THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

FAF - Q3 2016 First American Financial Corp Earnings Call

EVENT DATE/TIME: OCTOBER 20, 2016 / 3:00PM GMT

THOMSON REUTERS

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 & CFO*

CONFERENCE CALL PARTICIPANTS

Jeremy Campbell *Barclays Capital - Analyst*

Jason Deleeuw *Piper Jaffray - Analyst*

Kevin Kaczmarek *Zelman & Associates - Analyst*

Eric Beardsley *Goldman Sachs - Analyst*

Jordan Hymowitz *Philadelphia Financial - Analyst*

Ryan Byrnes *Janney Montgomery Scott - Analyst*

Chris Gamaitoni *Autonomous Research LLP - Analyst*

John Campbell *Stephens Inc. - Analyst*

Mark Hughes *SunTrust Robinson Humphrey - Analyst*

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

PRESENTATION

Operator

Greetings and welcome to the First American Financial Corporation third-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 13646700.

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

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

Good morning, everyone. Welcome to our third-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 fact. These forward-looking statements speak only as of the date they are made and the Company does not under take to update forward-looking statements to reflect certain stances 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 risk 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 our 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.

I would now like to turn the call over to Dennis Gilmore.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thanks, Craig. Good morning. Thanks for joining our call. I will begin with a review of third-quarter highlights and conclude with a few comments on our outlook for the fourth quarter.

The Company's strong performance continued in the third quarter with revenues of $1.5 billion, up 9%. Our EPS was $0.96 up from $0.69 last year. This strong performance was driven by our Title segment, which delivered a pretax margin of 13.5%. Our ongoing focus and operating efficiencies combined with a strong refinance market contributed to our positive results. We also benefited from a lower loss provision rate and higher net realized investment gains.

In our residential business, purchase revenue grew by 3% driven by higher average revenue per order with closed purchase orders down 3% compared to last year. Refinance revenue was up 53% this quarter compared with last year. Beginning late in the second quarter, lower interest rates drove strong refinance activity, which led to higher closings in the third quarter.

Our closed refinanced orders were up 49% compared to last year. So far in October, refinanced open orders remain strong averaging 2,300 per day. Although our commercial revenue is down 3% in the quarter, we continue to see broad-based strength in our commercial business and expect this trend to continue into the fourth quarter.

Revenues in our specialty insurance segment grew by 8% during the quarter, but elevated claim losses in home warranty led to a segment pretax margin of 1.6%, flat compared to last year. We continue to implement operating changes necessary to improve performance of the home warranty business.

Turning to recent acquisitions. In September we acquired RedVision, the largest independent national provider of title information and real property research. RedVision's title production and technology platform expands and enhances our ability to produce title search and related products for agents and others in all 50 states. Also, RedVision provide us with additional data assets enabling us to expand our title plant coverage, adding to existing industry leading position. RedVision's ability to access our title and property data will in turn enhance their offerings in terms of coverage, quality and operating efficiency.

In October, we acquired TD Service Financial, which is focused on post-closing services including assignments, lien release, collateral loan file management. This acquisition broadens a number of our current offerings in mortgage solutions division. TD's customers will also benefit from access to our industry-leading public record data. We are excited to welcome both of these firms to First American and look forward to working together to provide additional products and services to our customers.

Regarding the fourth-quarter outlook, we are optimistic given strong refinance pipeline and the anticipated normal seasonal peak in our commercial business. In regards to the long-term outlook, we remain positive about the housing market and given confidence in First American's future earnings and cash flow, we recently raised the dividend by 31% to an annual rate of $1.36 per share. This action demonstrates our ongoing commitment to return capital to shareholders while maintaining the financial flexibility to invest in our businesses.

I will now turn the call over to Mark for a more detailed review of financial results.

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

Thank you, Dennis. Total revenue in third quarter was $1.5 billion up 9% compared with third quarter of 2015. Net income was $107 million, or $0.96 per diluted share. The current quarter results include net realized investment gains of $9.5 million or $0.05 per diluted share.

In the Title Insurance and Services segment direct premium and escrow fees were up 7% compared with last year. This increase was driven by a 20% increase in the number of orders closed, partially offset by 10% decrease in the average revenue per order. The average revenue per order decreased to $1,859 due to a shift in the mix to lower premium refinanced transactions.

The average revenue per order increased 6% for purchased transactions and 3% for refinance transactions, while commercial declined by 2%. Agent premiums were up 7% reflecting the normal reporting lag of agent revenues of approximately one quarter. The agent split was 79.1% of agent premiums.

Information and other revenues totaled $188 million up 9% compared with last year. Excluding the impact of recent acquisitions, the increase was primarily due for higher demand for the Company's title plant and information products.

Personnel costs were $409 million, up 5% from the prior year. The increase was primarily attributable to recent acquisitions, higher salary expense and higher incentive compensation expense.

Other operating expenses were $198 million, up 4% from last year. The increase was primarily due to higher production related costs due to higher order volumes. The ratio of personnel and other operating expenses to net operating revenue was 70.4% compared with 72.3% last year, reflecting strong operating leverage given increased order volumes.

The provision for title policy losses and other claims was 64 million, or 5.5% of title premiums and escrow fees, compared with the loss provision rate of 6.6% in the same quarter in the prior year. During the third quarter paid title claims fell 4% from the prior year.

Pretax income for the Title Insurance and Services segment was $189 million in the third quarter compared with $137 million in the third quarter of 2015. Pretax margin was 13.5% compared with 10.6% last year.

Turning to Speciality Insurance segment, total revenues were $110 million up 8% compared to last year. The loss ratio in the Speciality Insurance segment this quarter was 69%, essentially flat with the prior year. The loss ratio in the home warranty business increased during the quarter, primarily as a result of higher claim severity.

However, the higher claim losses in that business were largely offset by a decline in claims in the property and casualty business, primarily due to significant losses occurred in a single wildfire event during third quarter of 2015. As a result, the pretax margin in the current quarter was 1.6% compared with 1.7% in the third quarter last year.

Net expenses in the corporate segment were $24 million, essentially flat versus the prior year. The effective tax rate for the quarter was 35.7%, higher than normalized tax rate of 34% due to a shift towards non-insurance income as well as a higher tax rate from our foreign operations.

As a reminder, 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. In the third quarter, we contributed $56 million to the pension plan, and we expect to make an additional cash contribution in the first half of 2017 so that the pension plan has sufficient assets to fully meet obligations to all participants. The amount of this contribution will depend on a variety of factors, but we expect to contribute approximately $45 million more to the plan.

As of December 31, 2015, we reported net unrealized losses of $197 million before tax in accumulated other comprehensive loss on our balance sheet related to pension plan. These net 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 ultimate amounts are not currently 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 end of the third quarter of 2017 as all remaining liabilities transfer in. This transaction will have a negligible effect on stockholders' equity since the net 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 for the first nine months of 2016. We are currently in the process of offering lump sums to participants and will be in a better position to provide further details during the fourth quarter earnings call.

At the end of September we borrowed $160 million from our credit facility to fund acquisitions, including RedVision and TD Service Financial as well as a portion of the obligation relating to the previously announced pension termination. The cost of the borrowings is LIBOR plus 175 basis points and will add approximately $1 million per quarter in interest expense beginning in the fourth quarter.

Debt on our balance sheet totaled $738 million as of September 30. Our debt consists of $546 million of senior notes, $160 million on our credit facility, $27 million of trustee notes and $5 million of other notes and obligations. Our debt-to-capital ratio as of September 30 was 19.6%, at the higher end of 18% to 20% target range. We have $540 million remaining on our $700 million revolving credit facility.

In terms of cash flow, cash provided by operations was $106 million. Included in the current quarters operating cash flow was the previously discussed $56 million payment related to pension obligations.

As Dennis mentioned, our Board of Directors recently voted to increase our annual dividend to shareholders by 31% to $1.36 per share. Based on our long-term cash flow outlook, we believe we have sufficient capital to invest in our business, both organically and through acquisitions, while being able to sustain this higher dividend level through the cycle and in a stress environment. This action demonstrates our ongoing commitment to return capital to shareholders.

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*

Hey. Thanks. While your agent premium mix was basically flat on a year-over-year basis, the growth rate of agent premiums has still vastly outperformed direct premiums thus far this year, when you look at it on a one-quarter lag basis. Can you touch on this a little bit? Is this a concerted effort to gain share in the agent market, or is something else going on here that we are not super aware of?

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

I wouldn't say it's a concerted effort to emphasize agency away from direct. We're very focused on growing both channels. I would say that when you look at how the market share has been direct versus agency, our growth in agency market share has somewhat outperformed our growth in direct market share. That's part of it. The other part of it is it's just the lumpiness of when the premiums come in.

Dennis Gilmore - *First American Financial Corporation - CEO*

I would only add, it also has to do with where the strength in the country is right now, so we've got a lot of strength going on in our agency states.

Jeremy Campbell - *Barclays Capital - Analyst*

So when we look ahead to the end of this year and in to 2017, do you expect that lag factor to revert back towards more normal levels?

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

Yes, that's our expectation, yes.

Jeremy Campbell - *Barclays Capital - Analyst*

Okay. Great. With the big rate rally happening late June and really the most of early July, it seemed like you may have had a disproportionately higher number of refis open earlier in the quarter than you would typically have. Given a typical closing cycle is maybe 45, 60 days for a refi, did you guys experience a higher open-to-close ratio for refis during 3Q as some of those early opens may have closed in September?

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

Yes, we did. When you look at so far this year, our open refis peaked in July. We were about 2,700 a day in July. August, we were 2,500. September, we were 2,500. So far in October, our expectation is about 2,300. So our opens are still elevated but have been falling. As a result, we had a lower closing ratio for the quarter. So we still feel like we have a good refi pipeline heading into Q4, although it is probably not as quite as robust as it was this quarter.

Jeremy Campbell - *Barclays Capital - Analyst*

Okay. As we look ahead, was there any margin impacts from a higher close ratio in the quarter at all, just from the mechanically -- that happening?

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

I don't think so, no, Jeremy.

Jeremy Campbell - *Barclays Capital - Analyst*

Okay. Great. That's all. Thanks, guys.

Operator

Jason Deleeuw, Piper Jaffrey.

Jason Deleeuw - *Piper Jaffray - Analyst*

Thank you. Nice work on the quarter.

Question on the pretax margins going forward, you've done a lot of good work on the cost front, but -- so going forward should we kind of think about margin expansion being contingent on top-line revenue growth? Is that going to be the key here? Or are there still some other levers you can pull on for the cost side to help margins even if revenues are flattish? I know you've got the pension cost benefit that's going to help. It looks like maybe nearly 50 bps at some point it will kick in next year. Can you help us think about the key drivers of margin expansion from here?

Dennis Gilmore - *First American Financial Corporation - CEO*

Sure. This is Dennis. It's actually probably a little of both.

The business is running very well right now. We've been running it close to the higher end of our range, the 10% to 12%. When we let range out, we size that for the market, and it's about the size of the market it is right now. If we get some lift in the market, we think we can get market expansion. Irrespective of the market, we're going to continue to look to gain efficiencies in the business, which we continue to do. We're going to continue to look gain profit from the market share, and I think we will also continue to get benefit from the lower loss provision rate. And probably the most important is we remain very optimistic on the housing market, so we continue to believe we'll get lift in the housing market going forward.

Jason Deleeuw - *Piper Jaffray - Analyst*

So even just from a mix standpoint, the purchase could help you a little bit on the mix? Is that in commercial? Is that what you are referring to?

Dennis Gilmore - *First American Financial Corporation - CEO*

Just the overall purchase business. If we continue to get growth in the purchase business in 2017, we'll continue to perform very well.

Jason Deleeuw - *Piper Jaffray - Analyst*

In the loan provision, you guys are at 5.5%. Are you anticipating that can go lower still from here?

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

Yes. We have been booking at 5.5% for the whole year. We brought it down last year with 6.6%. I think last quarter we said there is greater likelihood of it going down than going up, and I think we're even feel stronger about that statement this quarter. So, yes, I think there is definitely room for the loss provision rate to fall over the next couple of quarters or so.

Jason Deleeuw - *Piper Jaffray - Analyst*

Great. Then on the two acquisitions, could you help us out on the revenue contributions, or at least give us a perspective on the growth profile of those businesses and the margin profiles? Is there help you can give us on that?

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

Yes. We'd say just collectively the revenue for the acquisitions we have closed recently is about $90 million. It will show up in info and other line item, because these aren't insurance-based businesses. I just say that the margins are somewhat higher than title segment, once our integration is complete over the next 12 to 18 months. These are going to take a little bit longer to integrate than a normal title agency, but I would say, once we are done, the margins will be somewhat higher than overall title segment.

Jason Deleeuw - *Piper Jaffray - Analyst*

Great. Thank you very much.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Kevin Kaczmarek, Zelman & Associates.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Hey, guys. Thanks for taking my call.

Can you elaborate a bit on what you are seeing in the commercial market? It sounded like you were optimistic, but could you put some more color on that? I noticed open orders were down year over year, and I know they can be lumpy. But how do you see the year-over-year trend in terms of revenue heading into the fourth quarter?

Dennis Gilmore - *First American Financial Corporation - CEO*

Sure. This is Dennis. Again another good quarter. Yes, we were down a little bit of revenue, 3%, but we've got a lot of momentum going into fourth quarter. I think we'll have another strong quarter for us in the fourth quarter. It's typically our seasonal strongest quarter. We have a very strong franchise here, and we're running at a high level.

Again, just looking forward though, as I have said before, I do think we'll probably start to see downward pressure on this market because it's been running at such a high level for the last few years. So specifically to your question, I think fourth quarter will be very strong for us as it typically is for the seasonal fourth. And we look for another strong year in 2017.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. On the information and other businesses, were there any kind of outliers in terms of revenue contributions this quarter? I know there's been some talk about extra fees being paid to appraisers and what not. Is there maybe more sensitivity to refi than in the past?

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

No, not particularly. I think when you look forward, obviously the acquisitions we have closed, this roughly $90 million that I just mentioned, that's obviously going to have an impact. We expect info and other to grow going forward because of those deals. I wouldn't say there is anything extraordinary that happened this quarter.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. Thanks.

Then lastly, on the speciality insurance, within the home warranty you guys mentioned a higher contract servicing costs in previous quarters. How has that been trending? Is there any indication that it's letting up, that maybe the provisions could improve going forward, excluding one-time weather related events like the wildfires?

Dennis Gilmore - *First American Financial Corporation - CEO*

Sure. I am optimistic. We had a good last month of the quarter here. We've had a higher contract servicing costs, now, for the last few quarters, including a lot of resources on it to not only add to our network but also add to the management of the contractor network. That's number one.

Number two, we have experienced higher equipment replacement costs going on in this business. And to counter those two issues we've also been raising prices selectively over the last few months, and we'll see the benefit of that going forward over the next 12 months. Overall, we have gone through the toughest two quarters of this business, and I am optimistic looking forward we'll continue to see some improvement here in home warranty.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Thanks. That $90 million you mentioned for the acquistions, that's annualized run rate?

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

Yes, analyzed.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. And it will maybe have some seasonality consistent with the rest of the business, in info and other?

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

I would think so, yes.

Kevin Kaczmarek - *Zelman & Associates - Analyst*

Okay. All right. Thanks. That's all I had.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Eric Beardsley, Goldman Sachs.

Eric Beardsley - *Goldman Sachs - Analyst*

Hi. Thank you.

If we were to look at the MBA forecast for next year and other industry: forecast first deep drop off in refi and some growth and purchase, I'm just wondering if you can comment on your ability to grow earnings if that type of environment actually materializes?

Dennis Gilmore - *First American Financial Corporation - CEO*

That's a difficult question because it's going to be based on the forecast. When you look at the in current MBA forecast right now, it makes directional sense to us. We do think that the purchase market will continue to grow growth in 2017 and beyond. We think there is still room in the housing market for continued growth.

Obviously, the wild card is refinance. Right now, we've got some nice tailwind, actually, going into fourth quarter, and if rates stay where they are we'll get some benefit going into the first quarter. We'll kind of see on that one, but we are optimistic on the purchase market.

Again, the forecast makes some sense to us. Then too, the earnings side: we're going to continue, just like we say. We're going to drive efficiencies where we can in the business and continue to look to gain some profitable share to help our leverage in the business.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. But I guess if we were looking at volumes being down overall, and the mix where it is, I am just curious what those levers are. Is there ability to shrink expenses more than revenue or grow things like information and other more to offset that?

Dennis Gilmore - *First American Financial Corporation - CEO*

Again, it would depend on the severity of either the upturn or the downturn, but we'll run the business like we always do. That is, we will ultimately match our expenses against our revenue.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it.

Dennis Gilmore - *First American Financial Corporation - CEO*

That's just how we'll have to run this, how we do run this business.

Eric Beardsley - *Goldman Sachs - Analyst*

Just a quick follow up on the acquisition. You said there is $10 million of impact from the acquisitions in this quarter. Is that $10 million out of the $90 million that you expect to have on an annual basis? Is that right way to think about it?

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

No. I don't think we said $10 million this quarter. I think -- the deal closed at the very end of the quarter. One closed at the very beginning of Q4. So there was really -- in terms of these two acquisitions, there was no real impact in Q3. But I think starting in Q4, we'll start to see that $90 million run rate coming through.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. Basically, you had some nice year-over-year growth there already, and so you are just going to grow a little bit on top of that run rate, is the right way to think about it?

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

Yes. I think that's the right way to think about it.

Eric Beardsley - *Goldman Sachs - Analyst*

Okay. Just lastly the pension cost benefit, could you just help us out exactly which quarter we are going to start to see that hit? Is that purely on the corporate OpEx lines?

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

Yes, it's going to be in corporate. It's not going to hit the title segment at all. Right now, we think the whole thing will be terminated and conservatively estimated by the end of Q3, so we'll get that full $22 million run rate, I would say, at the latest beginning in Q4 next year. But I think there is a good chance it could come earlier than that.

Eric Beardsley - *Goldman Sachs - Analyst*

Got it. Okay. Great. Thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Jordan Hymowitz, Philadelphia Financial.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Hey, guys. Thanks for taking my question. Two things. When you dividend payout, do you have a specific target that you don't want it to go above or something like that? What's maximum payout you want to maintain at?

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

We don't target a dividend payout. Obviously, a dividend payout just naturally falls out, but that's not something that we target. I think when you look historically, we've paid at 20% dividend payout going back years and years. We raised the dividend, not just this year but recently fairly significant a couple years, and now we're in the roughly the 40% to 45% range.

It's not like we target that when we set the dividend. What we really look at is, we look at our cash flow forecast. We figure out how much of that we need to run our business and grow our business, and a big chunk of the rest we go to pay dividend. And whatever the payout ratio is, it is.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Is there a maximum number that you won't let it get above?

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

No. I mean, that's not something we think about. Obviously, if earnings were to fall for some reason, it wouldn't go up. It wouldn't scare us at all to run at a higher dividend payout ratio than we are now for a period of time. But to answer your question, no there is no maximum that we have (inaudible).

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Got it. The second question is I like what you are doing with the dividend, and you have also maintained a better optimal capital structure. My question is does that preclude you from making further large scale acquisitions, though, at this point especially within the title industry?

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

I wouldn't say it precludes us, no. We still have a lot of financial flexibility. I wouldn't say it precludes us from executing our strategic objective, no.

Jordan Hymowitz - *Philadelphia Financial - Analyst*

Okay. Thank you.

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

Thank you.

Operator

Ryan Byrnes, Janney.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Thanks. Good morning, everybody. I just had a question. What -- so you used -- you drew down the revolver this quarter. Is the plan to keep it that drawn down or to term it out? What's the thought process there?

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

The plan right now is just to keep it on the line. Obviously, that's not really a permanent source of financing for us, but the rate is good. We feel like it's the optimal cost of capital, source of capital right now, so for the foreseeable future we expect it to remain on the line.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

With the uptick in mortgage service acquisitions in the last couple months for you guys, is that obviously an active part of the strategy or it's one-off, these both came available at the same time? I am just trying to figure out if your M&A appetite has increased a little bit.

Dennis Gilmore - *First American Financial Corporation - CEO*

We are looking at a lot of deals right now, but like always we are going to be very disciplined on it. The two deals really fit into two parts of our strategy. The first one, RedVision, allows us to continue to add to our title information products, so that we could sell, not in of ourself, but the industry, and leverage our database. That one's really more on the title side. The TD Services, to build out our mortgage solutions and product offerings. And in that specific case, we had most of these products, but they were smaller so it gave us bulk in the product offerings.

Ryan Byrnes - *Janney Montgomery Scott - Analyst*

Got it. Thanks, guys.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Chris Gamaitoni, Autonomous Research.

Chris Gamaitoni - *Autonomous Research LLP - Analyst*

Thanks, guys. All my questions have been answered.

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

Thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thanks, Chris.

Operator

John Campbell, Stephens Inc.

John Campbell - *Stephens Inc. - Analyst*

Hey, guys. Good morning. Back to the leverage question. You guys -- it's 20% now. Could you guys maybe just give us an idea of what your comfortable max leverage point is, or maybe what the rating agencies are looking for?

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

What I would say is our target is 18% to 20%. We're obviously at the higher end of that target, now. We are obviously very comfortable with that. We would be very comfortable at a 25% debt to account. But I think if we went that high for whatever reason we would be in debt pay down mode. We want to, in a normalized market, we want to be at 18% to 20%. The rating agencies are very comfortable with that, and especially since we have raised the dividend so dramatically, it helps to have just a little bit of a lower target leverage. So we could go to 25% easy, but if we did we would be in debt pay-down mode.

John Campbell - *Stephens Inc. - Analyst*

Okay. That's helpful. Mark, I just want to make sure I get pension plan contributions right. Are you saying that you're expecting an incremental $45 million contribution from what was already announced with the 8K? Are you saying that you are expecting $45 million of what was announced to be front-end loaded?

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

Well in the 8K we announced that we thought that there would be about $100 million cash contribution. Obviously, that depended on a lot of factors, but our best estimate was $100 million. This quarter we funded $56 million of that $100 million, and we expect the rest, roughly $45 million, to be early next year.

John Campbell - *Stephens Inc. - Analyst*

Okay. That's helpful. For my notes, could you guys run back through the quarter-to-date purchase and refi open-order trends?

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

Q4 quarter to date?

John Campbell - *Stephens Inc. - Analyst*

Yes.

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

On the purchase side, our open orders are down 2% relative to the prior year. On the refinance side, our refinance orders are up 32% verses prior year, and they're down 9% verses September. We're opening roughly -- this is going to be open, I'm referring to. We're opening about 2,300 refinance orders a day.

John Campbell - *Stephens Inc. - Analyst*

Okay. Great. Thanks, guys.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

Mark Hughes, SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you. Good morning. Sorry if you mentioned this, but what tax rate, given some of the mix changes we've talked about, what tax rate do you think we should use going forward?

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

We still feel like 34% is a good rate going forward.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you.

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

You're welcome.

Operator

Bose George, KBW.

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

Good morning. Going back to the comments on the speciality insurance business, when do you think the margins there are going to normalize?

Dennis Gilmore - *First American Financial Corporation - CEO*

I am looking for material improvement going into 2017. Again, we've gone through our toughest two quarters in the second and third. I think we're going to string back in the fourth and first. Again, the key for the business is how its performance in the second and third of 2017. We are putting a lot of resources in to fix some issues, number one. Number two, we continue to actively raise prices where appropriate. Remember, that will take about a full year for them to flow into the benefit of the revenue line for us.

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

Okay. Great. That's helpful. Thank you.

Dennis Gilmore - *First American Financial Corporation - CEO*

Thank you.

Operator

There are no additional questions at this time. That does conclude today's morning call.

We would 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 13646700. The Company would like to thank you for your participation, and this does conclude today's teleconference. You may now disconnect.