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FAF - Q2 2017 First American Financial Corp Earnings Call

EVENT DATE/TIME: JULY 27, 2017 / 3:00PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the First American Financial Corporation Second Quarter Earnings Conference Call. (Operator Instructions) A copy of today's press release is available on First American's website at firstam/investor. (sic) [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, 13665759. We will now turn the call over to Craig Barberio, Vice President of Investor Relations, to make an introductory statement.

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

Good morning, everyone, and welcome to our 2017 Second Quarter 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 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 risks factors discussed in our Form 10-K and subsequent SEC filings. Our presentation today also 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.

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

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Good morning, and thank you for joining our call. I will review our second quarter results and provide a few comments regarding our outlook for the remainder of 2017. In the second quarter, our earnings rose 18% from last year to $1.09 per share. Total revenues were up 7%, driven by growth in our purchase and commercial activity. Pretax margin for our Title Insurance segment was a record 14.8%. The Title segment included $17 million of realized gains. A record margins of the results of years of disciplined operating focus, which included centralizing our back office functions, standardizing our processes and simplifying our organizational structure by greater accountability and improving our underwriting practices.

Our purchase business delivered strong results in the quarter. Purchase revenues were up 12%, driven by an 8% increase in the average fee per order. Closed orders were up 3%. Our purchase business continues to perform well despite high housing inventory in most markets throughout the U.S.

Our commercial business had a strong quarter with our revenues up 7% over the last year. Year-to-date commercial revenue is up 5%, rebounding nicely after a small decline in 2016. We have a healthy pipeline of transaction activity, heading into the second half of the year, and we're optimistic that 2017 will be another good year for our commercial business.

As we've discussed in prior calls, our refinance business dropped sharply in the second half of 2016, but it's now stabilized at around 1,300 orders per day. During the second quarter, we maintained our operating discipline in our central lender businesses by aggressively adjusting our cost to match our current order volumes. The rapid decline in refinance orders presented significant operating challenges; however, I'm proud of the work our team has done to optimize our performance in the current market.

Turning to our Specialty Insurance segment. Revenue grew by 10%, driven by Home Warranty strong performance. Home Warranty significantly reduced losses from clients, primarily by improving its contractor network and service operations. Our Property and Casualty business experienced higher-than-expected claim losses due to higher frequency, but the loss ratio for the Specialty Insurance segment still improved to 62%. The pretax margin in the segment was 8.3%. The outlook for the remainder of 2017 is optimistic. The purchase business continues to grow. Our purchase open orders are up approximately 3% so far in July. Our commercial pipeline line is strong. Our refinance business is right size for the current market environment, and our title plans continue to trend favorably. We remain focused on market share growth and delivering innovative solutions to our customers, while maintaining a disciplined approach to managing the businesses.

Looking ahead, as the housing market improves, I believe our company has the capacity to continue to deliver growth in revenues, margin and profitability, while maintaining our leadership position in the industry. I'll now turn the call over to Mark for more detailed review of our financial results.

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

Thank you, Dennis. Total revenue in the second quarter was $1.5 billion, up 7% compared with the second quarter of 2016. Net income was $122 million or $1.09 per diluted share. The current quarter results included net realized investment gains of $18 million or $0.11 per diluted share.

In the Title Insurance and Services segment, direct premium and escrow fees were up 2% compared with last year. This increase was driven by a 16% increase in the average revenue per order, offset by a 12% decrease in the number of orders closed. The average revenue per order increased to $2,294 due to a shift in the mix, the higher premium purchase and commercial transactions. The average revenue per order for purchase transactions increased 8%, primarily due to higher real estate values.

Agent premiums were up 7%, reflecting the normal reporting lag of agent revenues of approximately one quarter. The agent split was 78.7% of agent premiums.

Information and other revenues totaled $199 million, up 9% compared with last year. The increase was driven by recent acquisitions, which contributed $20 million to revenue this quarter. Investment income within the Title Insurance and Services segment was $35 million, up $7 million from the second quarter of last year. We're beginning to see the benefits of higher short-term interest rates on our investment income, most notably in our tax deferred property exchange business where investment income increased $2.4 million during the quarter or nearly $10 million annualized. We also saw improvements in our floating rate agency mortgage-backed securities portfolio as well as the interest on our cash balances. We expect to see continued improvement in investment income in the third quarter given the rise in the 30-day LIBOR rates since late May.

Personnel costs were $416 million, up 7% from the prior year. This increase was driven by the impact of recent acquisitions, higher salary expense and increase in incentive compensation as a result of higher revenue and profitability. Other operating expenses were $200 million, up 2% from last year. The increase in expenses during the quarter was primarily attributable to recent acquisitions, partially offset by small decrease in (inaudible) number of expense categories. The ratio of Personnel and other operating expenses to net operating revenue was 72.4% compared with 71.6% last year. The provision for title policy losses and other claims was $43 million or 4.0% of title premiums and escrow fees compared with the loss provision rate of 5.5% in the same quarter of the prior year. The current quarter rate reflects an ultimate loss rate of 4.0% for the current policy year with no change in the loss reserve estimates for prior policy years. We expect to continue to book our loss provision rate at 4.0% this year. However, as always, we will monitor claims on a regular basis, and we'll adjust our loss rate when appropriate.

Pretax income for the Title Insurance and Services segment was $197 million compared with $172 million in the second quarter of 2016. Pretax margin was 14.8% compared with 13.7% last year.

Turning to the Specialty Insurance segment, total revenues were $115 million, up 10% compared with last year. The loss ratio -- excuse me, the loss ratio in the Specialty Insurance segment this quarter was 62%, down from 65% in the prior year. Claims experience improved notably in our Home Warranty business, primarily due to operational improvements, particularly with our contracted network and service operations. The loss ratio for the Home Warranty business improved 870 basis points to 58% this quarter. Partially offsetting this favorable claims experience are higher claims from our Property and Casualty business. Pretax margin for the segment was 8% compared with 5% in the second quarter of last year.

Net expenses in the Corporate segment were $23 million, unchanged relative to last year. The effective tax rate for the quarter was 33.8% in line with our normalized tax rate of 34%. Debt in our balance sheet totaled $734 million as of June 30th. Our debt consist of $546 million senior notes, $160 million on our credit facility, $25 million of trusteed notes and $3 million of other notes and obligations.

Our debt-to-capital ratio as of June 30 was 18.7%. We have $540 million remaining on our $700 million revolving credit facility.

In terms of cash flow, cash provided by operations was $229 million, a 13% increase relative to last year, primarily due to benefits from income tax accounts. Lastly, I'd like to provide a brief update on our pension. The termination of our pension plan was completed in July. In the third quarter, we will record a charge of approximately $153 million in the Corporate segment, which will have a negligible impact on stockholders' equity. The company expects an annual reduction, an approximately $22 million, in Personnel expenses in the Corporate segment based on the level of these expenses in 2016.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Mark DeVries of Barclays.

Mark C. DeVries - *Barclays PLC, Research Division - Director and Senior Research Analyst*

It looks like your success ratio kind of came in below your target range for the quarter. Could you just talk, Mark, a little bit about kind of what happened with expenses? What were the drivers of that? Any kind of what the outlook is going forward?

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

Yes, sure, I'll start and then hand it over to Dennis. So our success ratio in the Title business was 91%. And as you know, Mark, we were trying to hit the 60% target, and it's -- really the biggest driver was just acquisitions. We've done a -- we did a couple of acquisitions at the end of the third quarter and the early fourth quarter of last year, and if you exclude acquisitions, our success ratio in our core business was 64.7%. So that's the biggest driver.

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

And just I'll add that, Mark, the core business is running very strong. We're watching our expense very closely, and the acquisitions are on target. We're just finishing up the integrations right now. We're changing our focus now to selling more, leveraging First American brand. So I think this issue will sunset itself as we go into the second half.

Mark C. DeVries - *Barclays PLC, Research Division - Director and Senior Research Analyst*

Okay, that's helpful. And then also, Mark, could you give us a little bit of sense of how we should think about the impact of additional said tightening on the investment yield? How much -- for every 25 basis points, how much of that could get past through to investment yield?

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

I'll explain this, Mark. There's a lot of moving pieces with our investment income, lots of ins and outs. But when we look sequentially from Q1 '17 to Q2 '17, our investment income in Title was up about $8 million and about $3.5 million or so was direct -- were basically because of securities that we have that are directly tied to the 30-day LIBOR rate. So we got a $3.5 million pickup sequentially, mainly because of our 1031 Exchange business, our agency floaters and the interest we have in our cash and escrow deposits. So we have roughly a $3.5 million pickup sequentially, and we also saw another increase in 30-day LIBOR in late May, so we would expect a similar type of increase at least next quarter.

Operator

The next question is from Mark Hughes of SunTrust.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Could you give us a sense of the recent daily run rate for refi orders?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Yes. This is Dennis. So we're running right now -- we've (inaudible) actually over the last few months and running approximately $1,300 per day.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And then the -- in the Specialty Insurance, the loss ratio has improved. Does that reflect the full effect of the positive changes you've made in terms of the contracted network and other things or should there be incremental improvement to come?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Well, we've made significant improvement in our Home Warranty contracted network and just overall service result. So we had a very, very good quarter in the Home Warranty business. And I think some of those trends will continue going forward. We are entering the season -- the 2 toughest quarters for us, the second and third quarter. So that's when we have the highest claim rates in that business, but we've made really good progress in that business, and I'm very encouraged with what we said right now.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Did you indicate how much free cash you've got at the holding company level?

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

Yes. So we have -- we have $255 million of cash at the holding company level, but a significant portion of that cash, I would say, we set aside for tax payments and benefit payments that we know we're going to have over the next several months. So once you take that out, we've got $144 million of what we call operating cash at the holding company.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And then one final question. I think you've given a revenue contribution from the recent M&A? What was that number again?

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

It was $22 million for the quarter, and almost all of the $20 million of it was reflected in our information and other line item.

Operator

The next question is from Bose George of KBW.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

First is on the increased fee per file. Is it possible to disaggregate the impact between the mix shift and HPA? And also can you just remind us, just the increase in HPA, how much that benefits the fee profile?

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

And you are talking specifically about the purchase fee profile?

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Yes, on the purchase side, yes.

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

So purchase fee profile was up 8% and roughly about 60% of that was because of home price values, HPA, and the other 40% came from other factors.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

And that other factors are sort of price increases and things like that?

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

Yes, it's really a combination of pricing -- price increases. And I would say there are 2 things: one is, the rate increases where we're just taking rate. But the second is, we've had a program going on for a while now called Simple Escrow, where we're combining fees into our escrow rate just to make things simpler for our customers and for our business. And so really, those rate increases just sort of grows up our revenue, but it grows up our expenses too. So in terms of the 8% increase in the purchase fee profile, 60% from HPA and other 40% is the combination of just taking rate and the Simple Escrow process that we have.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay, great. And then actually just on the pension. Can you just remind me, the $22 million is the year-over-year benefit? Is it for this year, year-to-date, how much of the benefit has been kind of run-through in the first 2 quarters?

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

Well, I'll answer this way, Bose. We've been taking about roughly $5 million of pension expense each quarter. So in Q1, we took $5 million; in Q2, we took $5 million; in Q3, we just very recently officially terminated the pension, closed it out. In Q3, we would expect $153 million pension expense. But we're going to -- once you back that up, we're not going to have any pension expense in the third quarter other than that. That makes sense.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. So basically, $5 million a quarter kind of goes away going forward?

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

$5 million, we're going to start seeing that run rate in Q3 once you back out the $153 million.

Operator

The next question is from Jason Deleeuw of Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Question on the title margins. Looking good there, but the provisions helping a lot. So If I look at ex provision, margins still down year-over-year, lesser than last quarter, but I'm just wondering the headwinds there, assuming it's still the refi, the centralized refi. And I'm just kind of trying to get a sense for we kind of ex out the refi with those margins, kind of extra provision I mean. Would they've been up or flat, and as we get through the year, it would seem like -- we put this refi headwind behind us that, the overall margins ex provision benefits, I mean, they would seem like they should start expanding again. So, I guess, what are your thoughts on the margins?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

All right. This is Dennis. I do think they have room to continue to increase as the market continues to improve, but really where you're going is, what's happened to us is, we've had a lot of headwind in our central lender businesses -- our central refinance business, as I mentioned on the first quarter, and we've been very, very aggressive on our cost structure here by the way. Our headcounts are down by 50%. The good news there though is, we started to stabilize and we've right-sized that business, we think, for the current market environment. So all things being equal as long as the revenue -- excuse me, the orders hold about where they are now. I think that business now is trending back towards like a breakeven or better performance in the second half of the year. And then what we've mentioned earlier also, too, we were run-rating the first year on these acquisitions as we finalized the integration. So those were the 2 headwinds in the business.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

And the M&A, does that mostly run through the title business and not Corporate or is that -- so that's the headwind on the title margin? Is the M&A activity also?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Exactly, (inaudible) titles. I should mention, though, we're pretty excited about these M&A deals. They are doing well for us. They fill product niches for us. It's just the process as we go through -- any company will go through to integrate them, get them running as part of our company, get the cost out of them and start to leverage the top line. So we're on track from that perspective.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Got it. And then Commercial was strong this quarter. And I'm just wondering where there any large deals or anything that kind of shifted into the second quarter and so maybe we can expect a falloff in the third quarter? Just kind of any color on the commercial strength we saw and kind of what we can expect?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Yes, there was nothing unique about the quarter in the sense that no onetime deal that drove it. It was just overall very strong quarter for us, given the revenue is up 7%. We're actually up 5% year-to-date. Strong across all the market segments. It's interesting too inside of our company. We're ahead of our forecast in almost all of our regions. So we got a solid pipeline going into the second half of the year. I think it's just going to be a very good year for Commercial. Again, I would caution folks, as I have for probably the last year, is I still think probably we'll look back in time and '15 will be the peak for us. And the market will probably slowly normalize as we go into '18 and '19. No question, '17 has become a very good year for us commercial -- from commercial perspective.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

And then one last one, just on the capital structure and allocating capital going forward. Just your updated thoughts on capital allocation?

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

Well, I think our strategy really hasn't changed. We want to invest in our core business. We want to buy companies that are strategic where we can get a good return and we want to return capital to shareholders. We look at our excess capital position today, and we don't have a whole lot of excess capital and others maybe walk through how we think about. We've got cash at the holding company, as I mentioned earlier on this call. So we have $144 million of operating cash, but our target is really $180 million, (inaudible) one year cash payments. So we're about $35 million light at the holding company relative to our target. But we have excess capital at FATICO, which is our primary setup, and we've got, according to our risk adjusted capital methods that we deploy, we've got about $154 million of excess capital at FATICO. And then we're a little bit under levered relative to 20% debt-to-cap target. So you have those 3 buckets. We've got about $180 million or so of excess capital, but we're growing at every day. Every day that goes on, we're adding to excess capital. And so we can see a position in 2 or 3 years where we're going to -- based on this rate, we're going to have to think about how to deploy that. And it's going to be opportunistic acquisition to return it back to the shareholders.

Operator

The next question is from Kevin Kaczmarek of Zelman & Associates.

Kevin Michael Kaczmarek - *Zelman & Associates LLC - Director*

Guys, could you talk a little bit more about margin expansion and your comments about the ability to continue that going forward? I guess, how much would you expect to be due to operating leverage, assuming higher revenue? And how much maybe could you -- do you think you could expand your margins in a flat revenue environment?

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

Thanks for the question. So last year, we hit 11.7% margins in Title. That was kind of at the high-end of our 10% to 12% range. What's happened this year, well, the refi originations are expected to be down roughly 40%. So that's obviously the headwind, but we've made up for that because of the lower loss ratio. And at the end of the day, in 2017, we expect to be again at the high-end of our 10% to 12% margin target. So how do we expand margins from there? Well, the first thing is, as we get -- we feel like the purchase market is going to continue to improve, and we're going to have leverage, obviously, on the margins because of that. The other thing too, is as I've mentioned before, short-term interest rates have risen, we're not sure where they're going from here, but we're getting the benefit of short-term rates in our portfolio we've been talking about for some time. And that falls right to the bottom line. So those are 2 big drivers in terms of the margin expansion.

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Yes, Kevin and I -- I would just add, as I mentioned in our script, as we believe the market will continue to get better, primarily the purchase market, it will grow, revenue will grow, efficiency will grow on margin. So we're pretty optimistic looking forward right now that there is upside to where we are right now as the market continues to improve.

Kevin Michael Kaczmarek - *Zelman & Associates LLC - Director*

Okay. And then could you talk a little bit about hiring trends on the direct residential side. I guess, what metro areas are you seeing the most turnover and when do you expect it to settle down? And also I think some of your peers have seen some increased employee turnover, I guess. Are you benefiting from this at all? Or you may be negatively impacted by the same trends as well?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

I'll make sure I followed your question. The question is around what did we do in the headcount in the quarter? When we net out acquisitions, we were actually down, so we were operating very efficiently. If it's really market activity, we're always, always aggressive, in any one market the higher revenue producers and we've had quite a bit of success over the last number of years.

Kevin Michael Kaczmarek - *Zelman & Associates LLC - Director*

And I guess, have you seen turnover tick up over the past year?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

No.

Operator

The next question is from Geoffrey Dunn of Dowling & Partners.

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

Mark, what is your dividend capacity out of FATICO this year? And how much have you already taken, if any?

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

Just give me a second. The capacity...

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

And I'm asking capacity ex the debt that you guys referenced in your SEC (inaudible).

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

Yes, one second. Yes. Our capacity excluding the advances -- I think it's what you're talking about. If you just look at dividends, just for FATICO this year, it is $645 million. It's high because when we (inaudible) to Nebraska a few years back, we got a reserve release, which increased net income and that rolled forward. And so the dividend capacity is way more than what we would never use at this point. But to answer your question, $645 million. The dividend we've taken so far this year are negligible. Typically, we've taken in second half of this year. So that's the planning process that we're thinking of right now, is how much of that we're going to use in the second half.

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

Okay. And that's kind of just a leading question here, which is you spent a lot of time fixing the balance sheet over the last decade. I'm not sure what -- how you guys assess excess capital. It seems like those measures in Title have changed a lot over the last several years. But when can we expect you to start taking out your eligible dividends, which obviously would increase the flexibility at the Holdco to pursue more active capital management beyond the hefty dividend you already pay? It's a trend -- theme we've talked about for a while, but it's just kind of always gets pushed out another quarter until we'll start seeing it.

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

Well, when you say eligible dividend, we don't expect to take like $645 million dividend to FATICO. What we do expect, and I'd mentioned this earlier on the call, we feel like we've got about $154 million of excess capital at FATICO. And that's based on the calculation we used to see how much capital do we need in FATICO to maintain our inline financial strength ratings in the stress environment. So we come up with that number, and we feel like we're about $154 million today, on the June 30, higher than that. So we would expect to take that at the second half of this year. And then as you know, Geoff, most of the dividends we've taken out of FATICO have been noncash dividend in the last 5 years. I think going forward, the next 5 years, substantially all of them are going to be cash dividends, but it's not going to be based on a regulatory number, it's going to be based on kind of internal risk-based approach.

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

Okay. Where are your other cash resources outside of the regulated entities?

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

Outside the regulated entities, I would say, it's fairly -- I'd say immaterial. We have our database businesses, which is unregulated. That's the primary source of dividends that are unregulated. Other than that, we've got -- we have our (inaudible) we got our Property and Casualty company, we got out Home Warranty company and we have our Title Insurance company. Those are all regulated. The biggest one is not -- is our database businesses, and we also have a few small title agents that are unregulated that we can get cash from as well.

Geoffrey Murray Dunn - *Dowling & Partners Securities, LLC - Partner*

Okay. So putting it all together, if you're trying to begin up to $180 million at Holco and maintain that. If we maintain profitability, may be build from here, we're talking about $150 million above and beyond your Holdco annual needs to play with going forward?

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

That's directionally right, yes.

Operator

The next question is from John Campbell of Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Just -- Mark, going back to the benefit from rising rates. I just want to make sure I fully understand the impact you guys -- it sounds like a big piece of investment gains this quarter, was not necessarily one-time related and you expect a similar lift in the 3Q, is that correct?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Can you -- you're not talking about the realized gains?

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

No. Just the overall investment gains within Title.

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

The overall investment gains in Title were $8 million. This is year-over-year.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

$8 million?

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

Roughly $3.5 million, we can say, is directly tied to short-term floating rate instruments. The rest of the $4.5 million comes from variety of sources, fee income and other things. Some of that is also rate driven, but not necessarily directly tied to floating rate instruments. So I think, our thought was going into third quarter, we're going to see a similar increase in our rate-driven investment income of similar $3.5 million pickup, roughly, next quarter, just because of how LIBOR has trended in the last 90 days.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay, that's helpful. That's exactly what I was looking for. So ex the realized gains, it looks like Title margins maybe 13.7%, is what I've got here. Just assuming, if Commercial can kind of hold this level if you guys cycle out some of the lower margin refi and you see that investment live? Is there any reason why Title margins should not be up sequentially from that 13.7%?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

Well, that's obviously going to depend on the order flow and commercial and purchase, but we step back (inaudible) going into it really. Again, the only headwind we're facing right now in the second half is the refinance business.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay. That's helpful. And then, Dennis, you said that 1,300 refi open orders per day in July, what was it for residential purchase? And then it might be too early, but anything to call out on the open orders in Commercial?

Dennis J. Gilmore - *First American Financial Corporation - CEO and Director*

There are 2 things. Right now, going into July, we're running about 3% ahead from last year. Again, the refinances are stable, and the Commercial pipeline looks good for us going into the second half of the year.

Operator

(Operator Instructions) Our next question is from Mark Hughes of SunTrust.

Unidentified Analyst

This is Jack on behalf of Mark. Our question has been already answered. Thank you.

Operator

(Operator Instructions) There are no additional questions at this time. That concludes this morning's 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, 13665759. The company would like to thank you for your participation. You may now disconnect.
