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FAF - Q1 2016 First American Financial Corp Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the First American Financial Corporation first quarter earnings 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 877-660-6853 or 201-612-7415, and enter the conference ID 13634408.

We will now turn the call over to Craig Barberio, Vice President of Investor Relations to make an introductory statement. Thank you. You may begin.

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

Good morning, everyone, and welcome to our first-quarter 2016 earnings conference call. Joining us today 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 fact. 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 these 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 risk factors discussed in our form 10-K and other SEC filings. Our presentation today contains certain non-GAAP financial measures, which 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 at www.firstam.com.

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

Dennis Gilmore - *First American Financial Corporation - CEO*

Thanks, Craig. Good morning and thanks for joining our call. I'll begin with a review of our first-quarter highlights, conclude with a few comments regarding our outlook.

2016 is off to a good start. First-quarter EPS was $0.47, up from $0.34 last year. The strong result was driven primarily by our title segment, which delivered a pretax margin of 8%.

Overall, I'm pleased with the company's first-quarter performance. We've maintained our focus on cost efficiency, we've benefited from our improved product claims experience, and we were able to take advantage of an improving housing market. The revenues in our core title segment were up 8%, driven by our agency business, which experienced a very strong quarter with revenues up 18%.

Our agency channel continues to benefit from the additional key commercial and national agents. Our direct purchase business grew by 9% in the first quarter, compared with last year, driven primarily by higher fees per file. Closed purchase orders per day were flat, and the average fee per transaction grew 7% during the quarter.

Our closed refinance orders were down 18%, compared to last year. However, we experienced a strong increase in refinance orders, beginning in January in response to lower mortgage rates. Our open refinance orders averaged 2000 per day in the quarter, up 22% from the fourth quarter.

Our commercial revenue declined 4% in the first quarter, due to fewer large deals closed. However, the business remains strong and we continue to see broadbase strength across most segments and markets. As previously discussed, in the new mortgage disclosure rules, TRID, took effect in October of last year. Overall, First American's extensive preparation served us well, and I'm proud of our titled operation's successful response to this change. During the quarter, we continue to refine our processes and believed the new settlement practices have become a normal part of our direct title operations. Furthermore, we do not expect any material impact on our financial results going forward.

Revenues in our Specialty Insurance Segment grew by 9% during the quarter. However, we experienced higher claim losses in both home warranty in our Property and Casualty businesses, which causes the segment's pretaxed margin to decline to 12%. Regarding acquisitions, we recently announced the closing of Forsythe Appraisals, a leading independent appraisal company. The company offers comprehensive real estate valuation solutions with nationwide coverage. We've been looking to add a residential appraisal company for some time to augment our valuation offerings. This acquisition accelerates our efforts to help our customers deliver a defect-free mortgage, while providing a superior consumer experience.

Turning to the outlook for 2016, I'm optimistic that we will see continued improvement in the housing market. Regarding the purchase market, all orders remained flat relative to last year, but we continue to see strength in our fees per file. We continue to benefit from elevator refinance activity with refinance orders running at approximately 2000 per day. And our commercial business is poised for a good year.

I believe the company is well-positioned for 2016 and beyond. We remain focused on driving operating efficiencies, gaining profitable market share in our core title business to help maximize long-term profitability. On a final note, I'm pleased that during the quarter, First American was recognized by Fortune Magazine as one of the 100 best companies to work for in America. Given the importance of our people to the business, this prestigious distinction reflects the success of our ongoing commitment to 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 & CFO*

Thank you, Dennis.

Total revenue in the first quarter was $1.2 billion, up 8% compared with the first quarter of 2015. Net income was $53 million, or $0.47 per diluted share.

The current quarter results include net-realized investment gains of $5 million, or $0.03 per diluted share. In addition, this quarter's effective tax rate was 30.3% benefited from $3.8 million of nonrecurring items and $0.03 per diluted share.

In the title insurance and services segment, direct payment escrow fees were down 2% compared with last year. This decline was driven by a 7% decrease in the number of direct titles closed, partially offset by a 6% increase in the average revenue per order. The average revenue per order increased to $1943 due to a shift in the mix from lower-premium refinance transactions to higher-premium commercial transactions. And, to a lesser extent, an increase in the average revenue per order per purchase transactions.

Premiums were up 18% in part driven by the recent addition of key commercial and national agents. The agent split with 79.1% of agent premiums. Information and other revenues totaled $154 million, down 1% compared with last year driven by lower demand for the company's default information products, as a result of the decline in loss mitigation activity during the quarter.

Personnel costs were $355 million, up 5% during the prior year. The increase was primarily due to higher salary expense, including the impact of one additional payroll day and higher stock base compensation expense. Other operating expenses were $155 million, down 8% from last year. The decline was primarily driven by a lower production related expenses and the impact of foreign currency transaction gains. The ratio of personnel and other operating expenses to net operating revenue was 78.2%.

The provision for title policy losses and other claims was $51 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 first quarter our paid title claims fell 36% from the prior year.

Pretax income for the title insurance and services segment was $88 million the first quarter, compared with $70 million the first quarter of 2015. Pretax margin was 8.0%, compared with 6.8% last year.

Turning to the specialty insurance segment, total revenues were $103 million, up 9%, compared with last year. The loss ratio for this segment was 58%, up from 51% with higher losses experienced in both home warranty and property casualty. An increase in the loss ratio in home warranty was primarily due to higher contract servicing costs. In the property and casualty business, the loss ratio increase was primarily due to higher claims severity. Pretax margin for this segment was 12%.

Net expenses in the corporate segment were $24 million, down 12%, driven by lower cost related to company benefit plans. The effective tax rate for the quarter was 30.3%. The tax rate benefited from $3.8 million, or $0.$0.03 per diluted share, of nonrecurring items. In terms of cash flow, cash used for operations was $56 million, an improvement from the $66 million operating cash outflow recorded last year. Capital expenditures were $30 million, a 6% reduction from 2015.

Debt on our balance sheet totaled $580 million as of March 31. 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 March 31 was 17%. And we have the entire amount available under a $700 million revolving credit facility.

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Kevin Kaczmarek, Zelman & Associates.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Hi, guys. I noticed you mentioned some strong agent commercial business drove the agent revenue. I was wondering if you could give us more color on this. Were the new agents that just started under -- using you guys as an underwriter, or are they just allocating more deal flow to you, and can you give us some color on what types of deals these are bringing in, whether it be in terms of geography or office, multifamily, energy, et cetera?

Dennis Gilmore - *First American Financial Corporation - CEO*

Kevin, this is Dennis. A couple things on the agency. We did have some new signings of agents, commercial agents last year, which did help increase our revenue in the first quarter.

And we think that benefit will continue on. We've also continued to increase some of our national residential agents and that's helped us. Also in the agency business too, we saw strong, strong [reven ses] throughout the east coast, and we've had a targeted effort there to gain share, and I think that's paying some dividends.

Probably the last thing on the agency piece from the [Relentes] side was we could of have had some delayed impacts from the TRID issue, too, happening in the agency business, so, it's kind of a lot of things going on in agency. Back, very specifically, to your question again, though, we've made a targeted effort to sign commercial agents and we're going to continue that effort, and it's paying us dividends.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. Great. And I noticed there have been a few premium changes within a few different states by you guys, as well as a number of your peers, I was wondering if you had a sense of the net effect of the rate changes, assuming, say, flat volumes over the next year. What's the expected impact to revenue?

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

This is Mark, Kevin. I would say it's fairly immaterial. And, really, we focus on the purchase side.

The average fee per file in purchase was up 7% this quarter. Most of it was really driven by a higher housing crisis, that's the biggest driver of that.

We also had a kind of a more of a shift into higher-priced states like California. There was also a third component of the fact that we've been taking rate in some selected states where we thought our rates were inadequate, but that's really, I would say, the third piece of why our (inaudible) is up.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay, great. Thanks a lot.

Operator

Jeremy Campbell, Barclays

Jeremy Campbell - *Barclays Capital - Analyst*

Thanks, guys. You guys said you are calling for a, quote, good year for commercial. Can you just help define what that might look like? Is it revenue growth that maybe a little slower than the past couple years, but still maybe mid-to-high single digits, or is it something like some more modest softness on a year-over-year revenue basis?

Dennis Gilmore - *First American Financial Corporation - CEO*

Sure. This is Dennis. First of all, when you look on a comparison quarter over quarter, we were down 4%, but it's a tough comparison. We had a couple of very big deals in the first quarter of 2015, so that weighed on the comparison there. And big deals for us will always be lumpy. So, when we step back we think that commercial will have another good year for us in 2016. Our current call on the market is similar, we think will have a year similar to 2015 from a size perspective, so our current call will probably be more flat, up a few points, down a few points, but a good year for us going forward.

Jeremy Campbell - *Barclays Capital - Analyst*

Got it. And then, I know the activity is choppy and we had a bit of credit markets seizing up in Jan-Feb, but have you seen increased optimism in that market versus those months earlier this year?

Dennis Gilmore - *First American Financial Corporation - CEO*

I'd say a little bit. Definitely a tough start to the year, but again, again, for us it's more of the choppiness of big deals when they come in and when we close them, and we had a couple big deals in the first quarter of 2015 that we did not have the first quarter of 2016. Again, we're optimistic going forward.

I think it's going to be another very good year for commercial. And I've been saying it now for a while with the growth rates will slow, I definitely think we'll see that this year. And, again, I think we're looking probably for a flat up a few points, down a few points kind of year for commercial.

Jeremy Campbell - *Barclays Capital - Analyst*

Got it. And then just one final one. And again, alluded to the aging growth partly was due to commercial. Is there any way to size what proportion of that year-over-year growth was driven by commercial agent finance?

Dennis Gilmore - *First American Financial Corporation - CEO*

Difficult to answer that, but I'll give you our sense is that we're running commercial [renenses] in the low teens right now in our agency business.

Jeremy Campbell - *Barclays Capital - Analyst*

Great. Thanks a lot, guys.

Operator

Bose George with KBW.

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

Hi, guys. Good morning. A question on market share. With the agent strength that you mentioned, do you think your market share is up a little bit this quarter?

Dennis Gilmore - *First American Financial Corporation - CEO*

Difficult to answer, because that's more of a targeted effort. We're trying to gain share in very specific states where we have the necessary returns we're seeking. It's probably more of a little bit of a mixed bag, but we definitely think we're gaining share where we've got a major effort going on to gain it.

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

Okay. Great. Thanks. On your title margin it was up pretty nicely year over year, could you just discuss some of the puts and takes there, because direct was down year over year, commercial was down, agents was up nicely. Is the incremental margin on that agent business just very high?

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

Well, the agency business is a great business for us, but it is the lowest margin business we have, typically the agent margins are about 5%. Obviously, one of the things that impacted the quarter was a loss rate. The loss rate last year we booked at about 6.5% all year, and this quarter we brought it down to 5.5%, so that was a big impact on the margin. In terms of the overall mix, I don't think that had a significant impact in terms of our 8% margin this quarter.

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

Just on the incremental margins. Should we think about that being similar to that 5% number, or are incremental margins much different from that on the agent side?

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

The incremental margins on the agency are very similar to the 5%, simply because the vast majority of the expenses are variable. And so regardless of revenues up or down, we always try to target a 5% on agency, so I think that's fair for an incremental margin.

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

Okay. Great. And then just one more related question. On the success ratio this quarter, what drove that? That was a pretty high number.

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

We try to target 60% success ratio, and this quarter was 10%, which was obviously a great outcome for us. It wasn't as material this quarter, just because we had a very low growth in our net-operating revenue. Our net-operating revenue was up about $8 million, and on that low of a number, the success ratio becomes less meaningful, but we only spent $800,000 in controllable expenses, so, obviously, we felt like we really controlled our costs this quarter, but it was a little bit skewed just because of the low revenue growth this quarter.

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

Okay. That makes sense. Thanks a lot.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Mark Hughes, SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you. Good morning. That 79.1% agency split was that the lower end of your recent range? Do you think that will continue?

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

Yes. We did do a reclass last year. That basically -- we used to always report 80% and there was a reclass that was done that brought it down to 79%. And we feel like it will really be in that 79% range for the foreseeable future.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

And then any body language on recent trends, weekly, recent months on purchase and refi orders?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes. I'm optimistic going into 2016 right now. Two parts to that question. First, our refinance business is continuing to stay strong. We're running at 2000 orders per day approximately. That's a little better than we had anticipated at the start of the year, and we are running with very low interest rates right now. On the purchase side, as Mark has mentioned, we continue to see strong benefit from our average fee increasing, driven a lot by inventory [shores] we think across the country and when where we're sourcing our deals. And we're optimistic going forward into the spring buying season, we're going to continue to see some pickup on the transaction volumes. Probably in the low single digits there is what were hoping for, but we think it's going to be an overall good year.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

And then, finally, the specialty insurance losses. Any details on what caused that, any trends you can spot, and do you think those will calm down?

Dennis Gilmore - *First American Financial Corporation - CEO*

Yes. It's really -- the driver here for us is our home warranty business. And we've got two things going on.

We've seeked and we've gained some nice growth there over the last couple years, but that growth has put some pressure on our contractor network, and because of that our clients are a little higher-cost exposure than we thought, than we expected. We've got some initiatives in place to get that back in line, and the second piece of that is that our appliance replacement costs have been increasing, using higher energy replacement cost appliances, and for that we're trying to do some targeted pricing increases. We're working hard to get that back down, or back our performance back to what it was.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Is that to say on the home warranty you had more work that was out-of-network, so to speak, was that it?

Dennis Gilmore - *First American Financial Corporation - CEO*

Exactly. We had to use out-of-network services.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Thank you. Just on the provision, I guess that 5.5%, should we expect that to decline further this year or is that a stable run right now?

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

I wouldn't expect it to decline further. I think that's definitely a possibility, but I don't think that's the expectation. Obviously, it's something we look at every quarter.

We felt very confident enough to bring it down this quarter. And when we look at our incurred claims, they've been really coming in below our forecast, all of last year and even this quarter. Our incurred claims were about $8 million less than our forecast. We just felt confident to bring it down, but we think that's the appropriate level for now. But obviously, we reevaluate that throughout the year.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And where are you seeing the incurreds coming on the newer policies, is that closer to 5%?

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

I'd say every policy, really, since and including 2010, has really been less than 5%. On an ultimate loss ratio basis. So, we're booking 5.5% just because, I would say, it's a more conservative end of the reasonable range of estimates. But the last several policy years have been really outstanding from the underwriting perspective.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And then just back to the agent growth again, since it was somewhat outsized this past quarter. I guess if we were to look at the relationship between the year-over-year growth and the direct revenues in title versus the agency revenues, usually those would track each other reasonably well on the lagged basis, I guess this quarter you are up 18% year over year versus the 4% growth in direct in the fourth quarter. How should we think about that relationship moving forward, as you go through the year?

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

This is Mark again. We feel like it will definitely slow relative to that 18% growth. There's a few things happening. You correctly pointed out that our direct growth last quarter was at 4%. But everything else being equal, you expected 4% growth in agency this quarter. It's kind of a rough guideline. The national agents and the commercial agents we've signed contributed roughly about 5% in addition to the 4%, and then the rest of the 9%, we don't have tangible evidence, but we suspect that most of that is because of the TRIG delays.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it.

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

But, obviously 18% is going to be a difficult number to hit for the rest of the year.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And then just lastly, in terms of those commentaries about the 2000 orders per day on refi, was that an April trend? Is there any data you have through the first couple weeks of the month in terms of where open orders are coming in on purchase and refi?

Dennis Gilmore - *First American Financial Corporation - CEO*

The refinance a trend is an April trend and it's holding strong right now at about 2000 per day.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. And then purchase, are you starting to see any year-over-year growth in open orders there yet?

Dennis Gilmore - *First American Financial Corporation - CEO*

Starting to see it. Starting to see it. So, we're just entering into the bulk of the spring buying season, so, again, we're optimistic we will start to see some transaction increase as we go forward here.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. Great. Thank you.

Operator

John Campbell, Stephens

Hayden Blair - *Stephens Inc. - Analyst*

This is Hayden on for John Campbell. I was just wondering about share repurchase. I think I saw you guys retired some shares in maybe early January, but how many did you buyback in the quarter, and what do you have left on that $250 million authorization?

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

We purchased, it was just 14,000 shares this quarter. And that's something that we had disclosed in our fourth-quarter earnings call. And we have about $182 million remaining on our share repurchase authority.

Hayden Blair - *Stephens Inc. - Analyst*

Got it. Thanks. And then on the dividend -- a number of your competitors have been raising dividends over the past year or so, and I was wondering if you guys were still feeling comfortable about targeting a 40% payout range and how good you felt about any potential dividend raises here coming down the pipeline?

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

Well, we did raise the dividend in the first quarter by $0.01, so that's something we just did for the year. Obviously, that's something we talk about with the Board every quarter. We're very comfortable paying out 40% of our earnings and dividends.

That's roughly where we've been for the last two years or so, so I'd say we're very comfortable at that level. And we'll always continue to at least consider dividend increases going forward.

Hayden Blair - *Stephens Inc. - Analyst*

Got it. Thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Ryan Byrnes, Janney Montgomery Scott

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Thanks, good morning, everybody. Now that you have finally done your appraisal deal from an M&A perspective, are there any other holes that you're looking at right now, or should we imagine M&A, going forward, would be more focused on agents?

Dennis Gilmore - *First American Financial Corporation - CEO*

It's going to be a balanced approach. Like we've said in the past, were going to continue to focus in on building out where we think we can get the necessary terms and key agents in key states. That will be an ongoing focus for us.

On the other side, we will continue to look to add to some of our data assets where appropriate. We going to continue to build out some of our mortgage solutions offerings, so appraisal was a good step for us. We look to continue to build out in that quadrant, too.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Okay. Great. And switching up a little bit. Obviously, the margins in title were very strong in the quarter. It seems like a good chunk of it, of the margin improvement was kind of coming from the other operating expenses.

Again, they were down about 8.5% year over year, while direct was down just under 2%. Is there anything in there, I think the press release noted that it was due to lower order count, but also foreign exchange gains. Again, I just think that, that was real [file] improvement, I just wanted to see if there were any one timers in there, or if there was true, solid improvement.

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

The only one-timer we had in other operating that we would point out is we did have a $4 million recovery that was basically a credit to other operating expenses. We also had a $4 million increase to our health and dental that hit personnel. Basically those two washed out when you look at pretax.

But when you look at the other operating lines specifically, I would say that we did get a $4 million benefit now on this quarter that won't be there going forward.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Got you. Great. Thanks for that color.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Thanks. Good morning. I wanted to follow up more specifically on the expenses there. You said there was a $4 million benefit in operating and then a $4 million negative in personnel?

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

Yes.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

All right. Can you get into more granular detail, I guess. You don't see these kinds of big quarterly changes often.

You had a very big one back in the first quarter of 2014, I think. So, is this largely variable cost on both sides?

Are you seeing that much of a drop off in either pro fees and supplies and title plants and that kind of stuff on the operating side, and commissions and bonuses on the personnel side? I'm having trouble adding up how big of a swing it is and trying to get an idea of how much is sustainable here.

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

Well, I think the first-quarter expenses are very good run rate going forward. There's no real noise when you look at between personnel and other OpEx combined. We think it's a pretty good run rate going forward.

Obviously, we're going to have higher expenses as the year goes on, just because of seasonality. But when you look at our personnel line item, roughly 20% of the cost there is variable. But other OpEx is much more variable.

In the first quarter about 55% of the expenses in the other operating expenses line item is variable. It makes it easier to manage expenses when we have a seasonally slow quarter like Q1.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

So, can you call out maybe, what were some of the biggest movers sequentially within the personnel and operating line?

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

On the personnel side, sequentially -- just give me one second here, Jeff. Salaries were down 2%. That's obviously the biggest driver of personnel costs. So, our salaries declined. On the other operating expenses we have reduced legal fees. We also had less commissions and incentives just because of slower transaction activity. Those were some of the drivers that are going on.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. And a bigger picture question on a mid to longer-term outlook on commercial. The last several years have benefited from these tenure bullet maturities, how do we think about how commercial trends into 2018 and 2019? So, the first part of that is, what percentage of your commercial business is refi right now, and how do you think about the sustainability of the revenue trend as we fall into a weaker tenure period in 2018 and 2019?

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

We don't have great statistics on the purchase versus refi. Our sense is about a one-third of our business is refi and commercial is about two-thirds of purchase. We get paid about the same in terms of the [ARPO] for purchase and refi commercial.

We've looked at the same stats that you're probably looking at in terms of the CMBS business really falling off starting in 2018. But CMBS is not a big part of our commercial business. CMBS is less than 5% of our commercial business, so that's going to have an impact, post-2017, but it's not going to be a material impact to us.

Geoffrey Dunn - *Dowling & Partners Securities - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

Jason Deleeuw, Piper Jaffray.

Eric Robinson - *Piper Jaffray - Analyst*

Thanks, guys. You've actually got Eric Robinson on here for Jason this morning. Just wanted to touch on your data business that you guys have been building out.

How have you guys seen adoption with that market? And then following up with that, do you want to leverage the Forsythe acquisition with that data asset, or what's your plan there?

Dennis Gilmore - *First American Financial Corporation - CEO*

A couple parts to that question. We continue to see nice progress overall in our data business. We continue to believe that our data business is going to help our title insurance company run more efficiently and help us control our losses and help us run our production lines more efficiently.

To that end, we're happy to announce, by the way, that we just rolled out a number of new plants in Texas, which we think bring some more competitive advantage to that market for our own company and for our customers. So that effort, those efforts will continue.

Your question on the appraisal side, we do think that we can use our public record databases to help augment the appraisal efforts to run a more efficient appraisal company. So, that will be part of our plans going forward.

Eric Robinson - *Piper Jaffray - Analyst*

Got it. And could you give us a sense of what kind of clients out there are leveraging the data business? Are you seeing any share gains there?

Dennis Gilmore - *First American Financial Corporation - CEO*

Our target on that is, again, to come back and sell it to -- integrate it into our own company for our own efficiencies. Always number one. Number two, we continue to try to leverage our title plan data to all of our customers, which really are title orientated, and then on the public record databases we're trying to leverage those back to our lender clients.

Eric Robinson - *Piper Jaffray - Analyst*

All right. Thank you very much.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

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 877-660-6853 or 201-612-7415 and enter the conference ID 13634408.

The Company would like to thank you for your participation. And this concludes today's conference call.

(Operator Instructions)
