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FAF.N - Q3 2020 First American Financial Corp Earnings Call

EVENT DATE/TIME: OCTOBER 22, 2020 / 3:00PM GMT

OVERVIEW:

Co. reported 3Q20 revenues of $1.9b and diluted EPS of $1.62.

CORPORATE PARTICIPANTS

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

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

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

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Mark Douglas Hughes *Truist Securities, Inc., Research Division - MD*

PRESENTATION

Operator

Greetings, and welcome to the First American Financial Corporation's 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, 13711297.

We will now turn the call 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 third 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 facts. 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 due to the operational efficiency and performance of the company relative to earlier periods and relative to the company's competitors.

For more information 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. I'll start with a review of our third quarter results, provide perspective on the actions we are taking with our property and casualty business, and discuss our outlook for the remainder of 2020. Mark will discuss our earnings in greater detail and provide an update on our company's capital position.

We delivered strong financial results in the third quarter. Revenues were $1.9 billion, up 15%, and earnings per share of $1.62. Our pretax margin in our title segment hit a record 19%.

As volumes increased, we also kept our focus on cost efficiency, achieving a 40% success ratio, well ahead of our 60% target. Purchase revenues were up 20% in the third quarter, driven by closed order growth and higher fee per file.

Loan mortgage rates are driving substantial demand, and given the limited inventory of houses for sale, price appreciation has been robust. Our pipeline is strong heading into the fourth quarter as purchase open orders were up 14% in the third quarter, and this trend continues in October.

Refinance revenues were up 92% in the third quarter, driven by strong growth in closed orders. Low rates continue to support elevated open orders, which were averaging $3,200 per day in the third quarter. So far in October, we are opening 2,800 orders per day. Our commercial business, revenues in the third quarter declined 29%, improving from the 39% decline of the second quarter. The overall commercial market continues its recovery with improvements varying by asset class.

This quarter, we started to see a return of large transactions. We are encouraged that our open orders improved throughout the third quarter, with orders down only 7% year-over-year. Commercial orders over the last 6 weeks are flat to last year.

Turning to our Specialty Insurance segment. We have initiated a process to sell the property and casual business. While this business has performed well over the years, based on recent financial results, we have decided to focus on our core business and redeploy our capital to areas with higher expected returns.

Our home warranty business delivered strong growth, improved retention rates and effective expense management throughout the quarter. The business continues to experience an increase in claim frequency, particularly in the appliance and funding trades, which we believe are attributable to the pandemic.

Due in part to this trend, we are in the process of making policy changes and adjusting our pricing to offset cost pressure in the business. We expect the home warranty business to continue to generate strong margin performance this year.

Going into the fourth quarter, we are optimistic that lower rates and demographic tailwinds will continue to drive strong purchase and refinance activity. And as we have indicated throughout the year, we expect refinance volumes to remain elevated well into next year.

While our improving commercial pipeline increases our optimism going forward, we do not anticipate the business will meet last year's record performance. Throughout the third quarter, we experienced elevated order volumes, and the vast majority of our workforce continues to work remotely.

Our performance has demonstrated the strength and flexibility of our business. And while the pandemic has greatly slowed major sectors of the economy, it has accelerated the digital innovation in our markets. Validating our strategy and the investments we've made over the past few years to secure our leadership position in data, title automation and digital closings.

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 third quarter, we earned $1.62 per diluted share. This includes net realized investment gains totaling $45 million or $0.30 per diluted share, and impairment on assets held for sale of $73 million or $0.49 per diluted share.

Excluding these 2 items, we earned $1.80 per share. In the Title Insurance and Services segment, direct premium and escrow fees were up 12% compared with last year. This growth reflects a 30% increase in the number of closed orders, partially offset by a 13% decline in the average revenue per order.

The average revenue per order decreased to $2,193 due to a shift in the mix of direct title orders to lower premium refinance transactions. At a product level, we continue to see higher average revenue per order for purchase transactions, which increased 8% this quarter as well as for refinance transactions, which increased 4%.

The average revenue per order for commercial transactions declined 17% at the number of large transactions lagged the prior year. Agent premiums, which are recorded on approximately a one quarter lag relative to direct premiums, were up 10%. The agent split was 79.3% of agent premiums.

Information and other revenues totaled $283 million, up 38% compared with last year. A number of factors contributed to this growth including the growth in mortgage originations that led to higher demand for the company's title information products and our acquisition of Docutech, which isn't included in the prior year results.

Additionally, we benefited from services provided to support a temporary pandemic-related government program in Canada. Investment income within the Title Insurance & Services segment was $45 million, down 38% and primarily due to the impact of the decline in short-term interest rates on the investment portfolio and cash balances.

Personnel costs were $481 million, up 8% from the prior year. This increase was primarily due to higher incentive compensation expense and salary expense and higher costs as a result of recent acquisitions, partially offset by lower employee benefit expense.

Other operating expenses were $251 million, up 15% from last year. The increase was primarily due to higher production-related costs as a result of the growth in order volume. The provision for title policy losses and other claims was $70 million or 5.0% of title premiums and escrow fees, an increase from the 4.0% loss provision rate in the prior year.

Claims experience continued to be favorable relative to our expectations. Incurred title claims totaled $33 million in the third quarter, a 21% 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. The depreciation and amortization expense was $36 million in the third quarter, up $6 million or 21% compared with the same period last year, primarily due to higher amortization of intangibles related to recent acquisitions.

Pretax income for the Title Insurance & Services segment was $337 million in the third quarter compared with $254 million in the prior year. Pretax margin was a record 19.0% compared with 16.5% last year. Excluding the impact of net realized investment gains, pretax margin was 17.1% this quarter compared with 16.4% last year.

As Dennis mentioned, we have initiated a plan to sell our property and casualty insurance business. For the first 9 months of 2020, our property and casualty business recorded a pretax loss of $91.5 million. This amount includes 2 items: first, an impairment on assets held for sale of $73.3 million, which was recorded this quarter and second, a $5.6 million reserve strengthening recorded in the first half of 2020.

The results of the property and casualty business will continue to be recorded in the Specialty Insurance segment until a sale is completed.

Net expenses in the corporate segment were $22 million, up $3 million compared with last year, largely due to higher interest expense associated with our $450 million senior notes transaction, which closed in May.

The effective tax rate for the quarter was 24.6%, in line with our normalized tax rate. Notes and contracts payable on our balance sheet totaled just over $1 billion as of September 30, which consists of $992 million of senior notes, $13 million of trustee notes and $6 million of other notes and obligations.

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 John Campbell with Stephens Inc.

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

I just want to clarify a couple of things on the P&C business. So you guys are just selling -- I guess just P&C and not home warranty, that's right?

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

That is correct, yes.

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

Okay. And then, Mark, thanks for the earnings breakdown. But if you could maybe provide what the P&C revenue was over the last 9 months?

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

Yes, John. So year-to-date, it's $101 million in revenue.

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

Okay. And I think you also said you're going to hold that in the specialty segment. You're not moving that to discontinued ops, is that right?

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

Yes. We looked at that, and it's just -- it's not material enough to move it to discontinued ops, so it's just going to be recorded in Specialty Insurance, just like it always has been. So we consummate a transaction.

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

Yes. John, I'll just give you some additional detail. I mean, the results will stay in the specialty segment, and we're looking to get the transaction completed by the first half of next year. So we'll give a further update at that point.

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

Okay. And then on the higher home warranty claims, you guys highlighted the pandemic is maybe kind of influencing trends. How did you guys get to that conclusion? And I guess, what is it about the pandemic? Is it just people at home more? Or just kind of more wear and tear on the home?

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

Exactly. It's kind of what we mentioned within the second quarter, if I'm not mistaken, and the business is doing really well. It's interest and our sales are really strong, both consumer direct and our real estate channels. And I think, John, as you know, a seasonally worst quarter, our toughest quarter is always the third quarter. So no surprise there.

But inside the quarter, we saw an uptick of our appliance trade, our clients' claims and our plumbing claims. And we can't draw a straight-line back to the pandemic, but it's just logical the way you relate about people are home more, they're putting more stresses on our housing system.

So, we're going to take a look at some of our policies right there and do some price adjustments to make sure that our returns are appropriate for that business. But all in all, that business is doing well. We think we'll have a very strong fourth quarter in '21.

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

Okay. That's helpful. If I could squeeze in maybe one more on the P&C business. Any kind of rough estimate about the capital being released? Any kind of idea about proceeds and maybe what you would do with that?

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

Well, the carrying value on the book side of 9.30% was $50 million. So we're going through a process. And ultimately, we don't know what the proceeds will be, but the carrying value is $50 million right now.

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

John, with regards to the process, I mean, the bottom line here is this business has been a good business for over the years, but it's been very volatile. It's a little drag on earnings over the last couple of years. And we're just going to redeploy back into more of our core business where we have a more consistent higher return profile.

Operator

Our next question is from Bose George with KBW.

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

Dennis, you made a comment about the performance expectations for next year. Could you just repeat that? I wasn't sure if you're comparing it versus 2020 or 2019?

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

On -- in general or any specific segment?

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

The -- I think your comment was in general, just -- I think it was just overall performance?

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

I just think we're optimistic, actually, going forward right now. It's been a super -- a really volatile year. But when we step back and look at things right now, Purchase is very strong. And I'll just give a little detail on Purchase right now. We'll still come back into some of our seasonal patterns.

But for example, orders like (inaudible), that's 17% from a year ago. So we'll still see seasonality in the fourth and first quarter, but I'd say, at an elevated lower volume. So that's on purchase. On refinance, we still think the 3,000 a day order volumes are good. We've got lenders building capacity. Spreads are still high. So we think that's still a good number looking forward.

And then probably the area where we're probably getting more optimistic faster than we may have thought even 2 quarters ago, it's a commercial market. It's improving. And a couple of things happened in the quarter that are interesting to us.

Over the last 6 weeks or so, our order volumes were flat from a year ago. So that's very encouraging. While our revenue was down 29%, the business is still very profitable businesses. So it's a very strong business. And then inside the market, we saw a return of some large deals. So that's good.

We're seeing some more strength in segments right now, as you probably would guess, in commercial -- excuse me, in warehouse or office buildings are starting to move. The weakness is still in hotels and some retail segments. But all in all, we're encouraged by commercial starting to heal faster than maybe we thought even 2 months ago.

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

Okay. Great. And then -- actually, just curious what your thoughts are on buybacks. Just in the stock -- earnings were great. The stock is down quite a bit. It's been lackluster for a little while. So yes, just curious if you think that's a good use of capital here.

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

Yes. Bose, this is Mark. Yes, I mean, that's something that we're always looking at. We did feel like our earnings were strong. And one thing is, too, our earnings are higher than they were a year ago, and yet our stock quite hasn't recovered not anywhere near what it was pre pandemic. So it's something that we're continually thinking about.

I think we're taking a look at it right now. And it's just (inaudible) earnings are very strong, and we're optimistic looking forward right now.

Operator

Our next question is from Jack Micenko with Susquehanna Financial Group.

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

I wanted to talk through revenue per order. Normally, you see a may step up 4Q from 3Q, a lot of that is commercially driven. So I'm thinking out loud here. You've got a purchase market that has kind of held in stronger than seasonally.

Certainly, you've got the refi, which is dilutive, but you've also got the commercial market to come back and maybe there's sort of a catch-up dynamic at play here too as transactions maybe been postponed through the prior quarters.

Is it possible -- is what you're thinking from what you see today that the revenue per order, that step-up could be abnormally higher sequentially than it maybe had been in prior years?

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

I would say -- when you look back historically, we always have had a higher fee per file in Q4 because of the reasons you mentioned. Last year was up about $100 an order Q3 to Q4. It's hard to say, but based on where we -- because a lot of it ultimately comes down to how strong commercial is going to be, and that's something that's a little bit unknown.

But where we see now is we do think there's going to be a step-up like there always is. So we think fee per file will be higher in Q4. How much higher? It's just going to depend on the strength of the commercial market.

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

Okay. And then on the specialty loss ratio. I know that obviously the severity and the volatility from the P&C business is much, much greater. But if we were to sort of back out the P&C volatility, conceptually, how should we think about that loss ratio with just home warranty on a go-forward basis?

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

The loss ratio for home warranty is very seasonal, right? So we got a lot of claims in the summertime when air conditioners go out. We don't get many claims in the wintertime. Through the cycle on an annualized basis, typically, we're somewhere in the 52% to 54% range, somewhere in there. But obviously, that's going to be higher or lower depending on the quarter. But annually, it's about 52% to 54%.

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

Sure. And then you said you're putting in some changes, policy changes, besides price, would that look like maybe like, I don't know, like a freeze period upfront or something before you can make a claim? Just curious to kind of some of the changes you're making to address the higher claims?

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

Sure. Yes. It's a multiple thing. You look at price, you look at coverage, you look at service fees, so you'll get a lot of different issues to make sure you're priced appropriate for the returns.

Operator

Our next question is from Chad Key with Intrinsic Edge. Okay. Moving on to Mark Hughes with SunTrust.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Yes. The 8% appreciation in residential ARPO and the purchase ARPO. Was that a mix shift? Or how much of that might have been just home price appreciation?

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

It was really -- the vast majority of it was home price appreciation. So as you know, Mark, our future file that we report is really on our directors, and it's really our direct operations, which are on the west -- mainly the western states. But like when you look at it, first state, California was our biggest state, we had a fee per file increase in California of 8%.

I can go along the list, Oregon, Washington, Arizona, they were all plus or minus in that range. So it's really just home price appreciation and not really a big shift in the mix.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

And your agent premium was up 10%, a pretty strong number, but is reported on a 1 quarter lag, your direct was down 4% last quarter. Is that a mix shift? It seems pretty strong if I'm thinking about it properly.

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

Yes. I would just say that like most of the time, the 1 quarter lag is a good proxy of 4 out of 5 quarters. So this quarter it really won. So you're right. We would have expected to have a lower agency growth based on what happened in Q2. But remittances came in. Refis are really strong. Commercial is really strong for agencies. So there's -- it's not really a mix shift. I think it's just timing of remit is more than anything else.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Yes. It seemed like you closed more of the orders than you have historically, it's hard to judge precisely. Any comments other than the obvious, which is people are pretty committed to the refi and purchase at this time, but anything on top of that?

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

Are you talking about the direct business or the agency business?

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

I'm talking about the direct business. Just that you seem to close a higher proportion of the open orders.

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

I would say, we're very busy and we're very efficient right now. So I wouldn't go any deep in that. We're just -- we're doing a very good job, and the operation is running very efficiently.

Operator

(Operator Instructions)

Our next question is from Mark DeVries with Barclays.

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

Yes. I had a clarifying question around commercial. I think as you alluded to, obviously, you're already seeing a return of big deals, and I think that's reflected in the ARPO being up pretty materially in commercial. Are you continuing to see an increase in larger deal sizes in your pipeline, and should we expect that commercial ARPO to continue to drift higher in the fourth quarter?

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

Yes. Thanks for the question. Yes, we are. So kind of like I mentioned, we're starting to see the return of the large deals, you'll see the impact in the fourth quarter. I do want to caution that we're not going to match fourth quarter 2019. That was a record quarter.

But the market started to improve faster than we thought it would be even 2 quarters ago. So we're encouraged right now from what we're seeing in commercial.

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

Okay. Remind me what the normal lag is between opening and closing a commercial order? And is there anything in this environment that's like pushing that out at all?

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

No. I mean, I would say that the normal lag is similar to a purchase transaction, roughly 55 to 60 days. The one thing with commercial, though, is it's a lot more -- there's a lot more dispersion around the mean, right? We can open an order, we might not close it for a year, we can open, we could close it 2 weeks later.

So it really is -- it doesn't follow the same open to close as a purchase of refi, we've got a lot of certainty. Commercials, a lot more dispersed around the mean.

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

Okay. Got it. And just finally, as you alluded to in your prepared comments, the success ratio came in much better than your target. Should we expect a catch-up on that? Or is that -- does that reflect some expense discipline, which should keep your success ratio below target for the near term?

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

There's not going to be a catch-up. We're running -- just running very efficiently. The decisions we made, by the way, earlier in this year cannot lay out and goes into the second quarter, which was not even a right decision, it was a smart decision. We didn't have to hire anybody back. And then all the efforts we've been doing on title automation, both in our data strategy and our digital closing strategies are all paying off right now. So we're seeing the benefit in our operations right now.

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

Okay. Are you now running at closer to fuller capacity such that if you see more volume, you may need to at least be closer to that 60% target to scale up?

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

I can't predict the future, but we're staffed accordingly right now. So we don't have any issues with that. We've augmented our staff role slightly with some temps to deal with some of the volume searches. But we're feeling good about the business. We're feeling good about our position right now.

Operator

Our next question is from Mark Hughes with SunTrust.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Yes. The Canada revenue you referenced in the release, how much was that? And is that continuing into the fourth quarter here?

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

In the third quarter was $18 million. We're talking about the temporary revenue that we're getting from this Government's relief program that we're a subcontractor too. So it's $18 million in the third quarter, and it really ends in October. So there'll be a little bit in the fourth quarter, but most of it will go away in Q4.

Operator

Our next question is from John Campbell with Stephens, Inc.

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

Just a quick follow-up. We haven't -- obviously, since the crisis, we haven't talked much about the default business. I mean, obviously, for next year, everybody's got a lot of concerns. You guys are raising reserves. I think, Stuart is obviously raising reserves as well, kind of anticipation of that. But there's also the positive impact, I guess, of default.

But if you can maybe just kind of walk through the assets you have there now? What the revenue impacts been with the moratorium? And maybe what that could look like next year if default activity kind of picks up.

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

Yes. Thanks, John. So we have a really good default business, and it serves as a great hedge for us, right? As you mentioned before back in the last financial crisis, the default business was like our highest profit center in the company by a huge margin. As things have recovered here these last 10 years or so. The volumes have really fallen off, but it's great to be there in case things, in foreclosures use (inaudible).

So far this year, our default business is running at about $35 million of revenue or so year-to-date. And it's basically flat versus last year. So we haven't seen a pickup in our really default activity. But again, we haven't seen a pickup in foreclosures, too. So we do see that, then our default business will start to come up.

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

Yes. And John, it's Dennis. So just longer term, we were the first to move our reserve rate up thinking that we would see uptick in default. And I still think that's a possibility going into '21 as the moratoriums kind of roll off and the (inaudible) roll off. But countering that right now is the real strong appreciation going on the housing market.

And I think as you know, if people have equity in their house, they're typically not going to let go for closure. So I think the equity situation is going to -- I'll say, want any significant real increase in defaults at this stage right now.

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

Okay. That's helpful. And I think, Dennis, I think we might have talked about this last quarter, but where are you guys right now as far as the -- where you're running reserves versus actually the estimate? And I think you said maybe over 10% you have to release, is that right?

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

That's correct. And I'll let Mark give the first part of that answer.

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

So as of [9/30], we're about 5% over the actuary and again, we still have -- we're not close to that 10% range, but we're in a very healthy reserve position right now.

Operator

Our next question is with Mark Hughes with SunTrust.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Yes. If we think about the impact in the home warranty business from appliances and the plumbing. Would it be fair to say that's kind of the 8 points, you went from a loss ratio of [61] to [69]. Is it fair to say that, that represents the increased of frequency that you saw?

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

Yes. No, that's definitely fair mark. The home warranty business, which we talked about, is really great. People are staying home. As Dennis mentioned, we're getting higher claims, and that's really attributable to people staying at home more. So appliance, deployment trade, those are causing higher losses for us.

Operator

There are no additional questions at this time. That concludes this morning's call. We'd like to remind listeners that today's call will be available for replay on the company's website or by dialing (877) 660-6853 or (201) 612-7415 and enter the conference ID 13711297. The company would like to thank you for your participation. This concludes today's conference call. You may now disconnect.