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FAF.N - Q3 2021 First American Financial Corp Earnings Call

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OVERVIEW:

Co. reported 3Q21 diluted EPS of $4.00.

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PRESENTATION

Operator

Greetings, and welcome to the First American Corporation's Third Quarter 2021 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to hand the call to Craig Barberio, Vice President, Investor Relations, for a brief introductory comment. Thank you, Craig. You may begin.

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

Good morning, everyone, and welcome to First American's Earnings Conference Call for the quarter of 2021. Joining us today on the call will be our Chief Executive Officer, Dennis Gilmore; our President, Ken DeGiorgio; 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 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*

Thank you, and good morning, and thanks for joining our third quarter earnings call. First American has again delivered outstanding financial results. All of our core businesses continue to perform well, and we've made progress on a number of strategic initiatives. Today, I'll discuss a few of those initiatives, and then Ken will provide an update on our current order trends and business outlook. And Mark will conclude by providing details on our third quarter results.

As I said before and it's worth repeating, First American is laser-focused on innovation. As real estate transactions become increasingly digital, we are leveraging our unique data assets and technology to enhance the customer experience and to make the settlement process more efficient for all parties.

One of our largest initiatives was the launch of Endpoint in 2018. While Endpoint is wholly owned by First American, it is by design also a native digital start-up committed to reimagining the closing experience for buyers, sellers and real estate professionals. Endpoint has captured a 3% market share in its initial market of Seattle, and currently operates in 11 additional markets across California, Texas and Arizona, and we plan to add more markets in the near future.

A major factor in Endpoint's success has been its ability to track world-class tech talent. Endpoint has approximately 100 product managers, engineers and designers and plans on doubling the team over the next 12 months. Fully embracing the tech ethic of continuous improvement, Endpoint often releases enhancements to its technology designed to further improve efficiency. As a result, Endpoint is increasingly becoming the first choice of digital-forward companies, including those in the PropTech ecosystem. Given this track record earlier this week, we announced an additional $150 million commitment to Endpoint. Endpoint will use these funds to continue to hire the best tech professionals, further improve the digital closing experience and expand its capabilities for PropTech companies and digitally forward real estate professionals.

We are about to close on our previously announced acquisition of ServiceMac, an innovative mortgage subservicer with unique solutions. Founded in 2017, ServiceMac will complement our title and closing operations and (inaudible) will add assets to our Trust Bank and will enhance our ability to provide additional offerings to lenders and servicers.

Turning to our venture portfolio. We continue to believe our investment strategy is creating both value strategically and financially. We've made direct investments in 16 companies in the PropTech ecosystem. Through these investments, we have gained valuable insights to these companies, many of which have become strategic partners.

Financially, our investments generated $278 million of gains this quarter led by OfferPad, which went public via SPAC in September. Based on the strength of the real estate markets and our strategic position as an innovator in the title and settlement space, in August, we announced an 11% increase in our dividend, and our Board also approved an additional $300 million share repurchase authorization.

I will now turn the call over to Ken to discuss our recent order trends and our outlook.

Kenneth David DeGiorgio - *First American Financial Corporation - President*

Thank you, Dennis. As you mentioned, our business continues to perform well. And with a strong real estate market, we expect these trends to continue. So far in October, commercial orders are up 14% over prior year. And while our residential purchase orders at 2,000 per day are down 7% compared to an unusually strong October 2020, they are up 11% compared to October of 2019.

As expected, due to the recent uptick in mortgage rates, refinance orders have fallen from 1,700 per day in September to 1,500 per day in October. That said, our outlook for the remainder of this year and into the next is positive. The housing market remains healthy and although home price appreciation is expected to moderate, which will impact the growth in average revenue per order we've experienced recently. We expect purchase volumes to continue to grow as demand remains strong and more supply comes on to the market.

Our commercial business continues to experience an elevated amount of activity as deals that were delayed in 2020 due to the pandemic are now closing, and we believe uncertainty around tax law changes could be pulling certain deals forward into this year. Despite these tax uncertainties, we expect that a favorable economic backdrop and relatively low interest rates will deliver another strong year in commercial in 2022. While we expect residential refinance volumes to continue to decline as mortgage rates increase, we believe we will be able to offset this decline with increased investment income generated by our bank and from escrow deposits. During the last cycle, growth in investment income more than offset the decline in refinance revenue.

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

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

Thank you, Ken. We're pleased to report excellent results this quarter. We earned $4 per diluted share. Included in this quarter's results were $1.85 of net realized investment gains. Excluding these gains, we earned $2.15 per diluted share. I'll start with our title business.

Revenue in our title segment was $2.1 billion, up 21% compared with the same quarter of 2020 due to the strength of the purchase in commercial markets. Purchase revenue was up 9%, driven by a 12% increase in the average revenue per order.

Commercial revenue was a record $262 million, an 84% increase over last year. Large deals are up as we closed 89 transactions in the U.S. with premium greater than $250,000, up from 31 last year. We continue to expect a record year in our commercial business. Refinance revenue declined 36% relative to last year as mortgage rates have risen since the beginning of the year.

In the agency business, revenue was a record $999 million, up 38% from last year. Given the reporting lag in agent revenues of approximately 1 quarter, we are experiencing a surge in remittances related to Q2 economic activity. Our information and other revenues were $308 million, up 9% relative to last year.

Revenue growth was primarily due to higher demand for the company's title information and loss mitigation products. Investment income within the Title Insurance and Services segment was $50 million, up 11%, primarily due to higher average balances in the company's investment portfolio. In our title segment, pretax margin was 16.4%.

Turning to the Specialty Insurance segment. Revenue in our home warranty business totaled $108 million, up 7% compared with last year. Pretax income in home warranty was $9 million, up from $4 million in the prior year. The loss rate in home warranty has fallen from 64% to 57% as we believe many of the factors that triggered elevated claims at the onset of the pandemic are reversing.

Our property and casualty business had a pretax loss of $11 million this quarter. At the end of the third quarter, our policies-in-force have declined by 40% since the beginning of the year, and we expect a 70% decline by year-end.

The full wind down of the property and casualty business is on track to be completed in the third quarter of 2022. The effective tax rate for the quarter was 25.3%, higher than our normalized tax rate of 24% due to higher state taxes related to investment gains realized in the quarter.

As Dennis mentioned in his remarks, we've made direct investments in 16 venture-backed companies in the PropTech industry. The $292 million of capital we've invested into this effort had a market value of $669 million as of September 30. This quarter, we recorded $278 million of gains related to our venture investments. The largest gain was from our investment in OfferPad, an iBuyer that recently merged with the SPAC.

During the quarter, we recognized a $195 million gain related to OfferPad. This investment is subject to a high degree of market volatility, and we expect -- that we expect to impact our quarterly results. In addition to OfferPad, we also realized a combined $79 million of gains related to our investments in Orchard, a company simplifying home buying and selling; Sundae, a real estate marketplace for sellers of dated or damaged property; and Pacaso, a platform enabling people to buy and coal in the second home.

Beginning this quarter, we have moved all our venture-related activity to our corporate segment. Prior to the third quarter, realized investment gains from our venture portfolio were recorded in the Title Insurance segment. In the third quarter, we increased our share repurchase authorization by $300 million and had $463 million remaining on our authorization as of September 30. During the quarter, we repurchased 208,700 shares for a total of $14 million at an average price of $67.37. Cash flow from operations was $399 million in the third quarter, up 27% from the prior year.

In addition, we raised $650 million of a 10-year senior notes at a 2.4% interest rate. We expect to use our cash on hand to fund acquisitions in our core title and settlement business in adjacent markets, invest in innovative solutions such as Endpoint and return capital to shareholders. Our debt-to-capital ratio as of September 30 was 28.5% or 22.7%, excluding secured financings payable, slightly higher than our target ratio of 18% to 20%.

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

QUESTIONS AND ANSWERS

Operator

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

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

I was hoping, Dennis, maybe you could elaborate more on some of the more recent investments you've made. I think you provided some good color, but interested to hear more about what some of these businesses do, how they fit within your strategy? And then more broadly, how you think about exiting these eventually? At what point after equity events like you experienced this quarter, do you look to exit?

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

Mark, you're specifically talking about our venture investments?

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

Yes.

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

Yes. Okay. Just kind of a recap. We've got 16 right now. We look at them really from 2 angles. Both strategically and then secondarily financially, and they performed very well financially for us. In the quarter, we had $278 million of gains. So that's great. But more importantly for us, is a strategic fit. We want to continue to invest in the PropTech ecosystem in our world. We want to get closer and closer to those customers. They become strategic partners in many cases and customers for us and we'll continue with that activity.

Now the second part of your question is our strategy longer term will likely be not holding concentrated positions in public companies. But we're in a lockout period right now on OfferPad. So we'll evaluate that in the future.

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

Okay. Are there -- with that specific example, are there ongoing business synergies that would cause you to keep it on ongoing learnings? How do you think about those kind of partnerships versus just kind of more financial investments?

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

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The overlay would be none of them are just financial. So they all have a strategic component, specifically referencing OfferPad, we're very close to them. A large customer for us, a very good strategic partner. So we'll weigh all of that together when we look about growing our ownership position in public companies, but they are close partners.

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

Okay. Great. And then just one question on commercial. I think you alluded to the fact that it feels like some of the volume you're seeing is a pull forward of volume just because of potential tax changes. Could you just talk about what it is that kind of caused you to come to that conclusion what you're seeing? And then given that potential tough compare, what's kind of behind the optimism for next year?

Kenneth David DeGiorgio - *First American Financial Corporation - President*

Yes, Mark, this is Ken. Thanks for the question. I mean, I think, a lot of what we're seeing with respect to the pull forward is probably by and large, anecdotal, what we're hearing on the street. That gain around the expectations with respect to tax changes.

And with respect to the outlook, I don't think we'll probably achieve the exalted heights that we've achieved in our commercial business in the third quarter. But as I mentioned, we do expect to have a strong remainder of the year and going into 2022, and there really are a handful of factors. The economy is strong. We expect that to continue. And while interest rates are ticking up a bit from a historical perspective, they're still pretty low.

And then thirdly, there's a lot of capital still chasing deals. So again, all those factors together, notwithstanding some of this pull forward, we're pretty optimistic on commercial for, again, the rest of the year and into 2022.

Operator

Our next question comes from Bose George with KBW.

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

Actually, one follow-up on the venture investments. Are you guys still seeing opportunities out there to do incremental stuff on that side? And then just on Endpoint, the revenues for that going forward, is that going to be through the corporate segment? Or where does that flow through or really go through?

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

Bose, this is Mark. We are still seeing opportunities in venture. I mean so far, year-to-date, we put $100 million of cash to work in venture. The deals are getting more expensive. There's more money chasing fewer deals. And so there's -- I would say there's fewer, but we're still finding opportunities, and we'll see more of that in the fourth quarter here, too.

In terms of the Endpoint, all of the Endpoint revenue and financials go through the title segment. So it's just really immaterial from a revenue perspective today, but it's growing quickly. But to answer to your question, it's all in title segment.

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

Okay. Great. And then actually, I know you guys don't really like to guide on margins. But just a little color would help. I mean you've noted commercial and from purchase will remain strong. Investment income helps offset declining refis. But just in terms of you've guided sort of the margin range, it's still kind of 11% to 13%, and you're obviously running well ahead of that. So just curious any color on where we could think margins could go.

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

Well, yes, I'll start with that, Bose. So the margin guidance that we've given in the past is really dated. I mean we talked about 13% margins in the past, but that was given a certain origination environment that we've really blown pass. So when we look at margins going out to 2022, I mean, there's positives negatives, right. I mean, we feel like the purchase market is still going to be very strong. We think the commercial market is going to have a good year. We're always eking out efficiencies in our business. You've seen us for the most part -- increase margins for the most part every year because we continue to drive efficiencies. All that is positive.

The negative, obviously, is refis. I mean we're not -- we don't expect at least to have a strong as of a refi next year. So that's going to be a headwind. And then we always spend more on technology.

So when you mix that together, I mean, revenue should be very similar to where it was in 2021. And the margins are also a function of the mix of business. Obviously, commercial is a very high-margin business. Agency is a great business for us with its low margin. But one thing I'd point out to longer term is that we've got a catalyst when it comes to investment income. So we're not really sure when the Fed is going to increase. But when the Fed does increase, we've talked about how we're going to generate $12 million to $15 million of annualized investment income every time the Fed raises. And given where our deposit levels are, it's going to be on the high side of that because our deposit levels have just risen. So that's a little bit how we think about margins in the future.

Operator

Our next question comes from Geoffrey Dunn with Dowling & Partners.

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

I was wondering if you could give maybe some specific revenue color on the influent other line and title that continues to show good growth. And it certainly looks like it's less sensitive to volumes making an obviously a bit more difficult to project. So can you give us some rough breakdowns or specific breakdowns in terms of the different offerings in there to give us a better line of sight on how it could perform out in '22, '23?

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

Yes, Jeff, this is Mark. So as you know, I mean there's a lot of different businesses and information under the line item. It's not like it's one business. It's a lot of different businesses. We're very happy with the growth there. I mean we had a 9% growth rate this quarter, and it's less than what we saw in direct and agency, for example, and there's a few reasons for that. Most of the revenue there -- well, not most of it, but when I call it a few buckets here, this quarter, we had about $92 million of revenue related to our data business. That's the kind of the biggest chunk of revenue. We've got Docutech in there, about $25 million of revenue.

We also have a lot of title information reports that we sell, right, where it's not risk-based. There's no claims associated with it, but we sell property reports. We sell search packages and other things. We had about $70 million or so of that type of business where we're just selling nonrisk-based title reports and so on and so forth. And then our international business had about $45 million of revenue for the quarter. So there's other things, but those are the biggest buckets.

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

So when we look at the sensitivities is -- can you talk about each one, I mean, is the data business, is that really track your order flow and real estate demand kind of go maybe through those 4 buckets and give an idea of the sensitivity to volumes versus being less sensitive?

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

Well, I would say the property reports are very tied to just order counts. And for the most part, these businesses really are tied to or accounts, right? So when you look at Docutech, we're going to get paid for every transaction. It's not like we get paid 2.5x for a purchase transaction and a refi like we do with (inaudible) premium. Same thing goes for our data business, right? Data business, there's minimums involved, right? But if they go over our minimum monthly contracts that our customers pay kind of per hit, right, per order, right? So none of the businesses in info and other really get that 2.5x leverage that we see. So I would say as a general statement, the way to think about it is based off of orders as opposed to premiums like we see on the title business.

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

Jeff, this is Dennis. I'll just add, There'll probably be a little headwind here in these businesses. They're still going to perform very well, but there'll be a little headwind in the next couple of quarters probably cause a refinance dropping, and that's going to impact the transaction side [only].

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

Okay. Helpful. And then I wanted to just talk about cash a bit. First, the cash balance of the holdco, given that you did that big debt days this quarter. But also, I'm guessing that the gains this quarter were really balance sheet gains, not cash gains per se. But how are you thinking about monetizing these investments? And then in turn, what you do with that cash? Is that going to be something that can be -- is it going to largely be reinvested in the business? Can people expect that a lot of these gains could be passed through to shareholders, particularly when you're talking about such big gains on these ventures. And then just generally, I know you typically reluctant to give any specifics on your capital redeployment, but you re-upped your buyback. And it just seems like you're flushed with cash right now. So can you just elaborate on those 2 things?

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

Yes. The 2 things here, Jeff. I'll start on that. So today, we've got $714 million of cash at the [holdco] company. You saw we did this $650 million senior notes deal. We have 2 bond deals coming due in the next 2 years. We've got our February '23, we got our November '24. That's $550 million of debt that's coming due in 2 years. We did this bond deal really as kind of an opportunistic trade. We just -- we're monitoring market conditions. We felt like it was just too good to pass up. So cash is fungible, right? But when you look at where we spend the cash and where we intend to spend the cash, one of the things we did in the third quarter, we put $140 million into our bank to capitalize our bank. The bank deposits have been growing quite rapidly. I mean at the beginning of the year, our average balances were $4 billion. Today, they're $7 billion.

And with our bank every time our deposits go up by $1, we have to put $0.07 of capital in. And we're very happy to do that. And this rate environment, the bank is making a 10% after-tax ROE, and we really take very little risk on the asset side. And that's just going to improve when rates rise. So we put $140 million in the bank. We'll probably do another $25 million to $50 million in the fourth quarter. We also have a pretty robust acquisition pipeline. And we're not ready to announce anything here today. But in the next quarter or 2, I think most of that cash that we have at the holding company will go toward acquisitions in the next quarter or 2. So that's something that we kind of have in the pipeline.

In terms of monetizing the venture investments, first of all, they're all at the holding company. They're not trapped anywhere. And also long term, as you know, they're very illiquid, most of them, right? So it's all excess capital and really how we're going to think about deploying that when it does convert to cash at some point is we're just going to be opportunistic like we always are. I would suspect that we're going to return more capital to shareholders in the future than we have in the past, but we'll also look to grow our business. So we just kind of -- we're opportunistic about it.

Operator

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

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

I just want to touch first on the title plant expansion efforts. If you guys can maybe just kind of give us a sense of where you are relative to the original plan of I think 1,500 for the year. I think that's 80% or so coverage of the U.S. So give us an idea of where we are as far as that goal? And then I don't know if there's plans to eventually go to 100%, if that makes sense or not?

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

John, thanks for the question. We're right on track. Actually, in the third quarter, we had 1,300 new go-forward plants. We'll hit our objective 1,500 by year-end. Again, John, they are go-forward plants. We're using our attraction technology that's just completely changed our ability to do this at a completely different economic model than we have historically. So we'll hit our 1,500 objective.

The second part of that question, will we go to 100% coverage. That's really going to be questionable in the sense that we'll have to be opportunistic. We're turning to really get into the very small counties at that point. So the 80% allows us to have the level of automation long term that we want for our title automation objectives. So bottom line, on track, continuing to grow, doing well.

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

Okay. That's helpful. And then if I'm thinking about this correctly, I think you guys are generating kind of immediate savings as you open up those plants, but you're kind of recycling that back into further plant expansion. So just give us a sense for I guess, average cost per plant expansion? And then if you can maybe frame up the associated cost savings with each?

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

Yes, I'll start, and Mark may come in on it, but it's pretty de minimis, John. It's from the size of our company, our technology such now that it doesn't cost us much at all to put a new plant online like this on a go-forward basis, number one. Number two, you're kind of hitting on 2 things. We're not doing this for cost savings play, if you will, per se, what we're really doing is to expand our data content and our coverage. So not only are we building plants, we're capturing significantly more content that we think we can use to automate our titling processes in the years to come. So don't think of it so much as a cost arbitrage but more from the strategy of automation going forward.

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

And John, in terms of the cost to build the incremental 1,000 plants, I mean we already have 500 and we're billing another 1,000 here. It's really -- it's $2 million on a go-forward basis. A lot of it is because we already have the images, right? So we already have the history, we haven't have the images, and we're just we're just paying to key in electronically. So it's really de minimis in terms of the cost.

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

One last thing I want to get too detailed on this, John. But what's changed so radically for us is in historically, these would all be key, manually keyed, and that is we were -- we are and we're very efficient at that, but very different cost arbitrage now that they're electronically being abstracted.

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

Okay. That makes sense. And then one last one for me is, I've asked this in the past, I think you guys have said no change. I just want to check on this again, but the closing ratio, that's obviously influenced by the order flow. If you look at it from a high level, just the last couple of years, it looks like that to me at least, the closing -- you're closing out orders at a faster rate. So am I reading too much into that or anything to call out there?

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

No. No, there's nothing to call out there. I mean, it is subject to kind of monthly swings depending on the -- we have a good order up on the open side or good closing months. But when we look at the -- when we look at the orders that we open and how many ultimately close, it's usually about 72% of the long-term average, and that's kind of what we're running today, both on the refi and the purchase side. So we haven't seen any structural shift in our closing ratio.

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

Yes. John, and if you see any kind of noise in the numbers, if you will, the closing ratios, it would just probably be related to any kind of burst we see refinances up and down there. But the purchase -- like Mark said, the purchase is running at our historical averages.

Operator

Our next question is from Geoffrey Dunn with Dowling & Partners.

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

I wanted to follow up on really, I think, Dennis your very first comment about being laser-focused on innovation. Can you maybe give us a couple of buckets of specific areas of focus for your tech spend? Obviously, you just talked about Endpoint. I think there was some recent announcement about a partnership with (inaudible). But what are -- just an update on a couple of the specific areas where you continue to deploy your tech spend and try to develop innovation and efficiency.

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

Over the last few calls, I've mentioned a few ClarityFirst, IgniteRE, others and the title plants, et cetera. So that's kind of big buckets, if you will, big buckets. The big buckets for us are to continue to build out our data assets, both content and coverage. And that's something we've talked about for a number of years. That process is accelerating right now. And think of that, Jeff, as our foundation layers. The more content, the more coverage. The more accurate and timely that content coverage is, the more accurate we can automate the titling effort. So that's kind of a foundational level.

The second level, big buckets, Jeff, are automating the titling itself and digitizing the closing. So on the titling, we've talked about it on prior calls. And now that we and others are running very high percentages of refinance transactions are fully automated. And when you hear different numbers by different companies, by and large, that's a risk decision, how much risk you want to take versus how much full automation. And so that's ongoing.

The big effort we're focused on title automation that the big effort we're focused on and it will be probably a multiyear effort, and that is title automation on the purchase transaction. But we think that we have the content now, we have the coverage, we have the skills, we have the technology, et cetera, et cetera, that we think we can make significant headways on title automation on purchase.

The third on that transaction would be commercial, probably less likely to be automated. So it's mostly the residential play at this stage. The second major component of our automation is the digitization of the close. And we have 2 efforts going, I call them, we have revolutionary efforts, if you will, and then more structural -- I mean that's looks (inaudible) and more consistent changes. More of a complete different way of looking at that would be Endpoint.

We've made the commitment this week to increase their funding by $150 million. And Endpoint right now, which relates to other questions too, Endpoint right now is really, really matching up very well with the PropTech market right there. They're looking for a different experience in the traditional closing and looking for what we call a native digital close, and so a lot of growth there.

And then we're continuing to automate I'll call the more traditional approach to escrow. But the bottom line, the bottom line, over the long term, we think the closing will become highly digital in the future. So I kind of gave you really high buckets, data is foundation, title automation and then digitizing the closing. And you'll see us continue -- you'll see us continue to put capital to it internally through CapEx and other investments. And you'll see us continue to look for acquisition opportunities in that space also -- those spaces, excuse me.

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

And just a quick follow-up. Are you seeing any instances where Endpoint is winning business from traditional FAF?

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

Traditional FNF or FAF? Okay.

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

Within your own company is Endpoint taking -- winning business (inaudible) traditional channels?

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

Well, very, very small, if any. We're just not -- we're really going out to the fintech more directly. And so we're not trying to chase our own businesses. So we're looking at a different marketplace by and large. And that's, again, ties to our venture strategy and the partnerships there.

Operator

That is all the questions that we have for today. I would (technical difficulty). This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.
