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FAF.N - Q2 2020 First American Financial Corp Earnings Call

EVENT DATE/TIME: JULY 23, 2020 / 3:00PM GMT

OVERVIEW:

Co. reported 2Q20 diluted EPS of $1.52.

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CORPORATE PARTICIPANTS

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

Dennis Joseph Gilmore *First American Financial Corporation - CEO & Director*

Mark Edward Seaton *First American Financial Corporation - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

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

John Gregory Micenko *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

John Robert Campbell *Stephens Inc., Research Division - MD*

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

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

PRESENTATION

Operator

Greetings. Welcome to 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 www.firstam.com/investor. Please note that this 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, more locally, (201) 612-7415 and enter the conference ID number 13706905.

I will now turn the conference over to Craig Barberio, Vice President, Investor Relations, to make an introductory statement.

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

Good morning, everyone, and welcome to First American's Earnings Conference Call for the Second Quarter of 2020. 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 this morning'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 the company's competitors. For more details on these non-GAAP financial measures, including presentation with and reconciliation to, the most directly comparable GAAP financials, please refer to this morning's earnings release, which is available on our website at www.firstam.com.

I will now turn the call over to Dennis Gilmore.

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Good morning, and thank you for joining our call. Today, I'll provide an update on First American's response to the coronavirus pandemic, review the current market environment and highlight our progress in our data and digital initiatives. Mark will give a rundown on our second quarter earnings, review the company's capital and liquidity position and provide an update on last year's information security incident.

In response to the pandemic, our priority has been two-fold: to keep our employees safe while meeting all the service needs of our customers. Early on, we activated our business continuity plan which enabled most of our people to work from home. Currently, approximately 80% of our workforce is working remotely. It is likely we'll remain in this posture until the end of the year.

During our last earnings call, we discussed the no layout commitment we made to our employees through the end of June. At a time of great uncertainty, we viewed it as an investment in our employees and one consistent with our philosophy that emphasizes a long view. It turned out to be a good decision. Our most recent surveys revealed record levels of employee engagement, as importantly, when order volumes rebounded more quickly than expected, we had our trained workforce in place to fulfill the needs of our customers.

Our April forecast projected a 45% year-over-year decline in open purchase orders in the second quarter. Our actual experience has been materially better with just a 15% year-over-year decline. Our residential purchase business has experienced a broad, consistent recovery since the trough in April when orders fell 38%. The recovery started in May when orders were down just 10%, then we saw a 5% growth in June, and so far in July, our orders were up 6%.

The buyers who postponed purchases in the spring have returned during the summer as the traditional seasonality curve has shifted. On the refinance side, open orders continue to be elevated. In the second quarter, we averaged 2,900 orders per day, in line with our April forecast. So far, in July, we are opening 3,100 orders per day. We continue to believe that the refinance market will remain elevated for the remainder of the year.

In our commercial business, revenues in the second quarter declined 39% from the prior year, better than our April forecast of a 50% decline. In response to the economic uncertainty, we've seen a slowdown in activity across all commercial asset classes in the second quarter. And it's our expectation that the segment will remain under pressure for the rest of the year. However, we have seen an improvement in open orders in the recent weeks, with July commercial orders down just 10% versus last year. Other areas of our title segment have benefited from an increase in overall transaction activity. Revenues in our Database Solutions business were up 12% this quarter, and Docutech continues to exceed our expectations.

Turning to our Specialty Insurance segment. 2 factors have driven elevated claims in our property and casualty business. First, we strengthened reserves for prior period claims by $5 million. Second, we incurred a higher number of large claim losses this past quarter, which we believe may be due in part to the pandemic. Our home warranty business continues to perform well. Although we have seen an increase in claim frequency this quarter, particularly in the appliance trade, which we attribute to the pandemic, our direct-to-consumer sales have been strong, leaving our initial outlook for 2020 unchanged.

We continue to make progress on our plan to digitally transform our business, and we believe the pandemic has accelerated the demand for digital closing services. We have 3 main areas of focus: data leadership, title automation and digital closings. This quarter, we closed 29% more orders than in 2019, while our U.S. headcount remained flat. This is partially attributed to the work we've already done to automate and optimize the workflow of our title production process.

Because title automation is data dependent, we continue to invest heavily in our data assets. Through our patented automated data extraction process, we can accurately capture title and property information more efficiently than ever, enabling us to collect a more comprehensive set of data for the same cost. We believe we have broader coverage and deeper, more comprehensive title and property databases than any other company.

Lastly, we continue to work on a number of initiatives to digitize our core closing capabilities. One notable effort we have underway is Endpoint, a digital title and escrow company we launched in 2018. In just 18 months, Endpoint has a 2% market share in Seattle. We've launched in Southern

California this quarter and currently entering the Phoenix market. Although it's still early days, Endpoint has seen rapid initial success in offering buyers, sellers and real estate professionals, a digital mobile-first user experience.

The investments First American has been making over the past few years to secure its data leadership, accelerate title automation and enable digital closing has put in a superior position to add value for our customers as the digital innovation transforms the mortgage and home buying experience.

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

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

Thank you, Dennis. In the second quarter, we earned $1.52 per diluted share. Excluding net realized investment gains of $69 million, primarily related to an increase in the value of equity securities we earned $1.05 per diluted share. In the Title Insurance and Services segment, direct premium and escrow fees were down 4% compared with last year. This decrease reflects a 26% decline in the average revenue per order, largely offset by a 29% increase in the number of closed orders. The average revenue per order decreased to $1,950 due to a shift in the mix of direct title orders to lower premium refinance transactions. The average revenue per order for commercial transactions declined 21%, while refinance increased 6% and purchase increased 1%.

Agent premiums, which are recorded on approximately 1 quarter lag relative to direct premiums were up 10%. The agent split was 79.0% of agent premiums. Information and other revenues totaled $228 million, up 15% compared with last year. The increase was primarily due to the recent acquisition of Docutech, and the growth in mortgage originations that led to higher demand for the company's title information products.

Investment income within the Title Insurance & Services segment was $43 million, down 39% primarily due to the impact of the decline in short-term interest rates on the investment portfolio and cash balances. Personnel costs were $417 million, down 1% from the prior year. This decline was primarily attributable to lower incentive compensation expense that was largely offset by higher costs as a result of recent acquisitions. Other operating expenses were $222 million, up 14% from last year. The increase was primarily due to higher production-related costs as a result of the growth in order volume, the impact of recent acquisitions and higher costs in a number of expense categories, partly offset by lower travel expense.

The provision for title policy losses and other claims was $56 million or 5.0% of title premiums and escrow fees, an increase from 4.0% loss provision rate in the prior year. Claims experience continues to be favorable relative to expectations. Incurred title claims totaled $29 million in the second quarter, a 26% decline relative to 2019. To date, we have not seen an uptick in claims. Our intent is to maintain a 5% loss rate until we have more visibility into how the current environment will affect our claims experience.

Depreciation and amortization expense was $39 million in the second quarter, up $8 million or 26% compared with the same period last year, primarily due to recent acquisitions. Pretax income for the Title Insurance & Services segment was $238 million in the second quarter compared with $233 million in the prior year. Pretax margin was 16.3% compared with 17.0% last year. Excluding the impact of net realized investment gains, pretax margin was 12.5% this quarter compared with 16.5% last year.

Net expenses in the corporate segment were $20 million, up $1 million compared with last year. The effective tax rate for the quarter was 23.8%, in line with our normalized tax rate. Notes and contracts payable on our balance sheet totaled just over $1 billion as of June 30, which consists of $992 million of senior notes, $14 million of trust notes and $5 million of other notes and obligations. In May, we issued $450 million of 4.0% 10-year senior notes due 2030. We used $280 million of the proceeds to pay down our credit facility and the remainder is currently held at our holding company. Today, we have the entire amount available under our $700 million revolving credit facility.

It has now been a little over a year since the information security incident, and we wanted to take the opportunity to provide you with an update. In March, the Nebraska Department of Insurance, the primary regulator of our Title Insurance Company, led an examination of our information security program as of June 30, 2019 in our response to the information security incident. The resulting report concluded that our IT general controls environment is suitably designed and is operating effectively, and that we adequately and appropriately detected, analyzed, contained, eradicated and recovered from a security incident, and that we are in compliance with New York's cybersecurity requirements for financial services companies.

A number of other regulators have closed investigation without any findings. Only 2 investigations have been active recently, 1 being conducted by the enforcement division of the New York Department of Financial Services and the other by the SEC enforcement staff. The New York Department of Financial Services, notwithstanding the compliance finding in the examination report I mentioned earlier, has alleged violations of New York's cybersecurity requirements. Our efforts to resolve the matter have not been successful. And as a result, yesterday, they filed a statement of charges. We intend to conduct a vigorous defense, which we'll focus on, among other matters, the examination report and its conclusion regarding our compliance with New York's cybersecurity requirements. The SEC enforcement staff is questioning the adequacy of disclosures we made at the time of the incident and the adequacy of our disclosure controls. There are also 4 class actions pending, which consistent with our typical approach to litigation, we are aggressively defending against. We do not believe that these investigations and class actions will be material from a financial perspective.

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 is from Mark DeVries with Barclays.

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

I wanted to drill down on expectations for the residential purchase and commercial market. Dennis, how much of the bounce in on the purchase side, do you think is due to pent-up demand versus just maybe higher demand as a result of improved affordability and other reasons? And also, I know it's a hard question, but on the commercial side, what are your expectations for the trajectory of that as we go into the back half of the year? It sounds like it's made a pretty significant improvement so far in July.

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Sure. Let's start with the purchase business. It's interesting, specifically the question, pent-up demand or a shift in the curve, it's hard to tell right now, but the market is very strong. We forecasted a 45% decline in the second quarter. And clearly, it turned out better than that. And when we sit here now, increased in May, increased in June, increased in July, really, what it looks like to us is just the cyclical -- I mean, the curve shifted out. The spring buying season shifted into the summer. So very strong, very fast recovery.

On the commercial side, probably the one market, we still see headwinds, and we'll probably see it for the rest of the year. So let's kind of break it down. We thought we would be down 50% on commercial in the second quarter. We're actually down only 39%. Now we're also seeing an uptick in deals right now, which is interesting early in July, they're only down 10% from a year ago. But I should caution, our ARPU will be down. We're not seeing the return yet of the mega deals. So kind of how I see commercial right now. It will definitely be down for the rest of the year. We'll face headwinds are -- but even with all that, the business has continued to perform very well and a material contributor to our profitability. That's kind of how I'm see commercial right now.

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

Okay. So it sounds like maybe a little bit more of a revenue headwind than a transaction headwind. If the mega deals are still kind of slow to come back?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. At this stage, and I think that it will just take a little longer for the commercial market kind of to rebalance I have no reason to believe that mega deals won't come back, but I'm guessing they're going to come back later in the year.

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

Okay. Got it. And I think I know the answer to this question, but I felt like I have to ask it. If CoreLogic were to institute some kind of of a sales process as a result of the unsolicited bids they've received. Would you guys have any interest in participating in that?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. Interesting question. We are not focused on CoreLogic right now. But I kind of go, never say never. It depends on what they ultimately do and what assets they potentially may try to sell.

Operator

Our next question is from Jack Micenko with SIG.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Another impossible question to answer, but when you look at the refi volumes and your comment that refi is going to remain strong through the balance of the year. We had tight capacity earlier in the second quarter. And so some of that, I'm wondering is getting pushed out. But now that we're sub 3%. I mean, have you looked -- or do you have a sense of sort of what the addressable loan market is today that would benefit from a refi? I'm guessing a lot of loans even in the high 3s now are attractive for refi. But have you ever been able to size -- size that opportunity from here? I know you've got the lag on agent as well. But just curious how you're thinking about that?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes, I'm going to come at that question a little differently. It kind of is an impossible question, but just kind of what are we seeing right now? We forecasted 3,000 orders a day in the second quarter. We came in at 2,900 so very close to our forecast. So far in July, we're running at 3,100, so a little better than our forecast. But when we look after the rest of the year, I think refinance will stay strong all through the year, going into '21, kind of to your question.

Now the second part of your question is, it makes sense to us as the originators have built capacity and as we go into the seasonally slower period of the purchase, I think the spreads will improve on the refinance, and I think we'll actually see, again, strong demand for refinance in the fourth quarter and first quarter. So I can't really size the market, but we think it's going to be a strong market for us for the foreseeable future.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Okay. Got it. And then on Docutech, can you talk about the contribution this quarter? I think tech was up 15%, 16% year-over-year. And kind of what the expectation is for that business for the year?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

Yes. So Docutech in the second quarter, I mean, we talked about how well it's been performing. It was $20 million of revenue, and that's all included in the information and other line item. And the EBITDA was a little over $9 million. And obviously, they're performing well, given the strength in the refi market. So I think that's a good run rate, at least while we see elevated refis. I think going forward, as we integrate it more into First American, we're not going to continue to provide numbers just because it will be integrated into our operations. But in the second quarter, it was still fairly stand-alone and $20 million of revenue, $9 million EBITDA.

Editor

Company Note: Docutech's income before taxes was $1.2 million in the current quarter. Excluding $7.9 million of depreciation and amortization, Docutech's EBITDA was $9.1 million. The company is presenting this non-GAAP financial measure to provide the company's management and investors with additional insight into Docutech's operational efficiency and financial performance. The company does not intend for this non-GAAP financial measure to be a substitute for the GAAP financial measure and it should be used only in conjunction with the comparable GAAP financial measure.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Okay. And is that partially why the other OpEx just had a little bit of deleveraging over the year as that's run separately? I know that half of that other OpEx line is about variable. But as percent of revenue was a little higher than it was in the year ago period?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

That's part of it. But there's just a lot of things that are just going on in other operating expenses. I mean, we're paying more notary fees now than we were prior to the COVID happening. We're spending more on laptops and certain types of equipment that has hit that line item recently. I think there's a few different things happening there, not just Docutech.

Operator

Our next question is from Mark Hughes with SunTrust.

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

Yes. Anything you might look to do on the expense front this time. Dennis, I think you were very clear about maintaining your workforce since the beginning of this episode, I'm curious whether there's any views you've got on the expense actions at this point?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. Thanks for the question. Yes, I think we absolutely made the right decision, by the way, on the (inaudible) policy for the second quarter. It was a smart thing to do the right thing to do, and it really proved beneficial to us as the markets recover much faster than maybe we anticipated at the end of the first quarter. Why it's the right thing to do is we've seen a big uptick in our employee engagement scores, as you would expect, and they've been very focused on serving our customers. Now kind of going forward, we're going to revert back to our normal management to our success ratio is how we're looking at the business right now.

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

In the commercial business, any comments on the mix of refi versus purchase? It sounds like there's an uptick in deals. How much is the refi helping to stabilize that number?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

It's helping somewhat. In terms of our revenue, about 31% of our revenue in the second quarter was commercial -- of our commercial revenue, 31% was refined. And that's been gradually increasing over the last couple of years. A year ago, it was 28%. So we are seeing somewhat of a mitigating factor in refi commercial business.

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

How about the ARPU on the residential purchase is up a little bit less than 1%? Was that -- is that a good run rate going forward, do you think? Or is that a little bit of an anomaly?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

What happened in the second quarter was we really saw California where we get a lot of our direct business really fell really sharply from a volumes perspective. And so it really was a mix issue, right? So because California was just depressed from a volume perspective, we saw the ARPU for our purchase revenue kind of be up 1% like you comment. But going forward, I mean we've seen California really come back. So I would think that over the next -- over Q3 and Q4 that we should see that improve because we've seen California snap back so aggressively.

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

And then finally, any provision you might take this quarter for the regulatory scrutiny, either a probable loss for defense costs?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

No, we didn't take any reserve this quarter. And based on what we know right now, we don't plan on taking a reserve. So that's not something that we expect.

Operator

(Operator Instructions) Our next question is from John Campbell with Stephens.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Congrats on a good quarter.

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Thank you.

John Robert Campbell - *Stephens Inc., Research Division - MD*

I just want to touch on the info and services line a bit. Dennis, you guys have made a pretty conservative effort over the years. You've done a really good job of cutting some of the cords or, I guess, the dependency to CoreLogic for data. I guess improving the expense related to that data is 1 thing, driving revenue is another thing. But just curious about your longer-term views around building out more of a robust kind of data offering? And then on that 10-year agreement with CoreLogic that expired in June, does that free you guys up in any way as far as where or maybe to what extent you guys can compete with CoreLogic?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

We have no limitation at all how we can compete with CoreLogic start there. We've been building out our databases now for a number of years, and we've talked about it over the last few years. Right now, we think, without any doubt, we have the most complete, most comprehensive data sets out there in the industry, bigger than anybody else right now, more depth than anybody else. And why that's important, John, is because we're using it for our insurance purposes, running our automation on our (inaudible). And then you couple that with -- maybe we haven't talked a lot about this, is we developed a very sophisticated patent-pending -- actually patented data extraction method where we can take vast amounts of information in a very automated manner to get it into our databases. So what I'll tell you is our databases continue to grow in depth and content, we'll use that to drive greater and greater title automation in the future. And then maybe where you're heading secondarily, we're seeing nice growth in our other, just we'll call, other data businesses. Our licensing business, our online business, others.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Okay. That's helpful. And then maybe this is for Mark, but just assuming kind of fully baked in Docutech, what's the margin profile for the all and info and services business?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

It's hard to say because there are so many different businesses in there. I mean, I know some people think of it as 1 business. I know you don't, John, but we really have our international business in there. We've got our default business. We've got Docutech. We have our data businesses that Dennis talked about. I think it's safe to say that the margin profile is higher than our overall title segment. But we don't -- we don't -- since it's really kind of a sliver of many different businesses. We don't have a kind of a roll-up of what the margin profile is. But since they're generally speaking, more data and more software-driven, the margin profile is higher than overall title.

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

John, let me add, we continue to get a larger contribution from our data businesses they have margin characteristics as you would expect of any data business.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Okay. That's what I was looking for. That's very helpful. And then last 1 for me. On the loss provision rate, it seems like you guys are being really, really conservative there. I mean, claims are down year-over-year. You're not seeing really any adverse developments. But just curious, how long do you carry that 5% rate? I mean, is there a target level, just absolute dollars you're looking to achieve? Or is that -- you hold that 5% until you get a little bit more clarity on the market trends and I guess how forbearance plays out from here?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

Yes, I'll start on that one. So again, we feel really good about reserves. We felt great about them heading into this crisis. And the last couple of years, we've been booking at a 4% loss rate. And one of the factors that goes into claims is economic environment. That's one of the factors. And we're in a tougher economic environment this year than we were last year. So we thought we would do the prudent thing and raise the loss rate to 5%. Now we haven't seen any uptick of claims like we've talked about. And in fact, every single month of the year so far, our claims have been below our actual forecast, which is, it's a sign that you're at least appropriately reserved. So right now, the plan is that there's still uncertainty in the market. We plan on continuing to book at 5% for a couple of quarter here. And we see -- we think it's a little bit too early to know what the ultimate impact of COVID is on our claims. Once we get a little bit more visibility, we'll look at it.

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

And John, I would only add is the real telling time will come probably early '21 when we see the forbearance issues kind of unwinding, we'll see what the default rates are. And we do know that when we see an increase in default, it has a possibility for increased claims for us. So this will probably become a lot clearer in early '21 is my guess.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Okay. Helps me a bit on the process with the point estimate and reserves, is there a point you get over reserved to some extent where you have to release?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. The general rule of thumb is that we can't be more than 10% above our auditors, and we can't be more than 5% below. I mean, I think that's the general rule of thumb. As of June 30, we were 4.1% above our third-party actuaries. So we do have room there. But you're right, I mean we can't increase our reserves endlessly, there is a cap, but we still have some cushion before we get to that point.

Operator

Our next question is from Bose George with KBW.

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

The investment income, is that a good run rate now for the current interest rate environment? And I'm just curious how the 1031 volumes are playing into that? Like is there any upside if commercial picks up and 1031 volumes increase?

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

Bose, so last quarter, we talked about this $40 million to $45 million of investment income in our title segment for each quarter for the rest of the year. And in the second quarter, we came in right in the middle of that, $43 million, right in line with our estimate. And heading to Q3 and Q4, it's going to fall a little bit just because of reinvestment at lower rates. But we still feel like it will be between $40 million and $43 million, probably in the lower end of that range. So that's our expectation for investment income. Certainly, if commercial volume picks up, we'll be better into 1031. There's no question about that. But I still think it'll still be between the $40 million to $43 million range. I don't think it's going to be that much of a swing.

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

Okay. Great. And then switching to the home warranty business. Is there anything that can be done on the pricing side there? Just curious how you're thinking about that with the loss frequency increasing and this -- the issue of people working from home might continue for a while, so just curious how you're thinking about that?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. That's something that we've been doing the last few years, we've kind of been really raising rates selectively in home warranty on a regular basis. I think what's happening right now with home warranty is, yes, we're having more claims, especially appliances because more people are at home, they're using their equipment more. But we're also doing a lot better than we were expecting on direct-to-consumer. And really when we look at our forecast for the year, it's kind of right in line with what we are at the beginning of the year. So there is room to raise rates, although that's not like a key part of our strategy now just because it's something we regularly do. We've been doing that for several years now.

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

Okay. And then just 1 on the decline in the revenue in the default order segment. Actually, what drove that? Is that the more foreclosure moratoriums? I mean just curious what's the main driver of what goes through there?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. That's related. I mean because of the moratoriums, we're just getting less default orders. And so they're really as low as they've been in a long, long time right now because of that. But that's what's driving that.

Operator

Our next question is a follow-up from Mark Hughes with SunTrust.

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

Dennis, did you update your full year guidance for the pretax margin? I think you said on the last call, 9% to 11%, how are you feeling about that now?

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

Yes. I want to let Mark start on that question, I'll come back.

Mark Edward Seaton - *First American Financial Corporation - Executive VP & CFO*

Mark, we never have really given our forecast really ever. We did it last quarter just because there was so much uncertainty, and we just wanted to be a little transparent and tell the market what we were thinking. Now when you look at what we've -- what our forecast was back in April, we said that the resale orders were going to be down 45% in the second quarter. Well, they were down 15%. That's materially better than what we thought. The refi market is right in line with our expectations back then. And commercial is doing a little bit better. Dennis mentioned, we thought revenue was down 50%. It was actually down 39%, and we're seeing improvement. So everything is either in line or better than our forecast. So when we look at our 9% to 11% title margin, based on where we sit today, we're going to be higher than the high end of that range, but we don't generally plan on providing regular forecasting forward.

Dennis Joseph Gilmore - *First American Financial Corporation - CEO & Director*

And Mark, and just kind of reiterate what Mark that, I mean, we're just feeling a lot better about the business at the end of this quarter than we were at the end of the first quarter. The markets are better. All in all, we're performing very well. And so we're optimistic looking at the back half of the year now.

Operator

There are no additional questions at this time. This does conclude 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 13706905. The company would like to thank you for your participation. This concludes today's conference call. You may now disconnect.