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FAF - Q2 2016 First American Financial Corp Earnings Call

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## CORPORATE PARTICIPANTS

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

**Dennis Gilmore** *First American Financial Corporation - CEO*

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

## CONFERENCE CALL PARTICIPANTS

**Hayden Blair** *Stephens Inc. - Analyst*

**Jeremy Campbell** *Barclays Capital - Analyst*

**Chris Gamaitoni** *Autonomous Research LLP - Analyst*

**Mark Hughes** *SunTrust Robinson Humphrey - Analyst*

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

**Ryan Byrnes** *Janney Montgomery Scott - Analyst*

**Eric Beardsley** *Goldman Sachs - Analyst*

**Kevin Kaczmarek** *Zelman & Associates - Analyst*

**Geoffrey Dunn** *Dowling & Partners Securities - Analyst*

**Jason Deleeuw** *Piper Jaffray - Analyst*

## PRESENTATION

### Operator

Greetings and welcome to the First American Financial Corporation second-quarter 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](http://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 13640685.

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

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

Good morning, everyone, and welcome to our second-quarter 2016 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.

Some of the statements made today may contain forward-looking statements that do not relate strictly to historical or current facts. These forward-looking statements speak only as of the date they are made, and the Company does not undertake to update these 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. For more information on these risks and uncertainties, please refer to today's earnings release and the factors discussed in our Form 10-K and subsequent SEC filings.



Our presentation today contains certain non-GAAP financial measures that we believe provide additional insight into the operational efficiency and performance of the Company relative to earlier periods and relative to the Company's competitors. For more details on these non-GAAP financial measures, including presentation with and reconciliation to, the most directly comparable GAAP financial measures, please refer to today's earnings release, which is available on our website, [www.firstam.com](http://www.firstam.com).

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

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Thanks, Craig. And good morning and thanks for joining our call. I'll begin with a review of our second-quarter highlights, and conclude with a few comments on our outlook for the second half of the year.

The positive momentum in our business continued into the second quarter. Our EPS was \$0.92, up from \$0.85 last year. Our strong results were driven by our Title segment, which delivered a pretax margin of 13.7%, the highest in the Company's history. Our margin this quarter benefited from our ongoing focus on operating efficiencies, a favorable title claims rate, and the continued recovery of the housing market.

In our Residential business, purchase revenue grew by 5%. Nearly all of this growth was driven by higher average revenue per order. Our closed purchase orders were essentially flat compared to last year, with many areas of the country continuing to experience a shortage of housing inventory.

Refinance revenues were up 2% during the quarter. Lower interest rates drove our refinance volume up 20% relative to last year, which will add significantly to our order pipeline going into the second half of the year. Our commercial revenues were down 2% in the quarter. Despite global uncertainties, our commercial business continues to see broad-based strength across the majority of asset classes in geographic markets, and we continue to experience healthy levels of transaction activity.

Revenues in our Specialty Insurance segment grew by 7% during the quarter. However, we experienced higher claim losses in our home warranty business, which caused the segment's pretax margin to decline to 5%.

In May, we announced the termination of our pension plan. The Company currently incurs expenses of approximately \$22 million per year related to this legacy plan. When the termination of the plan is complete, we anticipate saving a similar amount going forward. Mark will provide more details on the pension termination in his remarks.

Turning to the outlook, the low interest rate has triggered a surge in refinance orders. So far in July, our refinance orders are running at approximately 2,800 per day, up 90% compared to last year. It is unknown how long this elevated refinance volume will last, but it will help to offset the normal seasonal decline in purchase orders.

Through mid-July, our Purchase business remains essentially flat relative to last year. We do not expect the low interest rate environment to have a material impact on the purchase market for the remainder of 2016, and we anticipate the normal seasonal trends will prevail.

Finally, our Commercial business is poised for another good year, even though we expect our revenues to be down slightly from the 2015 peak. I believe the Company is well-positioned for 2016 and beyond. We remain focused on driving operating efficiencies and gaining profitable market share in our core Title business, to maximize long-term profitability, as part of our ongoing commitment to be the premier title insurance and settlement service provider.

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 and CFO*

Thank you, Dennis. Total revenue in the second quarter was \$1.4 billion, up 3% compared with the second quarter of 2015. Net income was \$102 million, or \$0.92 per diluted share. The current quarter results include net realized investment gains of \$8 million, or \$0.05 per diluted share.

In the Title Insurance and Services segment, direct premium and escrow fees were up 1% compared with last year. This increase was driven by a 3% increase in the average revenue per order, partially offset by a 1% decrease in the number of orders closed.

The average revenue per order increased to \$1,972, primarily due to higher residential real estate values. The average revenue per order increased 5% for Purchase transactions and 2% for Commercial transactions. Agent premiums were up 3%, reflecting the normal reporting lag of agent revenues of approximately [one quarter]. The agent split improved 50 basis points to 78.3%, due to a shift in geographic mix.

Information and Other Revenues totaled \$182 million, up 1% compared with last year. The increase was driven by acquisitions, offset by lower demand for the Company's default information products.

Personnel costs were \$390 million, up 2% from the prior year. Excluding acquisitions, this increase was primarily due to higher salary and stock-based compensation expense, offset by lower incentive compensation. Other operating expenses were [\$196 million], up 1% from last year. The ratio of personnel and other operating expenses to net operating revenue was 71.6%.

The provision for title policy losses and other claims was \$57 million, or 5.5% of title premiums and escrow fees compared with a loss provision rate of 6.6% in the same quarter the prior year. During the second quarter, our paid title claims fell 18% from last year.

Pretax income for the Title Insurance and Services segment was \$172 million in the second quarter compared with \$155 million in the second quarter of 2015. Pretax margin was 13.7% compared with 12.6% last year.

Turning to the Specialty Insurance segment, total revenues were \$104 million, up 7% compared with last year. The loss ratio for this segment was 65%, up from 60%, primarily due to higher contract servicing costs in our Home Warranty business. Pretax margin for the segment was 5%.

Net expenses in the Corporate segment were \$24 million, down 1%, driven by lower costs related benefit to Company benefit plans. The effective tax rate for the quarter was 33.3%, slightly better than our normalized tax rate of 34%. In terms of cash flow, cash provided by operations was \$203 million, a decline of 13% from last year, primarily due to an increase in tax payments.

Debt on our balance sheet totaled \$579 million as of June 30. Our debt consists of \$546 million of senior notes, \$29 million of trustee notes, and \$5 million of other notes and obligations. Our debt to capital ratio as of June 30 was 16.4%, and we have the entire amount available under a \$700 million revolving credit facility.

In May, we announced the termination of our pension plan. Given the legacy nature of the plan, and the uncertainty of future interest rates, investment returns and other factors, the pension plan was terminated. Over the next 12 months, we will provide additional cash contributions so that the pension plan has sufficient assets to fully meet its obligations to all participants. The amount of these cash contributions will depend on a variety of factors, but we expect these additional contributions to be approximately \$100 million.

As of December 31, 2015, we reported unrealized losses of \$197 million before tax, and accumulative other comprehensive loss on our balance sheet related to pension plan. These unrealized losses, as well as other expenses estimated to be [\$15 million], will be recognized in the Company's income statement in two separate quarters.

Although the ultimate amounts are currently not determinable, we expect to recognize a loss of approximately \$81 million in the fourth quarter of 2016, as distributions are made to certain participants, and an additional \$131 million by the unit of the third quarter of 2017, as all remaining liability is transferred.

This transaction will have a negligible effect on stockholders equity, since the unrealized loss is already reflected in the balance sheet. Once the termination process is complete, we expect an annual reduction of approximately \$22 million in personnel expenses within the Corporate segment, based on the level of these expenses in the first half of 2016.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) John Campbell, Stephens.

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### Hayden Blair - Stephens Inc. - Analyst

Hey, guys, this is Hayden. Congrats on the good quarter. Quick question on the agency business. We're hearing the same sort of geographic shift commentary from a competitor. So I'm just wondering for you guys, what are some of the moving pieces shaping that agency strategy moving forward? And what would it take for you guys to -- or would you even want to -- grow that business at a similar rate as we are seeing out of some of your peers?

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### Dennis Gilmore - First American Financial Corporation - CEO

Well, first, a couple of things to that question. Number one, we're really excited about our agency channel and what's going on there.

With regards to the growth, we had a very good quarter and I think that trend will continue actually. I'm very optimistic looking into the third and fourth quarters. If you recall, we take our agency revenue on a cash basis, so our refinance orders are going up significantly. So I think that bodes well for the third and fourth quarter for the agency book.

Specifically to local market conditions, we're always looking at the profitability of any market -- our returns, our risk profiles -- and we adjust accordingly. So I think there's a lot of opportunity for future growth, but at the same time, we'll control some of our markets too.

I'll give you an example. In Utah, the risk profiles have changed in Utah, so that's a market that we're probably going to shrink a little share, but we are going to focus in on only the most well-capitalized agents in that market. And that's just an example. We're always going to kind of tune the dial depending on profitability and risk.

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### Hayden Blair - Stephens Inc. - Analyst

Got it. That makes sense. And then one more -- with the recent revisions to the NBA estimates, I'm wondering if you guys feel any different about the potential to hit the high end of the 10% to 12% pretax margin? The origination market is now projected to be up year-over-year.

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### Dennis Gilmore - First American Financial Corporation - CEO

Well, last year, we -- during our Investor Day, we disclosed that we're trying to hit this 10% to 12% margin goal, and we did that last year. Last year, we had a 10.2% margin.



So far, for the first half of this year, we're exceeding where we were in the first half of last year in terms of margins. And so we're going to continue to try to move up to the higher end of that 10% to 12% margin range. So the fact that we're getting a little bit of refi help certainly helps us in that regard.

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**Hayden Blair** - *Stephens Inc. - Analyst*

Got it. And so would you say it's as much of a function of overall origination volume as it is the purchase refi mix? Or what's going to kind of be the better driver of that when we look on kind of a multiyear basis?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

I would say it's both, but I'd say, if I had to pick something that's more important, it's just the overall level of originations. I mean we love the purchase market, but we like refi's too. So, the overall level of originations is certainly a factor. Our purchase business is typically higher margins than our refinance business, so that helps us. But we'll take refi's all day long.

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**Hayden Blair** - *Stephens Inc. - Analyst*

Got it. Thanks for the questions.

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**Operator**

Jeremy Campbell, Barclays.

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**Jeremy Campbell** - *Barclays Capital - Analyst*

Just to piggyback on that one again -- you know, again, in the first half of last year, you guys didn't really have to staff up as much to meet those refi volumes as maybe you had in the past. With refi volumes up 90% year-over-year in July, what is the outlook on having to kind of staff up to meet those type of levels? And how long do you think that kind of could persist through the remainder of the year?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Yes. Thanks for the question. I don't really anticipate us changing our staff levels much at all to handle the volumes. If anything, it will probably just allow us to go with higher staffs that we'd normally carry into the second quarter a little longer. We'll probably deal with it mostly through overtime and some temp support.

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**Jeremy Campbell** - *Barclays Capital - Analyst*

So is it fair to say then that the refi -- elevated refi volumes could have a pretty positive impact on your margin for the back half?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Well, I think it's definitely going to help us, no question. We're heading into the slower time of the year from a residential standpoint. So clearly, building a book going into the last half will help us. It will all depend on how long it lasts and what the closing ratios are. But clearly, we're optimistic to see the benefit we are getting right now from refinance.



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**Jeremy Campbell** - *Barclays Capital - Analyst*

Great. And then just finally, with the cash contributions you have to make regarding the whole pension program and things like that, does that at all preclude you from looking at opportunities to do some selective M&A in the market? Or are you guys comfortable enough with your cash position and/or taking leverage up a little bit if something -- if a big softball really fell across the plate for you?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

First of all, the pension contribution we think is the right thing for the Company, and we are looking forward to getting that complete over the next few quarters, wrapping up probably by the third quarter of 2017. But no, it will not preclude us from pursuing any acquisitions that we think are appropriate for the Company.

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**Jeremy Campbell** - *Barclays Capital - Analyst*

Great. Thanks, guys.

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Thank you.

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**Operator**

Chris Gamaitoni, Autonomous Research.

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**Chris Gamaitoni** - *Autonomous Research LLP - Analyst*

Thanks for taking my call. I was wondering -- you mentioned, on the purchase order, the year-over-year growth, attributing it to shortage of housing inventory. I mean, that's certainly a concern, but I'm struggling to find any geography where orders are down year-over-year. So I was just wondering if there's anything else going on? If it's a shift to more agent business in the Purchase channel? If there's any strategies to address kind of Purchase growth relative to market volumes?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Well, one thing I would say is that, in terms of our purchase volumes, orders have been flat relative to last year, and it's really been like that for the whole year. We don't really think we're losing any significant share or anything like that.

I would say that our orders that we get and that we disclosed -- those are from our direct business. And our direct business is very concentrated in the Western states. And so a lot of the market statistics that are higher than what our order counts are presenting, are more national statistics.

So, as a general rule, as you know, our East Coast is more agent-dominant and our West Coast is more direct-dominant. I will say that we have, over the last 12 months, there have been certain offices in places like Oregon and Washington, and Kansas, where we had a direct opposition and we transitioned it to an agency operation.

And we did that because a lot of these offices were really in rural areas, and the economics were just better in these areas in the agency model than the direct model. So that has had some, I would say, minor impact on our orders, but it is a factor.



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**Chris Gamaitoni** - *Autonomous Research LLP - Analyst*

Okay. Then on the Specialty Insurance business, that's -- you had a couple of kind of quarters of increasing costs. Is there a plan to reprice customers on the next premium renewal? Or kind of what's the strategy to address that? Should we expect lower -- or higher combined ratios? Or do we think the premium pricing is coming through?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

A little of both -- kind of a mixed bag on Specialty right now. Our topline -- we like it a lot; it's growing well, so I think that trend will continue. But in our Home Warranty, we've had really two issues going on there -- higher contract service costs and higher replacement costs for our equipment. So we really have a two-pronged approach.

We're putting additional resources back into the contract now to kind of beef that up, and we are seeking price increases now across the country. But that will take us probably a full year to see it flow through the P&L, because we have to go through the renewal cycle. So a two-pronged approach and I think it will get better as we go forward. It's just going to take --

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**Chris Gamaitoni** - *Autonomous Research LLP - Analyst*

Thank you so much.

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

It's just going to take a little time on that one.

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**Operator**

Mark Hughes, SunTrust.

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**Mark Hughes** - *SunTrust Robinson Humphrey - Analyst*

I wondered if you could talk about the potential for the policy loss ratio to come down a bit? Last year, your ultimate losses or underlying losses were lower than what you had booked. What should we see going forward?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Well, yes, last year, we booked at a 6.6% loss rate for the whole year, and we felt comfortable enough to bring that loss rate down to 5.5% in the first quarter, and we really kept it at 5.5% this quarter.

Claims are in line with our expectations this quarter. I think that it's more likely for the loss rate to come down rather than it to go up. I mean, it can always go up if we had an extraordinary claim or something like that.

But when you look at the actuarial data, our current policy will support something closer to a 5.0%, and we're just booking at kind of the conservative end of kind of the reasonable range of estimates. So we're comfortable with 5.5%. That's what we see in the foreseeable future. But, of course, we analyze our claims experience every month. And I would just say that I think it's more likely at this point that the loss rate will come down than go up.



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**Mark Hughes** - *SunTrust Robinson Humphrey - Analyst*

Thank you.

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

You're welcome.

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**Operator**

Bose George, KBW.

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

First, the revenue from the Information and Other segment is up pretty nicely. Can you give us any color on that? Is there data revenue starting to come in more meaningfully there?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

I'd say there's a few things happening there. The first is we're seeing declines in that line item because of just our default business, just because of how the market has been reacting. Our default business within that line is down about 25% year-over-year.

We are seeing an offsetting increase in our data business. Some of that is organic and some of that is because of some recent acquisitions that we've done, and that basically nets to flat growth year-over-year.

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

Yes. Okay. Great. Thanks. And then actually just going back to the pension plan termination, the cash outlay, is that the \$100 million and then the \$22 million annualized that you saved -- is that cash savings as well?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

The \$100 million is cash -- and again, that's our best estimate. The \$22 million is P&L, so it's a little apple and oranges there. But I would say over the last three years, we have been putting in somewhere between \$20 million and \$25 million of cash a year into the pension plan. So they happen to be similar numbers, but they're -- the \$22 million is P&L.

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

Okay. Great. Thanks.

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Thank you.

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**Operator**

Ryan Byrnes, Janney.

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**Ryan Byrnes** - *Janney Montgomery Scott - Analyst*

Just sticking with the pension, is that deal in place and already priced out? I'm just trying to figure out if it can have any wiggles if interest rates move one way or the other?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

I would say that the deal is not finished yet -- no. I mean, there are some factors -- we are going to go to participants and offer lump sum payments. And the rate at which our participants will accept those lump sum payments is uncertain. After that, then we're going to actually go out and buy annuity contracts for the liabilities. And the pricing of that is uncertain.

But the biggest factors in the pension is really -- is just interest rates. And once we've made the decision to terminate the pension, we hedged our liabilities. And in hindsight, that has been a big win for us, because interest rates have come down quite significantly since we actually terminated -- or made the decision to terminate the pension.

And that is -- that's going to have the biggest factor on the fund requirements. So, I think it is going to change -- the \$100 million cash is going to change. And the \$197 million of P&L ultimately will change. But don't think it's going to change that materially, since we've basically hedged our liabilities at this point.

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**Ryan Byrnes** - *Janney Montgomery Scott - Analyst*

Okay. Thanks for that color. And then just quickly, one of your competitors announced this morning they had done seven agency deals. Just wanted to gauge your appetite for those type of deals and just get your thoughts there.

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Sure, yes. We are a pretty full deal pipeline right now. We're looking at a lot of kind of different deals. And that's number one on our list -- to see if we can acquire agents that fit our strategic map in our key states that we would be attracted to. So we are looking at a lot of deals. I do think that trend will continue over the next 12 months.

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**Ryan Byrnes** - *Janney Montgomery Scott - Analyst*

And are there any geographies that you guys are particularly interested in?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

We always focus in on the top five states in the Metro areas, but we've looked at anything that made sense. But again, we're focused primarily on the top five states.

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**Ryan Byrnes** - *Janney Montgomery Scott - Analyst*

Okay. Thanks, guys.

**Dennis Gilmore** - *First American Financial Corporation - CEO*

Thanks.

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**Operator**

Eric Beardsley, Goldman Sachs.

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**Eric Beardsley** - *Goldman Sachs - Analyst*

Just a quick follow-up on Specialty Insurance. I guess, as you go through this period just with the elevated costs, how do we think about the margins in that business on a go-forward basis?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

I think that they are going to run a little less than they have over the last few years. Our second and third quarter will be our toughest quarters because of the weather and just the volume of clients will bounce back and forth in those.

So, again -- but we are putting resources into the contract network right now, so I think that will start to show some benefits for us over the next couple of quarters. The pricing efforts that have been ongoing and will continue -- we'll start to see those benefits when we go through a full year of cycle of policy renewals.

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**Eric Beardsley** - *Goldman Sachs - Analyst*

Got it. Is this the right year-over-year trend to think about in terms of margin compression? Or was there more elevated costs just because of weather being more severe this second quarter?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

I guess, just to be in a conservative position, take it as a trend; we're going to hope to do better.

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**Eric Beardsley** - *Goldman Sachs - Analyst*

Okay. So your third-quarter then would actually be negative margins? Or are you kind of at the same cost level that you were last third-quarter?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

We -- it's hard to say because a lot of it is claims-dependent. And when you're looking at our Specialty Insurance segment, you know, we've got a P&C business that we can always have an event. But at this time, if you look at last -- Q3 of last year, we had a 1.7% margin, and we would hope to do better than that in Q3 of this year. But a lot of it is dependent on our claims experience.

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**Eric Beardsley** - *Goldman Sachs - Analyst*

Great.

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

I'll just add again, what we always do on all of these types of businesses, when we get a little out of whack from a return standpoint, we are going to go to fix it operationally -- from an operation standpoint and we'll look to adjust prices to make sure we get the necessary returns.

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**Eric Beardsley** - *Goldman Sachs - Analyst*

Great. Thank you.

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**Operator**

Kevin Kaczmarek, Zelman & Associates.

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**Kevin Kaczmarek** - *Zelman & Associates - Analyst*

I guess on the Specialty Insurance, as you phase in pricing, might you lose a little volume? I mean, you mentioned you expect the growth to continue about like it is, but could it maybe moderate on the top line because of this?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

It's -- obviously it's possible, but so far we have not had volume reduction from price increase. But we'll have to just play that out as it goes. At the end of the day, we are going to make sure we get the necessary returns and that will be more important to us than volumes.

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**Kevin Kaczmarek** - *Zelman & Associates - Analyst*

Okay. And I guess quickly on the Information and Other Revenue, you guys mentioned international mortgage operations were a bit of a drag in the releases. Is that from currency? Or is that more of an organic headwind? I guess we expect that maybe to also drag in Q3? Or is that something that could reverse if currency is moved?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

I'd say a little bit of it was currency-related, and a lot -- more of it, I would say, just market-related. We have a really strong business in Canada. Canada represents roughly 75% of our -- even maybe 80% of our international business, and we've got real strong positions there.

And we've also got a good position in the UK and Australia. And those are the markets that our mortgage processing revenue, which isn't risk-based, is somewhat down from last year. So a little bit of currency but more of it is just sort of market-driven.

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**Kevin Kaczmarek** - *Zelman & Associates - Analyst*

Okay. And I guess on Commercial orders, can you give us a sense of how they've been trending on a monthly basis, in terms of year-over-year improvement or deterioration?

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

Yes. So on the open side, it's a little hard to tell because what really matters in Commercial that we look at is sort of the average fee per file. Because it depends on the quality of the orders. But really on a monthly basis, in April, in terms of openings, we opened 520 orders a day. In May, it was 500; and in June, it was 490 orders a day. So they have been declining a little bit. But I think what we look at more is kind of the quality of the underlying orders.

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**Kevin Kaczmarek** - *Zelman & Associates - Analyst*

Is that I guess you consider -- were those closed orders?

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

That was open. Yes, that was open orders.

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**Kevin Kaczmarek** - *Zelman & Associates - Analyst*

Open orders. Okay. Do you have a sense -- I guess combining that with the fee per file, do you have a sense as to kind of revenue trend throughout the quarter?

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

Well, our revenue in Commercial this quarter was down about 2% from the second quarter of last year. The orders that we're opening now obviously you are going to close -- and in Commercial too. It's not like they close on a consistent basis like the Residential business, where it's 50 to 60 days. We can have a Commercial order open today and it won't close for six months.

But generally speaking, I would say we feel good about the Commercial pipeline. We're still getting good high-quality deals in. But the orders that we are opening now, we don't really have a strong sense for what the ultimate average revenue [forward] is going to be.

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**Kevin Kaczmarek** - *Zelman & Associates - Analyst*

Okay. All right, thanks. That's all I had.

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

Thank you.

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**Operator**

Geoffrey Dunn, Dowling & Partners.

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**Geoffrey Dunn** - *Dowling & Partners Securities - Analyst*

I guess first, I think I just missed the tail-end of your commentary about early July, if you could reiterate what you might be seeing in the first couple of weeks, please?



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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Geoff, this is Denis. Our refinance orders are up strongly. We're up 90% from a year ago; running at about 2,800 orders per day now.

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**Geoffrey Dunn** - *Dowling & Partners Securities - Analyst*

How about overall?

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

Overall orders per day are about 5,800 a day.

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**Geoffrey Dunn** - *Dowling & Partners Securities - Analyst*

Great. And then on the agency front -- Fidelity, yourselves, Stewart, all have been expressing an appetite for agency acquisitions. With a full pipeline, I'm curious as to what you're seeing in terms of competitiveness for deals? Are you running up against other players in a competitive bid situation? Or is everybody pretty spread out and still seeing reasonable pricing?

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

A couple of parts to that question. You do see competitive situations in certain transactions, but we are seeing price points that are acceptable to us. So what we're looking at right now has the necessary risk-adjusted return and we'll move forward with it if we close a deal. So, not too bad right now, Geoff. And if the prices get too inflated, we will just not move forward.

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**Geoffrey Dunn** - *Dowling & Partners Securities - Analyst*

Okay. Thank you.

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**Dennis Gilmore** - *First American Financial Corporation - CEO*

Thanks.

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**Operator**

Jason Deleeuw, Piper Jaffray.

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**Jason Deleeuw** - *Piper Jaffray - Analyst*

On the title rate pricing changes, is there -- does that apply equally to Purchase and Refinance? Or are there any differences there?

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

I would say, generally, we're getting more of a benefit in the Purchase transactions. When you look at their average fee per file for refi, it really hasn't -- it's up 1% or 2%, but it really hasn't -- we haven't gotten the benefit like we did in the purchase market. So I would say that most of our rate emphasis is on the Purchase business.



**Jason Deleeuw** - Piper Jaffray - Analyst

And then --

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

I would say purchase title premiums as well as escrow.

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**Jason Deleeuw** - Piper Jaffray - Analyst

Okay. And then for the agent channel M&A activity, obviously the title insurance companies -- the underwriters are more aggressive there. But are the agents them self, are they more eager to sell? Has there been some sort of a change, maybe just with the increased regulatory requirements? Is there anything that's driving agents to sell, more so than you've seen in the past?

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**Dennis Gilmore** - First American Financial Corporation - CEO

Not in my opinion. It's just the normal ebb and flow of the business.

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**Jason Deleeuw** - Piper Jaffray - Analyst

Okay. Thank you very much.

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**Dennis Gilmore** - First American Financial Corporation - CEO

Thank you.

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

Thanks, Jason.

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**Operator**

Thank you. There are no additional questions at this time. That concludes this morning's call. We've 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 13640685.

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

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