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FAF - Q3 2015 First American Financial Corp Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the First American Financial Corporation's third-quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (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 for a short time by dialing 877-660-6853 or 201-612-7415 and enter the conference ID 13621641.

We will now turn the call over to Craig Barberio, Director of Investor Relations, to make an introductory statement. Please go ahead, Sir.

Craig Barberio - *First American Financial Corporation - Director of IR*

Good morning, everyone, and thank you for joining us for our third-quarter 2015 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 pages 4 and 5 of today's news release, and other statements that do not relate strictly to historical or current facts. 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 the forward-looking statements are also described on pages 4 and 5 of today's news release.

Management's commentary contains, and responses to your questions may also contain, certain financial measures that are not presented in accordance with Generally Accepted Accounting Principles, including adjusted earnings-per-share, adjusted pretax margins, personnel and other operating expense ratios, and success 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 today, 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 view these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures.

With that, I'll now turn the call over to Dennis Gilmore.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thanks, Craig. Thanks for joining our call. Today, I'll review our third-quarter financial and operating results, provide an update on the impact of the new integrated mortgage disclosure rule, and conclude with a few comments regarding our outlook.

Overall, our financial results this quarter were strong, as our Title segment continued to generate solid operating leverage on revenue growth. Revenues in the third quarter were $1.4 billion, up 10% from the same quarter last year. The increase was primarily driven by strength in our purchase and commercial businesses. After adjusting for net realized gains and losses, earnings-per-share this quarter were $0.71 compared to $0.65 for the same quarter last year.

We benefited from strong purchase closings throughout the quarter, driven by a healthy spring selling season. In the third quarter, revenues in our purchase business were up 14%, driven by increases in both closed orders and the average fee per order. While our open purchase orders are following the typical seasonal decline through September, they're up 5% compared to last year. And through mid-October, they continue to be up 5%, demonstrating the ongoing strength of the housing recovery.

Open orders in our refinance business were down 7% on a sequential basis. During the quarter, a modest decline in interest rates caused refinance orders to increase to 1,700 orders per day by September, and they have remained at that level through mid-October.

Our commercial business continues its strong performance in the third quarter, with revenues up 15% compared to the same quarter last year. Average revenue per commercial order was up 10%, driven by an increase in the average transaction size and the number of large transactions closed.

After adjusting for net realized gains and losses, our Title segment's pretax margin was 10.9% compared to 9.4% last year. During the third quarter, we continued to benefit from improved market conditions and our ongoing focus on expense management. Our success ratio was 49% during the third quarter, and year-to-date, we are at 51%, significantly better than the 60% target we set for an increasing revenue environment.

Revenue in our Specialty Insurance segment was $101 million, up 7%. However, pretax income declined due to higher claims. Our home warranty business was impacted by higher seasonally-related claims, and our Property and Casualty business incurred higher losses, primarily as a result of the large recent -- excuse me -- the recent large wildfires in Northern California.

As we discussed on our last call, we continue our focus on the implementation of the new integrated mortgage disclosure rule, which became effective October 3. At this stage, it's too early to evaluate the rule's ultimate impact. We still anticipate temporary delays in closings throughout the remainder of this year and potentially into early 2016, as industry participants adapt to the required changes.

As more of these transactions close throughout the fourth quarter, we'll have a better assessment on the overall impact of the new disclosure rule. As I previously stated, I believe this new environment presents an opportunity for First American as a settlement service provider that's prepared to deliver the highest quality work.

Looking forward, we remain optimistic. The improving economy increases our confidence and the outlook for sustaining growth in the purchase market as we enter 2016. Our commercial business continues to show strength as we enter the seasonally strong fourth-quarter. As the housing market continues to improve, I believe the Company is well-positioned to deliver strong financial results, creating long-term value for our shareholders.

Now I'd like to turn the call over to Mark.

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

Thank you, Dennis. Total revenue in the third quarter was $1.4 billion, up 10% compared with the third quarter of 2014. Net income was $76 million or $0.69 per diluted share compared with net income of $81 million or $0.74 per diluted share in the same quarter of last year. After adjusting for realized gains and losses, earnings per diluted share were $0.71 compared with $0.65 in the prior year.

In addition, the third quarter of 2014 benefited from certain nonrecurring tax benefits which contributed to a 30% effective tax rate. In the Title Insurance and Services segment, direct premium and escrow fees were up 11% compared with last year. This growth was driven by a 3% increase in the number of direct titles that were closed and a 10% increase in the average revenue per order.

The average revenue per order increased to $2,119, driven by higher average fees for both commercial and purchase orders. The average revenue per order increased 10% for commercial transactions and 7% for purchase transactions. We continue to see a large number of commercial deals close as well as higher residential housing prices, which have had positive effects on our average revenue per order.

Agent premiums were up 16%, reflecting the normal reporting lag and agent revenues of approximately [one-quarter]. The agent split was 80.2% of agent premiums.

Information and other revenues totaled $162 million, up 1% compared with last year. Higher demand for certain of the Company's Noninsured Services and Products was partially offset by lower demand for the Company's default information projects.

Personnel costs were $380 million, up 10% from the prior year. This increase was primarily due to higher incentive-based compensation, driven by the improvement in revenues and profitability. Other operating expenses were $202 million, essentially flat versus last year, despite a 4% increase in open orders. Higher temporary labor costs were offset by lower production-related expenses.

The ratio of personnel and other operating expenses to net operating revenue was 72.3%, an improvement from the 74.5% we posted in the third quarter of last year. The provision for title policy losses and other claims was $72 million or 6.5% of title premiums and escrow fees compared with a loss provision rate of 6.7% in the same quarter of 2014.

Pretax income for the Title Insurance and Services segment was $137 million in the third quarter compared with $121 million in the third quarter of 2014. Pretax margin excluding related gains and losses was 10.9% compared with 9.4% last year.

Turning to the Specialty Insurance segment, total revenues were $101 million, up 7% compared with last year, driven by higher premiums earned in both the Property and Casualty, and Home Warranty business lines. The loss ratio for this segment was 69%, an increase from the 60% we experienced last year. Both our Property and Casualty Insurance and Home Warranty businesses had higher claims experienced this quarter.

Our Property and Casualty business incurred $3.5 million of homeowner insurance claims related to wildfires in Northern California during September. The fires caused nine policy limit losses and we don't expect to incur any additional losses as a result of this event.

In our Home Warranty business, the loss ratio increased [from] 65% -- from 59% in the third quarter of 2014, due to higher claims frequency as well as higher contract servicing costs. We experienced unusually low claims activities in the third quarter of 2014, and the loss ratio in Home Warranty this quarter reflects our typical third-quarter claims experience.

Pretax margin for the segment was 2% versus 11% in the prior year. Net expenses in the Corporate segment were $23 million, up $8 million relative to the prior year. Most of this increase is related to lower investment income and higher interest expense from our senior notes offering that closed in November 2014.

The effective tax rate for the quarter was 34.3%, higher than the 30.2% tax rate in the third quarter of last year. This quarter's tax rate was in line with our expectations, while the tax rate last year benefited from certain nonrecurring tax items related to our foreign operations.

In terms of cash flow, cash provided by operations was $185 million versus $121 million in the third quarter of last year. The increase was primarily due to a reduction in working capital and higher cash earnings. Capital expenditures were $32 million, up from $26 million in the third quarter of last year.

[Increases to] fixed assets, title plants and capitalized data were partially offset by a decline in capitalized software. Debt on our balance sheet totaled $585 million as of September 30. Our debt consists of $549 million of senior notes, $31 million of trustee notes, and $5 million of other notes and obligations. Our debt to capital ratio as of September 30 was 18%.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeremy Campbell, Barclays.

Jeremy Campbell - *Barclays Capital - Analyst*

So you guys mentioned potential delayed closings due to TRID. Given that you start booking expenses when the orders opened and -- but the revenue when the orders closed, if TRID elongates the closing timeline, should we expect pressure on your margins heading into the fourth quarter?

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

If that happens, yes, we would expect margin pressure, just as you mentioned. Typically, it takes about 60 days to close a purchase transaction and roughly 45 days for a refinance transaction. And so, obviously, if these time frames get extended, our revenue will be delayed and we won't have a corresponding delay in expenses. So if there is a significant impact in TRID, we think our margins would suffer in the fourth quarter.

Jeremy Campbell - *Barclays Capital - Analyst*

Got you. And you said you think maybe the delays revert back to normal sometime in early 2016? Is that what you guys mentioned on the call earlier?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes, this is Dennis. Again, I think -- the rule went into effect on October 3. So, first couple of weeks, no impact to us at all. It has actually been very smooth for us. We are ready to go.

We'll start to see the month -- the majority of our closings happening mid-November, late November, and that's when we'll get the real full impact of the rule. So I do think that there will be some temporary delays in closings in the fourth quarter, potentially into the first quarter. And that is simply just because of industry participants getting used to their new processes.

And basically, like I mentioned on my script too, though, I actually view this as a great opportunity for us. We are ready to go. Our people are ready to go and our systems are ready to go. So, I think it's actually an opportunity for us as we get through the exchanges.

Jeremy Campbell - *Barclays Capital - Analyst*

Great. And then we continue to see very large commercial transactions. Blackstone recently just bought that big Status in Town apartment complex here in New York for a little over $5 billion. Do you know -- do they have to get a title policy on that? And if so, how would they think to split it up between the different title insurance companies?

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, the answer specifically on that transaction will be yes, and we'll actively try to get our piece of that. How they'll typically split it up is, depending on the size, they'll look for potentially a number of insurers to participate.

Jeremy Campbell - *Barclays Capital - Analyst*

Great. And does that usually close in one big chunk? Or like a series of different closings over time?

Dennis Gilmore - *First American Financial Corporation - CEO*

That would depend specifically on the transaction -- the details of that transaction.

Jeremy Campbell - *Barclays Capital - Analyst*

Got it. Great, thanks guys.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Bose George, KBW.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

On the Specialty Insurance segment, what can we think about for a good normalized loss ratio going forward? And then can you also just talk about the seasonality of that?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes, I'll start and I'll have Mark come back on the loss rate. The quarter was a difficult quarter for us simply because we had two events happening. We had the unique wildfire in Northern California that cost us about $3.5 million in our Property and Casualty business, more than our normal loss rate.

On Home Warranty, we had two issues happen. The performance the year before was seasonally strong for us. We had a mild summer. This year, we've had more of a normal summer. And always, our third quarters are the most difficult or our most stressed quarter for that Home Warranty business. So I think we'd probably drop back in the normal loss rates for Home Warranty for the third quarter and we'll spring right back in the fourth/first.

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

Yes. And in terms of the normalized loss rate for the Specialty segment, Bose, on an annual basis, it's typically between 56% to 58% annually, but obviously there's a lot of seasonality in that rate.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, great, that's helpful. Thanks. And then actually just in the Corporate segment, the pretax income there this quarter, is that a good run rate going forward?

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

Yes, that is a good run rate. We had a $23 million loss in Corporate. That was basically what we had in Q2 -- a little bit less. But that is a good run rate going forward.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, great. And then just one on the revenue per -- or the fee per file just in that Other category was up to -- was up a fair amount year-over-year. Just curious what drove that and just what's in there other than the default category?

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

It's -- most of it is default-related. Over half of it is default. We do have some other ancillary products but we sort of think about it as default. There's some timeshare business we have and some other product, but it's mainly default and timeshare.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

So that [670], I mean, could that sort of go back to where it was the last couple of quarters?

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

It could. I mean we saw a little bit of unusual number there this quarter and I don't think that's sustainable going forward.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, great. Thanks.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Just wondering if you could talk a little bit about potential growth in the Information and Other segment. I know you've launched several new products there. And if there's any way for us to think about year-over-year growth rates moving forward.

Dennis Gilmore - *First American Financial Corporation - CEO*

Right now, it's going to be fairly minor. What we're really doing right now is building out our databases to support our core Title business. We actually think we've achieved a very unique public record database now. And so we are helping it displace our external vendors for Title right now.

And then the second thing is we're going to continue to build out some products and services for our lender bases. But it will be more of a moderate growth over the next year or so.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. Are there any trends you can share for October? Sorry if I missed them.

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, our orders are up 5% on a year-over-year basis right now, so it's continuing to perform strong on an [overall] basis.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And is there any mix in terms of purchase refi trends?

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

Not really. On an annual basis, our purchase orders are up 5% and our refinance orders are up 8%. So it's -- there's not -- there hasn't been a whole lot of movement in terms of the mix just in October.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay, got it. In terms of commercial, have you seen any knock-on effects from any slowdown in transactions as we came later into the quarter?

Dennis Gilmore - *First American Financial Corporation - CEO*

No. We are continuing to run strong. Business was up 15% from a year ago. Continuing to perform well across our states and across our product types. So, I think that that will continue to have a strong fourth quarter going into 2016 and will also be a good year for us.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. Great. Thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

John Campbell, Stephens.

Hayden Blair - *Stephens Inc. - Analyst*

It's Hayden Blair sitting in for John Campbell. I had just a couple of questions. Maybe longer-term as far as the [tallies rise] for integrated disclosure. Do you guys see any opportunities there to potentially improve agency retention rates? And is there maybe also some M&A opportunities available post this regulation?

Dennis Gilmore - *First American Financial Corporation - CEO*

It's probably premature to make those calls right now. Again, the rule is brand-new. We really won't see the full impact of it until -- again, until we get well into the fourth quarter. But it's just at the highest level, I just think it's an opportunity for First American.

I do think it may present some acquisition targets but only if it makes sense to us and it's in the right locations. I just -- again and I'm going to say the same thing -- I think it's an opportunity for a company like First American as we operate in this new compliance-oriented environment.

Hayden Blair - *Stephens Inc. - Analyst*

Got it, thanks for that. And then the MBA recently put out their numbers for both 2017 and 2018. It seems like it's a pretty steady $1.3 trillion market. Is that kind of a normalized market that would still allow you guys to do a 10% to 12% title pretax margin? Or because that's lower than this year's originations, would you expect that to be on maybe the lower end of that range?

Dennis Gilmore - *First American Financial Corporation - CEO*

It's -- we are still sticking with our current guidance of the 10% to 12%, and we think that market will support that.

Hayden Blair - *Stephens Inc. - Analyst*

Got it. Thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Kevin Kaczmarek, Zelman & Associates.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

I guess going back to the Information segment, on -- I know that business can be affected by refi and default activity. But assuming those are more normalized at some point, what's sort of a core growth rate, excluding fluctuations, in those two items for the Information and Other?

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

It's difficult to say, Kevin. On the one hand, we have products that we sell that go into Information and Other like property reports and other types of things that are tied to mortgage originations. So there's a big component that's tied to mortgage originations in the US.

As you know, they're default-related business, which has its own cycle. We also have a lot of our international businesses in that Information and Other item, which has its own cycle. And then, finally, we have our data and the Title plan business that's in there. And we feel like that business is sort of on the early stages of a long-term growth trajectory. So when you mix all those together, it's difficult to pinpoint what a growth rate is for the overall line item, because there's just so many different drivers.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay, fair enough. And in terms of TRID, I know you -- I heard your comments before about it being too early to tell really the long-term impact -- but, I guess, is there a minimum size an agent needs to be to operate in the new environment? I mean I would expect some consolidation on the agent side, but can you give us a sense of how big an agent needs to be now?

Dennis Gilmore - *First American Financial Corporation - CEO*

I don't think it's driven by a size component. It's actually driven by the necessary compliance to the TRID readiness -- it's the readiness of it all and to then have the comfort with the lenders. So, I don't think it's driven by size. I just think it's driven by the actual performance of the individual agent.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. And lastly on the provision, how long do you think you are going to keep that at 6.5%?

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

Our expectation now is through the end of the year. And it -- which is consistent with what we've been saying really at the beginning year is, we booked 6.5 this quarter, we booked 6.5 in Q1 and Q2. Based on everything we are seeing right now, we expect to book 6.5 in Q4, assuming claims come in in line with our expectations. And then we'll reevaluate in Q1 of next year. And I think as we sit here today, we would expect it to start drifting down back to a more normalized rate beginning early next year.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. Thanks. That's all I had.

Operator

Mark Hughes, SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Any one-timers in the operating expenses? They were flat on an absolute basis year-over-year. Anything that's nonrecurring or unusual in that?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes, this quarter, I would say there's really nothing materially in the other OpEx line. And personnel costs, we did true up our 401(k) with roughly about $5 million. And that hit our personnel line item. But we would just consider that sort of normal operating noise. So there wasn't really anything extraordinary that we would point out.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right, so that reduced your profits by about $5 million, is that right?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes, pretax.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Okay. And then the cash flow impact, could you give us an update on what you would anticipate for 2016, the reduced cash payments for losses? What does that mean for your free cash flow?

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, we are seeing our paid claims fall. That's happening. In Q3, our paid claims were about $50 million in Title; Q3 of last year, they were $57 million. So we are seeing them fall.

If you're looking at kind of a year-to-date basis, our paid claims are flat in Title mainly because we paid two of the largest claims we've ever paid in our history, happened in the first half of the year. And that -- those two totaled $35 million. So when you back that out, our year-over-year paid claims on a year-to-date basis have fallen significantly.

So we feel like they are going to continue to fall as we go into next year. As we talked about at our Investor Day earlier this year, we feel like there's about a $50 million cash flow pickup on an annualized basis, just because of the fact that our paid claims are going to continue to fall until they get to that normalized rate.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Ryan Byrnes, Janney.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Just had -- again, if I look at the Corporate segment -- this is maybe more of a mechanical question -- but it shows the net investment income was negative $5 million. I'm just trying to wrap my head around as to what that would be -- a pension expense? I mean, I guess maybe the 401(k) -- is that what it's coming in at or --?

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, you characterize it as a mechanical question, so I'll give you the mechanical answer here. (laughter) So we have a deferred comp plan for certain of our employees that's on our balance sheet. And when the assets in that deferred comp plan rise, our investment income is going to rise. And when they fall, our investment income is going to fall.

But there is a corresponding increase or decrease that's basically mirrored within our personnel costs. So, if you look at Q2 versus Q3, our investment income was down $5 million but our personnel costs were down $5 million. And there was virtually no change in pretax income. So it's really just a pass-through.

When you're looking at -- if you're looking at year-over-year, our investment income was down $5 million, but our personnel costs were flat. And that's because there was another thing that was happening where, in Q3 of last year, at Corporate, we had a -- roughly a $5 million pension benefit that we took. And we've had a pension plan that's been frozen for some time. There was a benefit that we took that we didn't get that benefit of this quarter. And so that sort of explains the driver there.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Got you. Good work. Thanks for that. And then, if I may, Information and Other revenues were kind of down modestly sequentially. And you noted that obviously lack of delinquent business was part of that. But I was just trying to figure out or trying to size that type of book annually, what that would be? And then, obviously, we would think that that would continue to be a pressure going forward. Just if you guys could help us size what that book currently is.

Dennis Gilmore - *First American Financial Corporation - CEO*

Annually, in the -- in the Information and Other line item, it's roughly about $80 million a year of revenue on an annual basis.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Got it. Thanks, guys.

Operator

Jeremy Campbell, Barclays.

Jeremy Campbell - *Barclays Capital - Analyst*

Just one quick follow-up here. As we start to think about the commercial market and sort of try to kind of size that up as far as transactions go, when a company like Blackstone buys like a REIT or a hotel company, does title need to be done on underlying properties? Or not, because they are just basically buying the corporate equity?

Dennis Gilmore - *First American Financial Corporation - CEO*

Typically, there is title insurance involved in those type of transactions -- typically.

Jeremy Campbell - *Barclays Capital - Analyst*

Got it. Great, thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Jason Deleeuw, Piper Jaffray.

Eric Robinson - *Piper Jaffray & Co. - Analyst*

You've got Eric Robinson on for Jason. My first question relates to the higher personnel costs in the quarter, due to the incentive compensation. Is it -- should we view this as kind of a new expense run rate going forward? Or is that more one-time?

Dennis Gilmore - *First American Financial Corporation - CEO*

Well, I would say we definitely increased our incentive comp and our bonus expense this quarter, just because of the higher profits and revenues that we experienced this quarter. But it's typically more seasonal. So I don't think you'll see that same level heading into the fourth quarter.

Eric Robinson - *Piper Jaffray & Co. - Analyst*

Okay, thanks. Thanks. And then just one follow-up here. Have you guys started to notice any weakness in energy-related states like Texas?

Dennis Gilmore - *First American Financial Corporation - CEO*

It's starting to happen right now in Houston and North Dakota. We think that that will continue to be -- continue to show weakness going into 2016. But I should point out that is not a significant part of our commercial business.

Eric Robinson - *Piper Jaffray & Co. - Analyst*

Got it. All right, thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Thank you. There are no additional questions at this time. That does conclude 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 877-660-6853 or 201-612-7415 and enter the conference ID 13621641.

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