of such Series. Amounts not required to make principal and interest payments on the Bonds of a Series are used to pay current fees and expenses, held in reserve funds for future fees and expenses, held in special reserve funds securing the Bonds, paid to the Finance Companies pursuant to the Funding Agreements, if any, or paid to the purchaser of the residual interest in the REMIC, if any, with respect to such Series.

NOTE 3 - BOND REDEMPTIONS

The indenture supplements (the "Series Supplements") relating to certain Series of Bonds issued by the Company provide that the Company has the option to redeem such Bonds in whole or in part when specific criteria are met. The following table sets forth the redemptions that occurred during the nine-month period ended March 31, 1994:

Date	Series (Class)	Principal Portion of Bonds Redeemed	Description
07/01/93	N	\$ 16,369,983	Redemption in whole
07/15/93	2	274,000	Redemption in whole
07/15/93	7	774,000	Redemption in whole
08/01/93	D	8,062,895	Redemption in whole
09/01/93	F(4)	1,641,897	Redemption in part
09/01/93	42(D)	454,000	Redemption in part
09/20/93	F	650,708	Redemption in whole
09/23/93	52	20,969,000	Redemption in whole
09/27/93	45(B&C)	26,762,767	Redemption in part
09/30/93	54	3,336,000	Redemption in part
10/08/93	E	2,474,732	Redemption in whole
11/01/93	O	11,606,038	Redemption in whole
11/01/93	47	13,585,000	Redemption in whole
12/30/93	59	10,639,000	Redemption in whole

At the time of a redemption, with the consent of each participating Finance Company and the Trustee, the Company sells the underlying Mortgage Collateral and cancels the appropriate Funding Agreements. The Company utilizes the proceeds from such sales to redeem the Bonds and remits the remainder to the participating Finance Companies after charging each a prepayment penalty. Prepayment penalties, including those charged to affiliates, are assessed in accordance with specific policies established by the Company. Any deviation from these policies necessary to address unique Bond structures, Collateral or other factors requires the approval of the Company's Board of Directors, including a majority of the Directors who have no financial or other interest in the matter. Included in accounts payable at June 30, 1993 is a liability of \$212,983 due to

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Finance Companies that participated in the Series E partial redemptions. Expenses related to the redemptions are included in other expenses. Although redemption opportunities are favorable in the current interest rate environment, the benefits of redemptions are not predictable due to a variety of factors including uncertainty of the time at which the Company may effect redemptions of the outstanding Bonds, prevailing interest rates, other similar market factors and, in certain circumstances, limitations under agreements entered into by the Company.

Additionally, during the nine-month periods ended March 31, 1994 and 1993, the Company exercised its right (pursuant to the indenture and the applicable Series Supplements) to effect the optional Class redemptions (known as "clean-up calls") of the remaining outstanding amounts of certain Classes of Bonds, utilizing corporate cash, funds owned by Finance Companies ("Escrowed Reserve Funds" - see Note 6) and funds borrowed from affiliates. Pursuant to the clean-up calls, payments of principal and interest that would otherwise be payable to the holders of Bonds so redeemed are paid by the Trustee to the Company. To the extent corporate cash was utilized to effect clean-up calls of Classes of Bonds, the Company did not record any interest expense on the Bonds, and retained the associated portion of interest income pursuant to Funding Agreements. In 1992, to the extent Escrowed Reserve Funds were utilized to effect the clean-up calls, the Company credited all principal and interest (presented as interest on other obligations) to the Escrowed Reserve Funds. In 1993 and 1994, the Company borrowed funds from affiliates to effect certain clean-up calls, paying interest to such affiliates at the prime interest rate. All borrowings from affiliates for clean-up calls had been repaid as of March 31, 1994. Interest expense on Bonds is less

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than interest income related to Funding Agreements and Mortgage Securities due to these clean-up calls.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Company receives the use of office space, equipment, and certain managerial, administrative, financial and other services from an affiliate, American Southwest Financial Services, Inc. ("ASFS") pursuant to the terms of an agreement (the "Mortgage Securities Issuance and Administration Agreement") between the Company and ASFS. The Mortgage Securities Issuance and Administration Agreement generally provides for the Company to pay ASFS, on a quarterly basis, the shortfall between the total fees earned for both the

securities issuance services and the securities administration services ASFS performs, and 110% of the overhead of ASFS, subject to scheduled adjustments. Management fees payable to ASFS at March 31, 1994 and June 30, 1993 are \$225,000 and \$400,000, respectively, and are included in payable to affiliates. For each Series of Bonds, ASFS also receives administration fees which are paid from the cash held as Escrowed Reserve Funds or by the Trustee and are not expenses of the Company. The holders of Class A Stock of the Company and of American Southwest Finance Co., Inc., an affiliate, own 100% of the Class A Stock of American Southwest Affiliated Companies ("ASAC"), parent company of ASFS and various other affiliates.

Related party transactions involving the Company and Escrowed Reserve Funds are discussed in Notes 3 and 6.

NOTE 5 - EARNINGS PER SHARE

Earnings per share calculations are based on the weighted average number of Class A common shares outstanding since voting and dividend rights are limited to Class A shareholders. Class B shareholders' rights are limited to a return of

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capital upon dissolution together with a share of the Company's profits, if any, upon dissolution, provided such profits were not paid to Class A shareholders as dividends prior to such dissolution.

NOTE 6 - ESCROWED RESERVE FUNDS

The Company maintains, and invests on behalf of participating Finance Companies, Escrowed Reserve Funds held for current and future Bond administration expenses. These funds are not included in the Company's assets or liabilities on the accompanying balance sheets as of March 31, 1994 and June 30, 1993.

The Company believes that the Escrowed Reserve Funds at March 31, 1994, if needed, as well as ongoing fees charged to participating Finance Companies, are sufficient to meet the future Bond administration obligations, including the obligation to ASFS under the Mortgage Securities Issuance and Administration Agreement.

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AMERICAN SOUTHWEST FINANCIAL CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company was organized for the purpose of issuing mortgage-collateralized Bonds in Series to facilitate the financing of long-term residential mortgage loans secured by single-family residences. The Company does not have and is not expected to have any significant assets other than cash and the assets pledged to secure specific Series of Bonds. On the closing of a Series of Bonds issued by the Company, the Company applies the net proceeds of the Bonds toward the simultaneous purchase or the repayment of indebtedness with respect to the Mortgage Collateral securing such Series of Bonds or to fund loans to Finance Companies pursuant to Funding Agreements (see Note 2 of the Financial Statements). The Company last issued a Series of Bonds in September 1988. Issuance fees ("Bond Issuance Fees") charged for each Series of Bonds issued by the Company are used to pay Bond offering

expenses.

Each Series of Bonds that has been issued is a nonrecourse obligation of the Company, payable solely from the Collateral pledged to secure such Series of Bonds. Neither the Company nor the Finance Companies guarantee or are obligated to pay the Bonds of a Series except from the proceeds of the Collateral securing such Series of Bonds. The Company has made elections to treat the arrangement by which the Collateral securing certain Series of Bonds is held as REMICs for federal income tax purposes.

Results of Operations

The Company's net income for the nine-month period ended March 31, 1994, as well as for the three and nine-month periods ended March 31, 1993, resulted primarily from redemption income and other interest income. A lack of redemption income during the three-month period ended March 31, 1994 resulted in a net loss for that period. The increase in redemption income in the nine-month period ended

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March 31, 1994 over redemption income for the same period in 1993 was primarily due to an unprecedented volume of prepayments on the Mortgage Collateral underlying the Company's Funding Agreements and Mortgage Securities as homeowners nationwide refinanced their mortgages. The increase in prepayments is a direct result of significantly lower mortgage interest rates, which decreased to their lowest levels in over 20 years.

Prepayments due to lower interest rates generally affect the Company positively since they may accelerate redemptions made by the Company as provided in certain Series Supplements. See Note 3 of the Financial Statements. Additionally, greater proceeds may result in a low interest rate environment from the higher sales price received upon the sale of Mortgage Collateral underlying each Series which has met the criteria for redemption. During the nine-month period ended March 31, 1994 the Company redeemed or partially redeemed 13 Series totaling \$117,600,020 of Bond principal, as compared to 10 Series totaling \$79,581,452 of Bond principal during the same period in 1993. At the time of a redemption, with the consent of each participating Finance Company and the Trustee, the Company sells the underlying Mortgage Collateral and cancels the appropriate Funding Agreements. The Company simultaneously applies the proceeds from such sales to redeem the Bonds and remits the remainder to the participating Finance Companies after charging each a prepayment penalty. The prepayment penalties are presented as redemption income. Although redemption opportunities have been favorable in the current interest rate environment, the benefits of redemptions are not predictable due to a variety of factors including uncertainty of the time at which the Company may effect redemptions of the outstanding Bonds, prevailing

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interest rates, other similar market factors and, in certain circumstances, limitations under agreements entered into by the Company.

The Company's principal sources of revenue are interest pursuant to Funding Agreements and interest from Mortgage Securities, both of which are substantially offset by interest expense on Bonds. See Notes 2 and 3 of the accompanying Financial Statements. The interest income and related interest expense has declined for the three and nine-month periods ended March 31, 1994 as compared to the three and nine-month periods ended March 31, 1993 due to (i) regular payments and prepayments on the Mortgage Collateral securing the

various series of Bonds, (ii) the sale of Mortgage Collateral in conjunction with Bond redemptions, and (iii) the clean-up calls on certain Classes of Bonds. See Note 3 of the Financial Statements. These same factors caused the reductions in the amounts of Collateral and Bonds outstanding.

The Company anticipates that interest income and related interest expense from these sources will continue to decline due to the current low interest rate environment (which encourages prepayments of residential mortgages with higher than current market interest rates), future redemptions, clean-up calls and the fact that the Company has not issued a new Series of Bonds since 1988.

Other interest income consists primarily of (i) interest earned on the reinvestment of the monthly payments on the Collateral (for certain non-REMIC Series of Bonds issued by the Company) prior to the assumed deposit date for such Series as defined in the related Series Supplements and (ii) to a much lesser degree, interest earned on the Company's cash and cash equivalents. The Company's other interest income is primarily affected by changes in prepayments on the Mortgage Collateral which result in an increase or decrease in the amount of monthly payments available for reinvestment by the Trustee prior to the assumed

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deposit date. Such prepayments have caused a reduction in the Collateral securing the Company's non-REMIC Bonds and, consequently, a decrease in the amount of the monthly payments on the Collateral which may be reinvested by the Trustee prior to the assumed deposit date, resulting in reduced other interest income for the three and nine-month periods ended March 31, 1994 as compared to the three and nine-month periods ended March 31, 1993. In the long-term, other interest income attributable to reinvested payments is expected to continue to decrease since the Company is not likely to issue additional non-REMIC Series of Bonds as a result of changes in the Internal Revenue Code.

The amount of interest income received on the Collateral securing the various Series of Bonds issued by the Company, the rate at which principal prepayments are made on such Collateral, the amount of other interest income earned from the reinvestment of monthly payments on such Collateral, the amount of other interest income earned on the Company's cash and cash equivalents, the interest rates payable by the Company on certain Classes of Bonds issued by it, and the amounts ("Surplus") distributed to the Finance Companies pursuant to Funding Agreements, or to the holders of the residual interests in the REMICs, as applicable, depend upon prevailing interest rates and are significantly affected by interest rate fluctuations. However, since Surplus (generally, the right to receive the remaining cash flow available on Collateral after debt service and payment of administrative expenses on Bonds) is payable to the Finance Companies or to the holders of the residual interests in the REMICs, the risks associated with fluctuations in interest rates are borne primarily by the Finance Companies, the holders of certain Classes of Bonds and the holders of the residual interests in the REMICs rather than by the Company.

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The Company derives management fee revenue from fees charged to the Finance Companies for management of current Bond administration funds. Fees vary depending on investment returns on these funds held by the Company specifically for payment of current Bond administration expenses. At the time of a full redemption of a Series of Bonds, excess current Bond administration funds are returned to the Finance Companies. This reduction of funds, and to

a lesser extent the low short-term interest rate environment, account for the reduced management fee revenue for the three and nine-month periods ended March 31, 1994 as compared to the same periods in 1993. Current Bond administration funds are a portion of the Escrowed Reserve Funds administered and invested on behalf of the Finance Companies by the Company. See Note 6 of the Financial Statements.

Primary expenditures of the Company consist of management fees paid to ASFS and professional fees. The Company receives the use of office space, equipment, and certain managerial, administrative, financial and other services pursuant to the terms of the Mortgage Securities Issuance and Administration Agreement between the Company and ASFS. The Mortgage Securities Issuance and Administration Agreement generally provides for the Company to pay ASFS management fees for certain services it performs (see Note 4 of the Financial Statements). Management fees increased in the three and nine-month periods ended March 31, 1994 as compared to the three and nine-month periods ended March 31, 1993. These variances are a function of the timing of the issuance fees and Bond Administration fees earned by ASFS from other issuing entities and the operating overhead of ASFS, both of which directly affect the amount of management fees as explained in Note 4 of the Financial Statements.

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Professional fees, comprising substantially all of the Company's other expenses, fluctuate depending on the activities of the Company. During the three and nine-month periods ended March 31, 1993, the Company incurred increased professional fees related to a litigation settlement disclosed in the Company's Annual Report on Form 10-K for June 30, 1993.

Liquidity and Capital Resources

During the nine-month period ended March 31, 1994, the Company's cash increased by approximately \$1 million due to operating activities and reductions in advances to affiliates. Additionally, the Company had \$1,100,743 invested in clean-up calls at March 31, 1994. During the nine-month period ended March 31, 1993 the Company used cash from operating activities to reduce accounts payable, including income taxes for the fiscal year ended June 30, 1992. At March 31, 1993 the Company had \$154,035 invested in clean-up calls.

The Company anticipates that funds to meet its current and future operating needs will be provided from current cash and future operations.

Each Series of Bonds that has been issued is a non-recourse obligation of the Company payable solely from the Collateral pledged to secure such Series of Bonds. The Company is not obligated to pay the Bonds of a Series from other than the proceeds of the Collateral securing such Series of Bonds.

The Company believes that scheduled payments of principal and interest on the Collateral pledged to secure each Series of Bonds, together with amounts available from reserve funds established for such Bonds and any reinvestment income on such amounts, will provide sufficient funds (i) to pay principal and interest on such Bonds when due and to retire such Bonds not later than their respective stated maturities, and (ii) to pay related Bond administration expenses.

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Impact of Inflation and Changing Prices

The primary revenue producing activities of the Company (Bond issuance and redemptions) are impacted by interest rates, which in turn are affected by numerous factors. These factors include conditions in financial markets, the fiscal and monetary policies of the United States government and the Board of Governors of the Federal Reserve System, international economic and financial conditions and other factors, none of which can be predicted with any certainty.

Virtually all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the performance of the Company than the effects of general levels of inflation since changes in prevailing interest rates will affect the availability, cost and expected maturity of Collateral. This in turn will affect the Company's ability to issue new Series of Bonds and earn Bond Issuance Fees. Changes in interest rates (particularly long-term interest rates) also affect the timing and profit potential of Bond redemptions, with lower rates being a positive factor and higher rates being a negative factor. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation while interest rates generally are not affected to the same degree. Nevertheless, neither changes in interest rates nor inflationary pressures are expected to significantly affect the ability of the Company to meet its obligations as they become due because (i) each Series of Bonds is secured by Collateral paying interest at fixed rates, and (ii) interest on each Class of Bonds is paid at fixed rates, or at rates based on specified formulas subject to specific maximum limitations.

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AMERICAN SOUTHWEST FINANCIAL CORPORATION
PART II.
OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits: None.
- (b) Reports on Form 8-K: None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN SOUTHWEST FINANCIAL CORPORATION

Date: May 11, 1994

/s/ G. Thomas Eggebrecht

G. Thomas Eggebrecht
President and Chief Executive Officer

Date: May 11, 1994

/s/ Richard H. Hackett

Richard H. Hackett
Executive Vice President, Treasurer and
Chief Financial and Accounting Officer

Date: May 11, 1994

/s/ Michael H. Feinstein

Michael H. Feinstein
Executive Vice President and Chief
Operating Officer