



CORPORATE PARTICIPANTS

Craig Barberio *First American Financial Corporation - IR*
Dennis Gilmore *First American Financial Corporation - CEO*
Max Valdes *First American Financial Corporation - EVP, CFO*
Mark Seaton *First American Financial Corporation - SVP Finance*

CONFERENCE CALL PARTICIPANTS

Mark DeVries *Barclays Capital - Analyst*
Brett Huff *Stephens Inc. - Analyst*
Geoff Dunn *Dowling and Partners - Analyst*
Jim Ryan *Morningstar - Analyst*
Jim Fowler *Harvest Capital - Analyst*
Bose George *KBW - Analyst*

PRESENTATION

Operator

Good morning, (Operator Instructions). We will now turn the call over to Craig Barberio, Director of Investor Relations, to make an introductory statement.

Craig Barberio - First American Financial Corporation - IR

Good morning, everyone, and thank you for joining us for our fourth quarter and year-end 2012 earnings conference call. Joining us on today's call will be our Chief Executive Officer, Dennis Gilmore, Max Valdes, Executive Vice President and Chief Financial Officer, and Mark Seaton, Senior Vice President of Finance.

At this time, we would like to remind listeners that management's commentary and responses to your questions may contain forward-looking statements, such as those described on pages four and five of today's news release and other statements that do not relate strictly to historical or current fact. The forward-looking statements speak only as of the date they are made, and the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

Risk and uncertainties exist that may cause results to differ materially from those set forth in these forward-looking statements. Factors that could cause the anticipated results to differ from those described in these forward-looking statements are also described on pages four and five of today's news release. Management's commentary contains in responses to your question may also contain certain financial measures that are not presented in accordance with generally accepted accounting principles, including a personnel and other operating expense ratio.

The Company is presenting these non-GAAP financial measures because they provide the Company's management and investors with additional insight into the operational efficiency and performance of the Company, relative to earlier periods and relative to the Company's competitors. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In the news release that we filed today, which is available on our website, www.firstam.com,

the non-GAAP financial measures disclosed in management's commentary are presented with reconciled to the most comparable GAAP financial measures. Investors should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures. I will now turn the call over to our chief executive officer, Dennis Gilmore.

Dennis Gilmore - First American Financial Corporation - CEO

Thanks, Craig. Good morning, and thank you for joining our call. I will begin with a brief overview of our 2012 results, followed by fourth quarter highlights, and conclude with a few comments on the outlook for 2013. 2012 was a successful year for the Company.

Total revenues were \$4.5 billion, up 19% compared to 2011. Given the efficiencies we built into our cost structure, we rely strong operating leverage during the year.

The Company's full-year net income was \$2.77 per share. As part of the spin-off in 2010, the Company set financial objectives, for a pre-tax title margin of 8% to 10%, and a return on equity of 10% to 12% by year end 2012.

I'm pleased report that we exceeded both of these objectives, achieving a pre-tax title margin of 11.3% and a return of equity of 13.7% for the total Company. Importantly, 2012 provided a clear demonstration of the earnings potential of the Company.

Turning to the fourth quarter results, total revenues for the Company were \$1.3 billion, up 28% compared to last year. The increase was driven by the strength of our title segment.

Net income was \$0.85 per share. Title revenues for the quarter were \$1.2 billion, up 30% compared to last year, with a pretax margin of 12.7%.

Closed doors in the fourth quarter were the highest level of the year, up 34% compared to 2011, driven by strong refinance activity. Our commercial division also delivered strong results, with revenues of \$146 million, up 36%.

To a limited extent, we experienced an acceleration of commercial closing in anticipation of higher tax rates. During the fourth quarter, we continue to see recovery in the resale market, with close transactions up 18% compared to last year, and our average revenue per resale order was up 12%.

In our special insurance segment, total revenues in our Property & Casualty in home warranty businesses were up 11%. Combined with a favorable claim experience, the segment achieved a pre-tax margin of 16.6%.

With new and existing home purchases in the early stages of recovery, we are optimistic the housing market will continue to improve. Open orders in January and so far in February are relatively flat compared to the same period last year, but the order mix is shifting toward higher premium purchase transactions.

While there is uncertainty concerning the impact and timing of the expected decline in refinance activity, and the magnitude of growth in the purchase market, we believe the Company is well-positioned going into 2013. Our capital management strategy will remain consistent.

We will invest in value-creating projects in our core business. Where possible, we will make strategic acquisitions that complement our existing businesses. In 2012, we doubled our dividend and will we will continue to evaluate for opportunities to return capital back to shareholders.

We believe the Company has a strong balance sheet, with good financial flexibility, which support the execution of our strategic objectives. We are committed to being the premiere title and settlement service company in the U.S. and our key markets abroad.

I would now like to turn the call over to Max for a more detailed review of our financial results.

Max Valdes - First American Financial Corporation - EVP, CFO

Thank you, Dennis. The Company generated total revenues of \$1.3 billion in the fourth quarter, up 28% compared with the same quarter of the prior year. Net income was \$93 million or \$0.85 per diluted share, compared with net income of \$40 million or \$0.38 per diluted share last year.

The current quarter results include net realized investment gains of \$6.2 million, or \$0.03 per diluted share, compared with net realized losses at \$2.2 million, or \$0.01 per diluted share in the prior year. The fourth quarter results for 2011 also include a \$19.2 million charge for a legal settlement or \$0.11 per diluted share.

In the title insurance and services segment, total revenues were \$1.2 billion, up 30% compared with the same quarter of last year. Direct premium and escrow fees were up due to 38% this quarter, due to a 34% increase in the number of direct title orders closed in the quarter, and a small increase in average revenue per order.

Average revenue per direct title order closed was \$1,547, up 3% compared to the same quarter of last year, as the average revenue per order for commercial and purchase transactions increased. Agent premiums were up 30%, reflecting a normal reporting lag in agent revenues of approximately \$0.25.

Agent retention was unchanged at 80% of agent premiums. Information and other revenues totaled \$162 million, up 5% as compared to the same quarter last year, driven by higher demand for the Company's title plan information and default information products, partially offset by lower demand for title-related services in Canada.

Total investment income for the title segment was up \$10.7 million in the quarter, primarily reflecting net realized investment gains and an increase in income from the investment portfolio. Personnel costs were \$339 million, up 20% compared with the same quarter of last year.

This increase was primarily due to higher incentive-based compensation, driven by improved revenues and profitability, and to lesser extent, higher staffing levels required to support the increased order volume, compared to the prior year. Other operating expenses were \$211 million, up 25% from the same quarter of last year.

This increase was primarily due to higher production-related expenses and temporary labor costs from higher title order activity. The ratio of personnel, and other operating expenses to net operating revenue declined to 71% from 75% last year, reflecting significant operating leverage.

In the fourth quarter, the provision for title losses was \$71 million, or 7% of title premiums and escrow fees, up \$6.2 million compared with the same quarter of the prior year. The current rate of 7% reflects an ultimate loss rate of 5.1% for the current policy year and net increase in the loss-reserve estimates for prior policy years.

Year-to-date incurred claims were down \$66 million, and paid claims were down \$63 million compared to last year. We expect this positive trend to continue as the high-loss policy years of 2005 to 2008 are become more seasoned.

We are also encouraged by the favorable claims experience we continue to see from our most recent policy years, 2009 to 2012. Pretax income for the title insurance and services segment was \$153 million per quarter, compared with \$76 million in the fourth quarter last of year, or an increase of 101%.

Pretax margin was 12.7% in the quarter. Turning to the specialty insurance segment, total revenues were \$80 million, up 11% compared with the same quarter of the prior year.

The loss ratio was 51%, compared with 53% last year. Higher premiums and favorable loss experience combine to deliver a pre-tax margin of 16.6%, up from 14.1% in the fourth quarter of 2011. Corporate expense was \$18.1 million for the quarter, in line with our expectation at \$20 million per quarter.

With that, I will turn the call over to mark.

Mark Seaton - First American Financial Corporation - SVP Finance

Thank you, Max. I will provide a few comments on our capital and liquidity. Cash provided by operations in the fourth quarter was \$178 million, an increase of \$77 million relative to the fourth quarter of last year.

The increase in operating cash flow was primarily driven by improved earnings and a 28% reduction in paid claims. Capital expenditures during the third quarter were \$27 million, up from \$22 million in the same quarter of last year due to capitalized software development and title-client information.

Our cash and investment portfolio totaled \$3.7 billion as of December 31, which includes \$1.4 billion in fiduciary funds. The portfolio is comprised of debt securities of \$2.7 billion, cash and short-term deposits of \$698 million, equity securities of \$198 million, and \$193 million of less liquid long-term investments.

Overall, we continue to have a high quality portfolio. The debt on our balance sheet totaled \$230 million as of December 31. Our debt consists of \$160 million funded on our credit facility, \$24 million of trusteed notes, and \$28 million of other notes.

Our debt-to-capital ratio, as if December 31, was 8.9%. This January, we closed a \$250 million public offering of 4.3% senior unsecured notes due 2023. We have repaid all borrowings outstanding under the revolving credit facility.

On a pro forma basis, after taking into account the senior notes offering and the repayment of the credit facility, the Company had \$320 million in debt and a debt-to-capital ratio of %12 as of December 31. In terms of holding company liquidity, we currently have \$174 million of operating cash and \$600 million available on our credit facility. I would now like to turn the call back over to the operator to take your questions.

QUESTION AND ANSWER

Operator

Thank you, (Operator Instructions). The first question comes from Mark DeVries of Barclays. Your line is open.

Mark DeVries - Barclays Capital - Analyst

Yeah, thanks, can you talk about, of the incremental expense and the title in the quarter, how much of that you would consider to be fixed and how much would be variable?

Mark Seaton - First American Financial Corporation - SVP Finance

Yeah, hi Mark, this is Mark Seaton, and well, it's tough to say what's fixed and what's variable because it changes all the time.

I think, generally speaking, when you look at our personnel expenses, about 25% of our personnel expenses are variable, and that is commissions and different incentives we pay, profit share and other things like that. When you look at our operating expense line items, about 50% is variable. And that's really our cost of sales, and different data and different information that we have to buy, to process, to transaction. And then, of course, loss provision premium tax and age retention is 100% variable. So that's how we look at it.

Mark DeVries - Barclays Capital - Analyst

Okay, would you say the operating leverage that you saw this quarter, kind of the relationship between growth and revenues and expenses, is indicative of what we should expect in the near term as revenues flex up and down?

Is there anything unusual in that that may have distorted that?

Mark Seaton - First American Financial Corporation - SVP Finance

I don't think there was anything unusual in the operating leverage that we saw.

We definitely did have a strong commercial quarter, and commercial has relatively high margins vis-a-vis the rest of our business, but generally speaking I think the margins that we had were in line with -- the revenue we expected, so I don't think there was anything unusual that happened this quarter.

Mark DeVries - Barclays Capital - Analyst

Were there any additions to headcount in the quarter?

Mark Seaton - First American Financial Corporation - SVP Finance

Yeah, headcount -- headcount was up about 141 people, from Q3 to Q4. So we did increase somewhat in the fourth quarter, just to service the additional transactions that we had.

Mark DeVries - Barclays Capital - Analyst

I know Dennis mentioned that the January open orders were flat year over year. Could you give us those numbers, what they were on a daily basis?

Mark Seaton - First American Financial Corporation - SVP Finance

Yeah, in January, our open orders were about 6,000 a day. Our refi orders were down about 9% year-over-year. Our purchase orders were up about 9% year-over-year, and so far in February, the month isn't over. We are looking at something around 5,900 orders per day, and we're seeing the trend continue where refis continue to soften and purchases continue to strengthen.

Mark DeVries - Barclays Capital - Analyst

Great, that's all I had, thanks.

Operator

The next question comes from Brett Huff of Stephens Inc. Your line is open.

Brett Huff - Stephens Inc. - Analyst

Good morning, guys. Congratulations on a nice quarter. Great to see the operating leverage come through. A couple of big picture questions. Dennis, you mentioned at the beginning of our comments that you were able to meet the goals set out when you spun the two companies, and I was wondering, are you thinking about new goals, or how are you thinking from a strategic plan or a long-term plan, how do you and the Board and the management team think about the next step?

Dennis Gilmore - First American Financial Corporation - CEO

Thanks for the question. I think as you know, we don't give guidance, but we were really encouraged by 2012's performance. We got the operating leverage we were looking for the business. We actually came in at 11.6% in the title margin at the high end of our range that we set.

And how we are thinking about it is that simply we're going to continue to strive to improve our performance, regardless of any market we're in. That's just how we run the business. Specifically to 2013, it's really going to depend on the origination market. Here's how we're thinking about it.

If and when we move to a more traditional market, which I'm going to define as two thirds purchase and one third refinance, we think there's meaningful opportunity for margin expansion in the business. We're going to continue to look to improve our performance and wait for the market to move more towards a purchase market.

Brett Huff - Stephens Inc. - Analyst

That's helpful. And then the commercial mix fee per file, can you give us a sense -- I thought it might be higher. Can you give us a sense, were there any big deals in there, or was it mostly many small deals sort of put together?

Dennis Gilmore - First American Financial Corporation - CEO

Yeah, it was probably a little of both. But first, we were really proud of our commercial group. They did a great job in the quarter and the franchise itself is doing a great job for commercial customers.

They had a revenue of \$146 million, which, actually, is an all-time record for us in the group. Specific to the ARPO (average revenue per order) of commercial. It came in at \$99 million. And we did have some big deals, but we just had a lot of deals, and we -- just so it's clear to people, we had about \$5 million to \$7 million pull in business from the first quarter for the tax changes. So a little impact there, but not huge to us.

Going forward, I'll probably use more of an ARPO -- the 2012 average of \$8,200 going forward.

Brett Huff - Stephens Inc. - Analyst

Okay, that's helpful. And then can you talk a little bit about the provision? I know that yours bounces around a little bit, and the underlying looks really good.

Of, I think you said, 5.1%, but was there a specific reason in a particular book that we're still backfilling that got worse, that drove maybe a little bit higher, at least, than I expected, or is that conservatism? Give us a sense of how and why that moved up, and also what you're thinking for 2013, and then how that might trend for 2014.

Dennis Gilmore - First American Financial Corporation - CEO

I'm going to throw the question over to Max.

Max Valdes - First American Financial Corporation - EVP, CFO

Thanks, Dennis. Yes, Brett, what we saw during the quarter is those high-loss policies years of 2005 to 2008 did continue to come in higher than expected, so that drove most of the adverse development. But we're encouraged, that even with those policy years, even though they came in higher than expected, they are down. The claims for those policy years are down about 25% this year versus last year.

So that's a good sign. They're starting to slow down. We're also obviously encouraged that the total claims were almost \$70 million lower this year versus last year.

And the recent books are coming in. The recent policy years are coming in and they're performing really well. Our expectation for 2013 is that we'll probably start the year at a rate around 6.5%, but we'll have to see how the claims come in, in February and March. And it could go up, and it could go down, but that's our expectation.

Brett Huff - Stephens Inc. - Analyst

That's helpful. And Mark, I think that you said the cash at the [home co] you had was \$160 million or \$170 million now?

Mark Seaton - First American Financial Corporation - SVP Finance

\$174 million as of today.

Brett Huff - Stephens Inc. - Analyst

That's all-pro forma, et cetera?

Mark Seaton - First American Financial Corporation - SVP Finance

Yes.

Brett Huff - Stephens Inc. - Analyst

And then last, just a housekeeping question. What should we think about for taxes sort of in the near and medium term term tax rate?

Max Valdes - First American Financial Corporation - EVP, CFO

It's Max again. I think the tax rate, we should think about it in the 37% to 38% range.

Brett Huff - Stephens Inc. - Analyst

Thanks again, and again, nice quarter.

Operator

The next question comes from Geoff Dunn, Dowling and Partners. Your line is open.

Geoff Dunn - Dowling and Partners - Analyst

Thanks. Good morning. Dennis, when FAF and CLGX split, the company assessed an excess capital opportunity of \$500 million. And acknowledging that we have been in a tougher economy longer than probably anybody expected, you moved the dividend, first that original number -- but still a lot of that original assessment that's still to be determined. Do you still think that that is the number that you have to work with?

And if that is the case, a couple of quarters ago, you indicated that we should start expecting more active capital management from the company. Can you provide a bit more color beyond opportunistic returns or acquisitions?

Dennis Gilmore - First American Financial Corporation - CEO

Geoff, let me give you some high level of how we're thinking about capital, first of all. We did -- upon the split, we did come out and we were indicating that we would stay conservative, and we have by and large we held true to that.

But just putting it into perspective of how we're thinking about it, Geoff, we are always going to invest in our core business first, and we have been, and anything we can do to improve our processes or procedures, we'll do that. Our second alternative would to do strategic acquisitions that are going to fit our core. By the way, what we think are value-added and we're always on the hunt for that.

And the third is we are going to continue to look for opportunities to return it back to shareholders as we have been. And as you mentioned, we doubled the dividend in 2012, and we'll continue to look for appropriate opportunities to return it back to shareholders.

Geoff Dunn - Dowling and Partners - Analyst

How long are you willing to operate at a low double-digit debt leverage on the balance sheet? Is that something that is your "dry powder" for anything that might come up? Or is that something that we could might see to a more fully leveraged position over the course of 2013?

Dennis Gilmore - First American Financial Corporation - CEO

Again, I think there are on opportunities for deployment, Geoff, but I think we'll stay closer to the ranges we're in right now than move it to the higher end of our range.

Geoff Dunn - Dowling and Partners - Analyst

Thanks.

Operator

The next question is from Jim Ryan, Morningstar. Your line is open.

Jim Ryan - Morningstar - Analyst

I have a question on the agent - there's kind of a disparity between the agent premium growth and the direct. I realize there's always a lag, and in the fourth quarter, I think year-over-year was up 38% in direct versus 29% in agent, but when I look on a year-over-year basis, it was up 28% direct and 15% in agent. What's driving the mix on that?

Mark Seaton - First American Financial Corporation - SVP Finance

Well, hi, Jim, this is Mark Seaton. Well, generally speaking, I think the growth in our agent premium should follow the growth in our direct premium. There's nothing that's going on in the core of the business that would change the growth rates between those two lines items materially. But as you know, there's about a one-quarter lag between our direct and our agents' revenue.

And so the 38% direct revenue growth that we saw in the fourth quarter this year, we should see that in the first quarter on the agency side of the business. So the answer to the question is nothing that's fundamentally going on, it's just timing of when we recognize the revenue.

Jim Ryan - Morningstar - Analyst

In terms of the year over the year, though, is that possibly partially driven by commercial or anything along those lines? Because I realize that you probably do a lot more direct commercial and direct as opposed to agent.

Mark Seaton - First American Financial Corporation - SVP Finance

Yes, again, it's nothing on the commercial side that would really drive it. It's just that there was a big ramp up in refis that really caused the direct to increase faster, and we're going to get that benefit on the agency side in subsequent months. Specifically the first quarter.

Jim Ryan - Morningstar - Analyst

So might you expect, then, that it would be more than a one quarter lacking coming into 2013, when you might see a lot more agency reporting from the third quarter?

Mark Seaton - First American Financial Corporation - SVP Finance

Yes, it could be. It could be a little bit more than one quarter. But generally speaking, it's about a quarter.

Jim Ryan - Morningstar - Analyst

Thank you.

Operator

The next question comes from Jim Fowler, Harvest Capital. Your line is open.

Jim Fowler - Harvest Capital - Analyst

Good morning, I might have missed your comment, but could you discuss default title trends in the fourth quarter and what you're seeing in the first quarter, please?

Dennis Gilmore - First American Financial Corporation - CEO

Yes, this is Dennis, and we're clearly seeing the default market overall heal itself. I might comment some more regarding the overall market, default rates are coming down, actually, and negative equities improving, so overall, the trends are, in my opinion, positive to the market itself.

Inside of our business, we had a strong performance in the fourth quarter, but some of it was project-related work. So I think the trends will look similar from 2012 into 2013 from our perspective on default revenues.

Jim Fowler - Harvest Capital - Analyst

Is it declining at a faster pace in the first month and a half? Versus the last couple of months in the fourth quarter?

Dennis Gilmore - First American Financial Corporation - CEO

Our specific business is not, but we clearly think that default revenues will trend down in 2013 going into 2014.

Jim Fowler - Harvest Capital - Analyst

Last question, yesterday one of your competitors reported, and that pretax operating margin was up quarter over quarter pretty smartly. Yours is down, and what explains that.

Should it be acceptable when it's down?

Dennis Gilmore - First American Financial Corporation - CEO

It's actually up. We had a non-recurring gain in the third quarter.

Jim Fowler - Harvest Capital - Analyst

All right, so what was the margin last quarter, excluding that?

Mark Seaton - First American Financial Corporation - SVP Finance

It was last quarter, it was 11.3%, excluding the gain, and this quarter, 12.4%. On an apples to apples basis, excluding the realize gains. So it was up 100 basis points.

Jim Fowler - Harvest Capital - Analyst

Your competitor is at 160, and is there anything efficiency-wise that you think that is different?

Dennis Gilmore - First American Financial Corporation - CEO

I'm not going to comment on a competitor, we felt that the operating leverage was good in the fourth quarter.

Jim Fowler - Harvest Capital - Analyst

Thank you very much.

Dennis Gilmore - First American Financial Corporation - CEO

Thank you.

Operator

The next question is from Bose George of KBW. Your line is open.

Bose George - KBW - Analyst

Good morning. Going back to the margin, is it fair to say that if the revenue levels are sustainable, then the current margin is the reasonable run rate. And then the upside from here comes to a mixed shift moves more towards purchase over time?

Dennis Gilmore - First American Financial Corporation - CEO

Again, a comment similar to what I made before, we're going to continue to try to drive for better margins, regardless of the market we're operating in. And trying to drive for efficiencies in how we run the business. But what we're looking for, the business, is to start to make the transition back to a purchase market, and again, we think that a more normalized, healthy market would be two-thirds purchase and one-third refinance.

We're not there yet, but we're encouraged by the trends moving in that direction, and we think if we move into that kind of market, we think there's opportunities for margin expansion in this business.

Bose George - KBW - Analyst

And then on the commercial side, have you guys ever broken out the commercial margins separately for that segment?

Dennis Gilmore - First American Financial Corporation - CEO

We have not.

Bose George - KBW - Analyst

Okay, great, thanks.

Dennis Gilmore - First American Financial Corporation - CEO

Thank you.

Operator

Once again, (Operator Instructions). the next question comes from Brett Huff of Stevens, Inc. Your line is open.

Brett Huff - Stephens Inc. - Analyst

One follow-up. And I don't think I missed this. Could you give us the refi mix stats for 4Q and maybe in January and February too, and I don't know if you want to do open or closed or whatever make sense.

Dennis Gilmore - First American Financial Corporation - CEO

I'm going to turn it over to Mark.

Mark Seaton - First American Financial Corporation - SVP Finance

In the fourth quarter, in terms of opens, our refi percentage was 71%. And it really came down through the quarter.

In October, it was 72%. In November it was 71%, in December it was 69%. And we have seen that trend continue so far. In January it was 67%, and February, we think it's going to be in the low 60s%. We're seeing the refi soften and purchases climb, and you're seeing that reflected in the refi numbers.

Brett Huff - Stephens Inc. - Analyst

And kind of related to that, and I guess this is a bigger picture question, but thinking about the units of work, and I don't know whether it's harder to do a purchase than a refi, just from the amount of work within your company, but it seems like -- as the total number of orders could come down as the reifis probably fall faster than purchases grow, so you could have a lower absolute amount of work to do, presuming the two are kind of interchangeable.

And yet you're going to have a richer mix of refi. Is there anything that should disabuse us of seeing -- is that is this where the margin is going to come from, Dennis?

Dennis Gilmore - First American Financial Corporation - CEO

It could, and again, in my opening comments, we're not sure of the slope down on the refi and the slope up on purchase, so we have to wait until that develops, but we do regenerate twice the revenue - rough numbers, twice the revenue - on the purchase transaction, more work involved. But I think that there is also more incremental margin associated with the purchase.

Brett Huff - Stephens Inc. - Analyst

That's what I needed. Thank you again.

Dennis Gilmore - First American Financial Corporation - CEO

Thank you.

Operator

There are no additional questions at this time. That concludes this morning's call. And we would like to remind listeners that today's call will be available for replay on the Company's website or by dialing (203) 369-0799.

The Company would like to thank you for your participation. This concludes today's conference call. You may now disconnect.