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PRESENTATION

Operator

Welcome and thank you all for standing by. At this time, all participants are in a listen-only mode until the question and answer session of today's conference call. (Operator Instructions) A copy of today's press release is available on First American's website at www.firstam.com/investor. Please note that the call is being recorded and will be available for replay from the Company's investor website and for a short time by dialing 203-369-3836.

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 - Director of IR*

Thank you. Good morning, everyone, and thank you for joining us for our second quarter 2013 earnings conference call. Joining us on today's call, will be our Chief Executive Officer, Dennis Gilmore, and Mark Seaton, Executive Vice President and Chief Financial Officer.

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 page four 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.

Risks 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 the forward-looking statements are also described on page four of today's news release.

Management's commentary contains, and responses to your questions today may also contain, certain financial measures that are not presented in accordance with generally accepted accounting principles, including an adjusted pre-tax title margin and personnel and other operating expense ratios. 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 this morning, which is available on our website, www.firstam.com, the non-GAAP financial measures disclosed in management's commentary are presented with and reconciled to the most directly comparable GAAP financial measures. Investors should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.

I'll now turn the call over to our Chief Executive Office, Dennis Gilmore.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you, Craig. Good morning and thank you for joining our earnings call. I'll provide a brief overview of our financial results, discuss recent capital management activities, and conclude with a few comments on our outlook before turning the call over to Mark, who will discuss our financial results in more detail.

Total revenues in the second quarter were $1.3 billion, up 18% compared to last year. The increase was driven by growth in our commercial, purchase and refinance activity. Earnings per share were $0.31. This quarter's results included an $89 million reserve strengthening for legacy policy errors, which impacted our earnings per share by $0.48. Year to date our paid claims are down 8% as compared to the prior year and our most recent policy years continue to perform well with ultimate loss rates below our historical averages.

The reserve strengthening was primarily related to lender claims from policy years 2004 to 2008. While claims from these years have generally declined, they have not fallen at the pace we expected. And while the reserve strengthening is disappointing, it does not alter our long-term outlook for the business.

Setting the reserves strengthening aside, our earnings were strong this quarter as the Company demonstrated an ability to expand margins. GAAP pretax margins in the title segment were 6.1%. However, excluding the reserve strengthening adjusted pretax margins were 13.4%, are best margin since the peak of the mortgage cycle. Our results were driven by strong market environment during the quarter with purchase closed orders up 22% relative to last year. The robust spring selling season has continued into the summer and so far in July our purchase open orders remain at peak levels of May and June, up 18% compared to July of 2012.

Refinance activity was also strong this quarter with closed orders of 12% compared to last year. However, as a result of a surge in mortgage interest rates beginning in May, our refinance orders have fallen sharply. In May we opened 3,100 refinance orders per day. In June they fell to 2,300 and so far in July they've stabilized around 1,800 per day.

Our pipeline of refinance orders will remain strong in August but we are now acting to manage our cost structure in anticipation of lower closings starting in September and beyond. While there is uncertainty about the level of refinance volumes, we believe that the decline in refinance business will, over time, be more than offset by the strength of our purchase in commercial businesses.

Revenues in our National Commercial division were $133 million, up 35% from last year, driven by an increase in the number of large commercial transactions closed in the quarter. Given our deep client relationships, our unique national platform and financial strength, we are strategically well-positioned in the growing commercial title insurance market.

Turning to capital management, we repurchased 1.6 million shares in June and July at an average price of $21.92 per share, for a total of $36 million. We purchase these shares based on our strong capital position of long-term value we see in our stock relative to other investment opportunities. We currently have $112 million remaining on our existing $150 million share repurchase authorization.

As we look forward. I'm optimistic the housing market is in the early stages of a multiyear recovery and I'm encouraged by positive market fundamentals that are now evident in almost every market. Growth in home sales, rising home prices and favorable affordability. In this improving market environment we will continue to focus on organic growth in our core title business by providing great service our customers. And our vision remains consistent to be the premier title insurance and settlement service provider in the US and in select markets abroad.

I'd now like to turn the call over to Mark for a more detailed review of our financial results.

Mark Seaton - *First American Financial Corporation - EVP, CFO*

Thank you, Dennis. Total revenue in the second quarter was $1.3 billion, up 18% compared to the second quarter of 2012. Net income was $35 million, or $0.31 per diluted share, compared with net income of $73 million, or $0.68 per diluted share, in the same quarter of last year.

The current quarter results include a reserve strengthening of $89 million or $0.48 per diluted share and net realized investment gains of $0.02 per diluted share.

In the Title Insurance and Services segment, direct premium and escrow fees were up 21% compared to last year due to an 11% increase in the number of closed title orders and a 9% increase in the average revenue per order. The average revenue per order increased to $1,593, driven by a 9% increase for resale orders and a 29% increase for commercial orders.

Agent premiums were up 24%, reflecting the normal reporting lag in agent revenues of approximately one quarter. The agent split was 79.7% of agent premiums, an improvement from 80.3% last year.

Information and Other revenues totaled $171 million, up 2% compared to last year, driven by higher demand for the Company's loss mitigation and title information products, partially offset by lower demand for title related services in Canada.

Personnel costs were $340 million, up 14%, primarily due to higher staffing levels required to support increased order volumes, and higher incentive compensation driven by increased revenues.

Other operating expenses were $216 million, up 14% from last year, primarily due to higher production-related expenses and temporary labor costs that resulted from higher order activity. The ratio of personnel and other operating expenses to net operating revenue was 71% compared with 73% last year, reflecting the continued trend of improving operating leverage.

In the second quarter, the provision for title losses was 14.8% of title premiums and escrow fees. The loss rate reflects an ultimate loss rate of 5.8% for the current policy year and an $89 million reserve strengthening for prior policy years. The reserve strengthening for prior policy years reflects claims development above expected levels during the second quarter of 2013, primarily from lender policies originated between 2004 and 2008.

Over the last few years, we experienced a general decline in claims. However, claims have declined at a slower pace than we expected, causing us to strengthen our reserves. We have made many operational changes to improve our underwriting and claims management practices which have been in place for summer years now and have contributed to significantly improve claims experience. Our more recent policy years from 2009 and later have ultimate loss rates lower than our historical averages. After this reserve strengthening our reserve for incurred but not reported losses was 5% higher than our actuary's central point estimate. For the remainder of the year we expect our loss rate in the title segment to be 5.8%, which is our ultimate loss rate for the current policy year.

Pretax income for the Title Insurance and Services segment was $73 million in the second quarter compared with $118 million in the second quarter of 2012. Pretax margin was 6.1%, down from 11.7% last year, reflecting the higher loss provision we experienced this quarter. Excluding the reserve strengthening, the adjusted title insurance pretax margin was 13.4%.

Turning to the Specialty Insurance segment, total revenues were $84 million, up 6% compared to the same quarter of the prior year, driven by a 10% increase in our home warranty business. The loss ratio for this segment was 51%, an increase from the 56% experienced last year as a result of higher weather related claims in our home warranty business and an increase in losses incurred from large single incident claims in our property and casualty business. Pretax margin for the Specialty Insurance segment was 8.7%.

Net expenses in our Corporate segment were $21 million in the second quarter, up from $19 million in the second quarter of last year, primarily as a result of higher interest expense from a senior notes transaction, which closed in January 2013.

In terms of cash flow, cash provided by operations in the second quarter was $209 million, up 87% versus the second quarter of last year.

Capital expenditures during the quarter were $20 million, most of which is related to capitalized software development for system enhancements and conversions.

Debt on our balance sheet totaled $315 million as of June 30th. Our debt consists of $250 million of senior notes, $40 million of trust deed notes and $25 million of other notes. Our debt-to-capital ratio as of June 30th was 11.8%. We continue to have the entire amount available on our $600 million credit facility.

In June and July we repurchased 1.6 million shares for a total of $36 million at an average price of $21.92. Of that amount, 800,000 shares were purchased in the second-quarter and approximately 820,000 shares will be reflected in our third quarter financial results.

I would now like to turn the call back over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bose George.

Bose George - *KBW - Analyst*

I had a couple of questions. First on the provision, so you guys said for the back half of the year, a 5.8% number. Should we think about something similar for 2014?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

Yes, I think something similar is appropriate for 2014. I think 5.8% is kind of on the conservative end of reasonable estimates, but that's our intent for the rest of this year. And, of course, we'll evaluate it beginning of 2014, but for right now I think that's a reasonable assumption for next year.

Bose George - *KBW - Analyst*

And then just in terms of determining the adequacy of the reserve, is there any way that you could suggest for us to kind of think about the adequacy of the reserve?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

Yes, I mean a few things I'd point out. The first thing is that claims have really followed a downward decline both on the incurreds and the paids for the last couple of years. So back in '06-'07 when our claims were really rising, we didn't really know for sure when they're going to peak and start to fall off and we'd made our best estimate, but we didn't really know. Well, now that we're sort of on the tail end of the credit crisis and our claims are falling, we're better able to predict what our ultimate losses are going to be. So that's the first thing I'd say.

The second thing I'd say is that it's an estimate, there's a lot of judgment involved in the reserves and this quarter we're booking at 5% higher than our actuary's best estimates. So we feel like we're on sort of the conservative end of the range of reasonable estimates.

And in the thing that just gives us comfort is that the economic environment is just getting a lot better. Housing prices are rising, there's fewer foreclosures and those are the things that really contribute to our claims. So we feel very good about how we're positioned right now.

Bose George - *KBW - Analyst*

Then just switching to the commercial business, I mean the fee for file was up pretty meaningfully this quarter and I was just curious what drove that and just how to think about that number going forward.

Dennis Gilmore - *First American Financial Corporation - CEO*

I think -- this is Dennis. You'll have some volatility in the number. What drove it this quarter is we had a number of increases of large commercial transactions so it was a very good quarter for us.

Bose George - *KBW - Analyst*

And then so I'm just throwing one more. The comment that you guys made on the 9% increase in revenue for resale and 29% increase for revenue for purchase is that being driven by home prices?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

The 9% on the [ARPU] is being driven by increase in home prices across the country.

Operator

Jim Ryan.

Jim Ryan - *Morningstar - Analyst*

Just a question on your current run rate for the split between residential resale and refi in July on an open order basis. You had mentioned that it had fallen sharply but now it's leveled off. So if you looked at July open orders, what would you say the estimate would be in terms of the split between the two?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

In July it's 48% and it's come down. So in April it was 64%, in May it was 62%. In June it really fell off at 55% and July so far its 48%. And looking forward to August and September, we can never really tell for sure what's going to happen, but at least the last couple weeks our refi order have really leveled off. And so it was 48% in July and we don't think it's going to change materially from that point for the next couple months, at least as we sit here today.

Jim Ryan - *Morningstar - Analyst*

On the commercial would that have been one or a series of special large orders? Or is that something that you're seeing in the pipeline starting to build?

Dennis Gilmore - *First American Financial Corporation - CEO*

It wasn't one order, it was a number of orders across the country, number one. Number two, we are seeing the pipeline continue to be very strong all through the second quarter and going into the third quarter. The business is performing very well right now, we see strength going through the rest of the year.

Jim Ryan - *Morningstar - Analyst*

One final question. Over the past couple of years you've been raising your prices, your filings, et cetera, especially on residential. Do you think you've completed that or do you see more of that to come in the future?

Dennis Gilmore - *First American Financial Corporation - CEO*

I don't see any significant price increases right now as we look at the market, but we're always looking at markets to make sure were getting an adequate return. Really what's driving the price increases across the portfolio now is rising home values.

Operator

Mark DeVries.

Mark DeVries - *Barclays - Analyst*

First I want to move back to the commercial business. Dennis, can you talk about how much more room for growth you think there is enough business? I mean it seems like for the last year and a half it's continued to kind of exceed expectations. I mean is there a secular trend here where it's just a larger potential business for you as the commercial real estate market recovers, and as you see the larger transaction sizes in general?

Dennis Gilmore - *First American Financial Corporation - CEO*

I think it's a few things. Number one, the market continues to be a very strong market for us. We look for the strength to continue through 2013 and going into 2014. And number two we're very well positioned and we've got a very unique platform we operate from. We've got great people and a great brand and a great financial strength right now. And so we do think we're getting sure also, so it's just a good segment for us right now. A very good segment.

Mark DeVries - *Barclays - Analyst*

And I assume you don't expect that segment to be as sensitive to rising interest rates as the residential might be.

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, they're clearly could be some impact depending on what rates ultimately do. But again, we think that the segment will continue to show strength throughout 2013.

Mark DeVries - *Barclays - Analyst*

Then the next question. I understand you've got $112 million remaining on your authorization as you mentioned, but can you talk more broadly about the capacity you believe you have to return capital in the coming years, given how relatively low your leverage is now?

Dennis Gilmore - *First American Financial Corporation - CEO*

I guess what I'll do is just comment overall, generally. Clearly we have capacity. We're going to just continue to look for the right opportunities to deploy capital back. First we always for deployment back in the business. Our next thought is any kind of strategic acquisition with the necessary returns for us. And then last we're going to always look at the appropriateness of our dividend and share repurchase. And just kind of as a way of background, we doubled the dividend in 2012 and so far through this part of the year we've deployed $36 million in a repurchase program. So we do think we have capacity and we'll continue to look for appropriate opportunities to return capital.

Mark DeVries - *Barclays - Analyst*

The loss ratio in the specialty business is a little bit elevated this quarter. Is there anything worth calling out there?

Dennis Gilmore - *First American Financial Corporation - CEO*

Really two things. In the home warranty business we just experienced a very hot second quarter. And when we have in any one of our markets temperatures over 100, 105 for a sustained period of time we're going to experience a higher claim rate. And then in the P&C, we just had an increase in large nonrelated or non-coordinated large commercial clients. So no real trend there, just a number of large claims the quarter.

Mark DeVries - *Barclays - Analyst*

Is this 50% loss ratio more in line with what we should expect longer-term in that business?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

I would say that for the overall specialty insurance segment, low 50s, I mean, 50% to 54%, typically what we've run in the last several years. But that's obviously a number that depends on event related things. But I would say somewhere between 50% to 54% is a normalized loss rate for specialty.

Mark DeVries - *Barclays - Analyst*

Just one last question. Given that this quarter you produced one of the best pretax margins you've seen in a while, are you seeing anything, particularly as result of a lot of expense saves you've put through that make you optimistic that you might be able to manage to an even kind of better success ratio than the 60% you try to manage to? So, as revenues rise do think there's a potential you could add less than kind of $0.50 on the dollar of expenses?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

No, we're not going to guide to a different number at this point. That's a pretty aggressive number, both on the way up and on the way down. But more broadly we're very optimistic just when we look forward. We think that this market ultimately will be smaller next year but turning more and more to a purchase market, which is clearly a favorable market to us.

Operator

Joe Jolson.

Joe Jolson - *JMP Securities - Analyst*

I just had a detailed question on kind of within your title business what the trends are in the foreclosure title business? I know that's a highly profitable area for you and I just wondered what that did during the quarter and what the outlook is for that going forward.

Mark Seaton - *First American Financial Corporation - EVP, CFO*

It's kind of a mixed bag actually. We're seeing our TSG, our title foreclosure work dropping as the foreclosure crisis moves further -- as it continues to improve there. We've seen our modification type work though increase. So I'd say a mixed bag and we'll probably see those trends continue through 2013 into 2014. And we continue to think that the overall foreclosure volumes will decline, but we're doing a lot of modification type work right now.

Joe Jolson - *JMP Securities - Analyst*

Okay, I mean just generally speaking you give me a sense of the profit margins in that versus the normal kind of purchases business?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

No, we typically don't break that out, sorry.

Operator

Geoffry Dunn.

Geoffry Dunn - *Dowling & Partners Securities, LLC - Analyst*

Dennis, you had mentioned some per day trends May, June and July, the 1,800 number you mentioned for July. Was that refi per day openings?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes, Geoff. What we've seen from May we were 3,100 and in refinance, we dropped into June to 2,300 and so far in July we're averaging right around 1,800 right now. It looks like tenure's kind of stabilized around the two-five, two-six, we've been stabilizing around the 1,800 level right now.

Geoffry Dunn - *Dowling & Partners Securities, LLC - Analyst*

Okay, so putting it all together for the full metric maybe purchases flat to up a bit and you're seeing about a 500 per count per day contraction sequentially?

Dennis Gilmore - *First American Financial Corporation - CEO*

Effectively, yes.

Geoffry Dunn - *Dowling & Partners Securities, LLC - Analyst*

And then on commercial I want to just get a little bit more color. Obviously the last couple of years have been -- or last several years have been carried by a lot of kind of workout commercial activity. What kind of mix are you seeing with respect to that ongoing workout activity versus the ongoing return to true commercial business? And is there a difference in the profitability between the two?

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, we're clearly moving more to a purchase market now in the commercial business, so that trend has been happening and continues to accelerate. Not a significant difference in profitability between the default [of] a purchase and a commercial, but the trends moving towards purchase.

Operator

John Campbell from the line of Brett Huff.

John Campbell - *Stephens Inc., - Analyst*

Just back on staffing. I mean it sounds like the personnel costs did spike a little bit in 2Q, but some of that was probably due to that temporary labor. But if you guys could just touch on maybe staff levels, just maybe year to date and just more generally any kind of plans on like meaningfully scaling that back as refi's just kind of come down harder in the back half of (inaudible).

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes, sure. Right now we are -- have started and will continue to adjust our staffing levels with anything associated with a refinance transaction. So just as we go through the inventory we'll continue to watch our costs very closely and adjust as needed. With the desired hit that success ratio of $0.60 per dollar on the way down.

John Campbell - *Stephens Inc., - Analyst*

And then just back on the reserve strengthening. I know you guys said it was mainly due to just the lender policies from that 2004 two 2008 timeframe. But if you could just give a little bit more detail. I mean was it a particular exposure maybe by state or maybe just more negative claims coming out of the commercial side?

Dennis Gilmore - *First American Financial Corporation - CEO*

No, I mean the reserve strengthening, it wasn't really driven by commercial. There were a couple of commercial claims, but that wasn't really the story. The story was just a lot of run of the mill lender claims from those legacy policy years. In terms of by state, we get a lot of claims from states that have higher foreclosure rates. So states like California, Nevada, Arizona, Florida, Michigan I would say are the states where we get disproportionate amounts of claims. And that's kind of been like that for while.

John Campbell - *Stephens Inc., - Analyst*

And then Mark, I might've missed this but what was the current cash (inaudible)?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

It was about $190 million.

Operator

Jordan Hymowitz.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Yes, I'd just like to follow-up on Mr. Jolson's question. What percent of your title business is foreclosure related? Is it a big number?

Dennis Gilmore - *First American Financial Corporation - CEO*

Well we have about, I would say 5% to 6% of our revenue is default related, of which foreclosure is a component of that. So I wouldn't say it's a big component of our revenue, although it's still a meaningful business.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

So it's 5% to 6% would be the most percentage?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

And even if it was 50% more profitable, it would be about 10% of total business, so to speak.

Dennis Gilmore - *First American Financial Corporation - CEO*

You can look at it like that.

Operator

Mark DeVries.

Mark DeVries - *Barclays - Analyst*

Sorry. I know you've given this number on a monthly basis, but do you have the percentage for the whole order on a blended basis of refi purchase on your open and closed orders?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

Yes. So on the quarter, on the open side it was 61%, on the closed side the 62%. So very similar numbers. And that's for the second quarter.

Mark DeVries - *Barclays - Analyst*

And how does that compare to the first order?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

First quarter was 64% on the opens, so it went from 64% to 61%. On the close side it was 70% in the first quarter, so it went from 70% to 62%.

Mark DeVries - *Barclays - Analyst*

And just one other thing. I know, Mark, you mentioned you think that the refi is going to stabilize here, I guess it'd 1,800 a day level in July. Why do you think that?

Mark Seaton - *First American Financial Corporation - EVP, CFO*

Well, just throughout the month of May and June our refi orders were really just following -- almost on a daily basis as mortgage rates increased. And now for the last, call it two or three weeks or so, they've really stabilized. So you look a kind of the daily trends they have definitely leveled off, at least for the time being.

Operator

There are no additional questions at this time. That concludes this morning's call. We'd like to remind listeners that today's call will be available for replay on the Company's website or by dialing 203-369-3836. The Company would like to thank you for your participation. This concludes today's conference call. You may now disconnect.