UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-34580

FIRST AMERICAN FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**26-1911571**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1 First American Way, Santa Ana, California	**92707-5913**
(Address of principal executive offices)	**(Zip Code)**

(714) 250-3000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.00001 par value	FAF	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On October 25, 2022 there were 103,541,714 shares of common stock outstanding.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

Items 3 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," "WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS "WILL," "MAY," "MIGHT," "SHOULD," "WOULD," OR "COULD." THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION:

- *INTEREST RATE FLUCTUATIONS;*
- *CHANGES IN CONDITIONS OF THE REAL ESTATE MARKETS;*
- *VOLATILITY IN THE CAPITAL MARKETS;*
- *UNFAVORABLE ECONOMIC CONDITIONS;*
- *IMPAIRMENTS IN THE COMPANY'S GOODWILL OR OTHER INTANGIBLE ASSETS;*
- *FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;*
- *REGULATORY OVERSIGHT AND CHANGES IN APPLICABLE LAWS AND GOVERNMENT REGULATIONS, INCLUDING PRIVACY AND DATA PROTECTION LAWS;*
- *HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY'S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY'S BUSINESSES;*
- *REGULATION OF TITLE INSURANCE RATES;*
- *LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;*
- *CLIMATE CHANGE, HEALTH CRISES, SEVERE WEATHER CONDITIONS AND OTHER CATASTROPHE EVENTS;*
- *CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES;*
- *CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY'S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS;*
- *LOSSES IN THE COMPANY'S INVESTMENT PORTFOLIO OR VENTURE INVESTMENT PORTFOLIO;*
- *MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE;*
- *DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY'S USE OF TITLE AGENTS;*
- *ANY INADEQUACY IN THE COMPANY'S RISK MANAGEMENT FRAMEWORK OR USE OF MODELS;*
- *SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS, CYBERATTACKS AND INTRUSIONS, OR UNAUTHORIZED DATA DISCLOSURES;*
- *INNOVATION EFFORTS OF THE COMPANY AND OTHER INDUSTRY PARTICIPANTS AND ANY RELATED MARKET DISRUPTION;*
- *ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS;*
- *FAILURES TO RECRUIT AND RETAIN QUALIFIED PERSONNEL;*

- *THE COMPANY'S USE OF A GLOBAL WORKFORCE;*
- *INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS;*
- *INABILITY TO REALIZE ANTICIPATED SYNERGIES OR PRODUCE RETURNS THAT JUSTIFY INVESTMENT IN ACQUIRED BUSINESSES;*
- *CHANGES IN THE COMPOSITION OF DEPOSITS AT THE COMPANY'S FEDERAL SAVINGS BANK SUBSIDIARY; AND*
- *OTHER FACTORS DESCRIBED IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING UNDER THE CAPTION "RISK FACTORS" IN ITEM 1A OF PART II.*

THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. 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.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Balance Sheets
(in millions, except par values)
(unaudited)

	September 30, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 2,361	$ 1,228
Accounts and accrued income receivable, less allowances of $19 and $14	397	441
Income taxes receivable	411	11
Investments:		
Deposits with banks	61	58
Debt securities, includes pledged securities of $84 and $91 (amortized costs of $9,314 and $9,317)	8,153	9,362
Equity securities	764	1,176
	8,978	10,596
Secured financings receivable	448	565
Property and equipment, net	593	506
Operating lease assets	258	249
Title plants and other indexes	612	587
Deferred income taxes	14	14
Goodwill	1,811	1,588
Other intangible assets, net	205	218
Other assets	398	448
	$ 16,486	$ 16,451
Liabilities and Equity		
Deposits	$ 6,728	$ 5,069
Accounts payable and accrued liabilities	1,115	1,262
Deferred revenue	214	224
Reserve for known and incurred but not reported claims	1,314	1,284
Income taxes payable	4	24
Deferred income taxes	314	345
Operating lease liabilities	278	274
Secured financings payable	341	538
Notes and contracts payable	1,647	1,648
	11,955	10,668
Commitments and contingencies (Note 16)		
Stockholders’ equity:		
Preferred stock, $0.00001 par value; Authorized—0.5 shares; Outstanding—none	—	—
Common stock, $0.00001 par value; Authorized—300.0 shares; Outstanding—103.8 shares and 109.7 shares	—	—
Additional paid-in capital	1,834	2,179
Retained earnings	3,722	3,680
Accumulated other comprehensive loss	(1,048)	(92)
Total stockholders’ equity	4,508	5,767
Noncontrolling interests	23	16
Total equity	4,531	5,783
	$ 16,486	$ 16,451

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income
(in millions, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues				
Direct premiums and escrow fees	$ 758	$ 921	$ 2,429	$ 2,624
Agent premiums	910	999	2,795	2,749
Information and other	282	309	899	890
Net investment income	100	51	199	156
Net investment (losses) gains (realized (losses) gains of $(50), $7, $(7), $18)	(226)	276	(402)	429
	1,824	2,556	5,920	6,848
Expenses				
Personnel costs	570	585	1,790	1,708
Premiums retained by agents	725	794	2,231	2,184
Other operating expenses	312	332	993	959
Provision for policy losses and other claims	131	156	380	446
Depreciation and amortization	41	39	124	118
Premium taxes	24	27	71	72
Interest	24	19	63	52
	1,827	1,952	5,652	5,539
(Loss) income before income taxes	(3)	604	268	1,309
Income tax (benefit) expense	(6)	154	57	321
Net income	3	450	211	988
Less: Net income attributable to noncontrolling interests	1	5	2	7
Net income attributable to the Company	$ 2	$ 445	$ 209	$ 981
Net income per share attributable to the Company's stockholders (Note 10):				
Basic	$ 0.02	$ 4.01	$ 1.94	$ 8.84
Diluted	$ 0.02	$ 4.00	$ 1.93	$ 8.81
Cash dividends per share	$ 0.52	$ 0.51	$ 1.54	$ 1.43
Weighted-average common shares outstanding (Note 10):				
Basic	105.3	111.0	107.8	111.0
Diluted	105.5	111.4	108.1	111.3

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES Ava

Condensed Consolidated Statements of Comprehensive Income
(in millions)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	$ 3	$ 450	$ 211	$ 988
Other comprehensive income (loss), net of tax:				
Unrealized losses on debt securities	(264)	(42)	(902)	(105)
Foreign currency translation adjustment	(35)	(13)	(58)	(4)
Pension benefit adjustment	1	1	4	3
Total other comprehensive loss, net of tax	(298)	(54)	(956)	(106)
Comprehensive (loss) income	(295)	396	(745)	882
Less: Comprehensive income attributable to noncontrolling interests	1	5	2	7
Comprehensive (loss) income attributable to the Company	$ (296)	$ 391	$ (747)	$ 875

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Stockholders' Equity
(in millions)
(unaudited)

	First American Financial Corporation Stockholders							
	Shares	**Common stock**	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total stockholders' equity**	**Noncontrolling interests**	**Total**
Balance at December 31, 2021	109.7	$ —	$ 2,179	$ 3,680	$ (92)	$ 5,767	$ 16	$ 5,783
Net income for three months ended March 31, 2022	—	—	—	98	—	98	—	98
Dividends on common shares	—	—	—	(56)	—	(56)	—	(56)
Repurchases of Company shares	(1.6)	—	(108)	—	—	(108)	—	(108)
Shares issued in connection with share-based compensation	0.6	—	(11)	(1)	—	(12)	—	(12)
Share-based compensation	—	—	43	—	—	43	—	43
Other comprehensive loss	—	—	—	—	(369)	(369)	—	(369)
Balance at March 31, 2022	108.7	—	2,103	3,721	(461)	5,363	16	5,379
Net income for three months ended June 30, 2022	—	—	—	109	—	109	1	110
Dividends on common shares	—	—	—	(54)	—	(54)	—	(54)
Repurchases of Company shares	(3.9)	—	(227)	—	—	(227)	—	(227)
Shares issued in connection with share-based compensation	0.2	—	6	(1)	—	5	—	5
Share-based compensation	—	—	9	—	—	9	—	9
Other comprehensive loss	—	—	—	—	(289)	(289)	—	(289)
Balance at June 30, 2022	105.0	—	1,891	3,775	(750)	4,916	17	4,933
Net income for three months ended September 30, 2022	—	—	—	2	—	2	1	3
Dividends on common shares	—	—	—	(54)	—	(54)	—	(54)
Repurchases of Company shares	(1.3)	—	(72)	—	—	(72)	—	(72)
Shares issued in connection with share-based compensation	0.1	—	7	(1)	—	6	—	6
Share-based compensation	—	—	8	—	—	8	—	8
Net activity related to noncontrolling interests	—	—	—	—	—	—	5	5
Other comprehensive loss	—	—	—	—	(298)	(298)	—	(298)
Balance at September 30, 2022	103.8	$ —	$ 1,834	$ 3,722	$ (1,048)	$ 4,508	$ 23	$ 4,531

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Stockholders' Equity – (Continued)
(in millions)
(unaudited)

	First American Financial Corporation Stockholders							
	Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity	Noncontrolling interests	Total
Balance at December 31, 2020	110.4	$ —	$ 2,215	$ 2,655	$ 40	$ 4,910	$ 12	$ 4,922
Net income for three months ended March 31, 2021	—	—	—	234	—	234	—	234
Dividends on common shares	—	—	—	(51)	—	(51)	—	(51)
Repurchases of Company shares	(1.2)	—	(65)	—	—	(65)	—	(65)
Shares issued in connection with share-based compensation	0.5	—	(7)	(1)	—	(8)	—	(8)
Share-based compensation	—	—	31	—	—	31	—	31
Net activity related to noncontrolling interests	—	—	—	—	—	—	(1)	(1)
Other comprehensive loss	—	—	—	—	(96)	(96)	—	(96)
Balance at March 31, 2021	109.7	—	2,174	2,837	(56)	4,955	11	4,966
Net income for three months ended June 30, 2021	—	—	—	302	—	302	2	304
Dividends on common shares	—	—	—	(50)	—	(50)	—	(50)
Shares issued in connection with share-based compensation	0.2	—	4	—	—	4	—	4
Share-based compensation	—	—	9	—	—	9	—	9
Net activity related to noncontrolling interests	—	—	—	—	—	—	(2)	(2)
Other comprehensive income	—	—	—	—	44	44	—	44
Balance at June 30, 2021	109.9	—	2,187	3,089	(12)	5,264	11	5,275
Net income for three months ended September 30, 2021	—	—	—	445	—	445	5	450
Dividends on common shares	—	—	—	(56)	—	(56)	—	(56)
Repurchases of Company shares	(0.2)	—	(14)	—	—	(14)	—	(14)
Shares issued in connection with share-based compensation	0.1	—	6	(1)	—	5	—	5
Share-based compensation	—	—	7	—	—	7	—	7
Other comprehensive income	—	—	—	—	(54)	(54)	—	(54)
Balance at September 30, 2021	109.8	$ —	$ 2,186	$ 3,477	$ (66)	$ 5,597	$ 16	$ 5,613

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	$ 211	$ 988
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	380	446
Depreciation and amortization	124	118
Amortization of premiums and accretion of discounts on debt securities, net	18	33
Net investment losses (gains)	402	(429)
Share-based compensation	60	47
Equity in earnings of affiliates, net	(10)	(6)
Dividends from equity method investments	9	9
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(338)	(356)
Net change in income tax accounts	(114)	59
Decrease (increase) in accounts and accrued income receivable	46	(54)
(Decrease) increase in accounts payable and accrued liabilities	(274)	70
Decrease in deferred revenue	(10)	(28)
Other, net	29	(21)
Cash provided by operating activities	533	876
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(278)	(61)
Net decrease in deposits with banks	(8)	(8)
Purchases of debt securities	(1,989)	(4,974)
Proceeds from sales of debt securities	1,063	869
Proceeds from maturities of debt securities	951	1,404
Purchases of equity securities	(137)	(136)
Proceeds from sales of equity securities	231	79
Net change in other investments	(4)	(13)
Advances under secured financing agreements	(13,052)	(19,292)
Collections of secured financings receivable	13,147	19,389
Capital expenditures	(189)	(111)
Proceeds from sales of property and equipment	7	13
Proceeds from insurance settlement	3	12
Cash used for investing activities	(255)	(2,829)
Cash flows from financing activities:		
Net change in deposits	1,659	2,157
Borrowings under secured financing agreements	12,859	17,939
Repayments of secured financings payable	(13,065)	(17,861)
Net proceeds from issuance of unsecured senior notes	—	642
Repayments of other notes and contracts payable	(5)	(5)
Net activity related to noncontrolling interests	(2)	(3)
Net (payments) proceeds in connection with share-based compensation	(1)	1
Repurchases of Company shares	(407)	(79)
Payments of cash dividends	(164)	(157)
Cash provided by financing activities	874	2,634
Effect of exchange rate changes on cash	(19)	(3)
Net increase in cash and cash equivalents	1,133	678
Cash and cash equivalents—Beginning of period	1,228	1,275
Cash and cash equivalents—End of period	$ 2,361	$ 1,953
Supplemental information:		
Cash paid during the period for:		
Interest	$ 59	$ 42
Premium taxes	$ 97	$ 70
Income taxes	$ 171	$ 261

See notes to condensed consolidated financial statements.

Note 1 – Basis of Condensed Consolidated Financial Statements

Basis of Presentation

The condensed consolidated financial information included in this report has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the First American Financial Corporation (the "Company") Annual Report on Form 10-K for the year ended December 31, 2021. The condensed consolidated financial statements included herein are unaudited; however, in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the consolidated results for the interim periods. All material intercompany transactions and balances have been eliminated upon consolidation.

Pending Accounting Pronouncements

In June 2022, the Financial Accounting Standards Board ("FASB") issued updated guidance intended to increase the comparability of financial information across reporting entities that have investments in equity securities measured at fair value that are subject to contractual restrictions preventing the sale of those securities. The updated guidance clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, as a result, should not be considered in measuring fair value. In addition, new disclosures are required about the nature of the restrictions and their remaining duration. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2023, with early adoption permitted. The Company does not expect the adoption of this guidance to impact its condensed consolidated financial statements.

Note 2 –Trust Assets, Escrow and Other Deposits

The Company administers escrow deposits and trust assets as a service to its direct customers. Escrow deposits totaled $11.7 billion and $10.8 billion at September 30, 2022 and December 31, 2021, respectively, of which $5.5 billion and $4.8 billion, respectively, were held at First American Trust, FSB ("FA Trust"). The remaining deposits were held at third-party financial institutions.

Trust assets held or managed by FA Trust totaled $3.9 billion and $4.6 billion at September 30, 2022 and December 31, 2021, respectively. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions and, as a result, the Company has ongoing programs for realizing economic benefits with various financial institutions. The results from these programs are included as income or a reduction in expense, as appropriate, in the consolidated statements of income based on the nature of the arrangement and benefit received.

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of each such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds administered by the Company totaled $4.1 billion and $6.0 billion at September 30, 2022 and December 31, 2021, respectively. The like-kind exchange deposits are held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the returns on such proceeds.

In conducting its residential mortgage loan servicing, subservicing, originations and sales operations, the Company administers cash deposits on behalf of investors, mortgagors and subservicing clients. Cash deposits totaled $1.7 billion at September 30, 2022, of which $0.9 billion were held at FA Trust. The remaining deposits were held at third-party financial institutions. Cash deposits totaled $0.4 billion at December 31, 2021, all of which were held at third-party financial institutions. Cash deposits held at third-party financial institutions are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. The Company could be held contingently liable for the disposition of these assets. In connection with certain accounts, the Company has ongoing programs for realizing economic benefits with various financial institutions whereby it earns economic benefits either as income or as a reduction in expense.

Deposit balances held at FA Trust are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets.

Note 3 – Debt Securities

Investments in debt securities, classified as available-for-sale, are as follows:

(in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Estimated fair value
September 30, 2022				
U.S. Treasury bonds	$ 196	$ —	$ (10)	$ 186
Municipal bonds	1,664	—	(221)	1,443
Foreign government bonds	224	—	(17)	207
Governmental agency bonds	256	—	(19)	237
Governmental agency mortgage-backed securities	5,355	1	(714)	4,642
U.S. corporate debt securities	1,115	—	(124)	991
Foreign corporate debt securities	504	—	(57)	447
	$ 9,314	$ 1	$ (1,162)	$ 8,153
December 31, 2021				
U.S. Treasury bonds	$ 123	$ 1	$ (1)	$ 123
Municipal bonds	1,607	59	(17)	1,649
Foreign government bonds	228	2	(3)	227
Governmental agency bonds	175	3	(1)	177
Governmental agency mortgage-backed securities	5,620	34	(47)	5,607
U.S. corporate debt securities	1,071	19	(9)	1,081
Foreign corporate debt securities	493	9	(4)	498
	$ 9,317	$ 127	$ (82)	$ 9,362

Sales of debt securities resulted in realized losses of $50 million and $62 million and proceeds of $606 million and $1.1 billion for the three and nine months ended September 30, 2022, respectively, and realized gains of $4 million for the nine months ended September 30, 2022. Sales of debt securities resulted in realized gains of $7 million and $25 million and proceeds of

$189 million and $869 million for the three and nine months ended September 30, 2021, respectively, and realized losses of $7 million for the nine months ended September 30, 2021.

Investments in debt securities in an unrealized loss position, based on length of time in such position, are as follows:

	Less than 12 months		12 months or longer		Total	
(in millions)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
September 30, 2022						
U.S. Treasury bonds	$ 156	$ (7)	$ 30	$ (3)	$ 186	$ (10)
Municipal bonds	1,085	(129)	345	(92)	1,430	(221)
Foreign government bonds	159	(9)	44	(8)	203	(17)
Governmental agency bonds	139	(15)	22	(4)	161	(19)
Governmental agency mortgage-backed securities	2,924	(370)	1,608	(344)	4,532	(714)
U.S. corporate debt securities	739	(81)	247	(43)	986	(124)
Foreign corporate debt securities	340	(39)	106	(18)	446	(57)
	$ 5,542	$ (650)	$ 2,402	$ (512)	$ 7,944	$ (1,162)
December 31, 2021						
U.S. Treasury bonds	$ 76	$ (1)	$ —	$ —	$ 76	$ (1)
Municipal bonds	684	(17)	—	—	684	(17)
Foreign government bonds	103	(1)	33	(2)	136	(3)
Governmental agency bonds	73	(1)	—	—	73	(1)
Governmental agency mortgage-backed securities	4,036	(47)	—	—	4,036	(47)
U.S. corporate debt securities	533	(9)	—	—	533	(9)
Foreign corporate debt securities	234	(4)	—	—	234	(4)
	$ 5,739	$ (80)	$ 33	$ (2)	$ 5,772	$ (82)

Based on the Company’s review of its debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded, it determined that the losses were due to non-credit factors. As such, the Company does not consider these securities to be credit impaired at September 30, 2022. As of September 30, 2022, the Company did not intend to sell any debt securities in an unrealized loss position and it is not more likely than not that the Company will be required to sell any debt securities before recovery of their amortized cost basis.

In determining credit losses on its debt securities in an unrealized loss position, the Company considers certain factors which may include, among others, severity of the unrealized loss, security type, industry sector, credit rating, profitability and stock performance.

Investments in debt securities at September 30, 2022, by contractual maturities, are as follows:

(in millions)	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
U.S. Treasury bonds					
Amortized cost	$ 117	$ 56	$ 10	$ 13	$ 196
Estimated fair value	$ 117	$ 50	$ 8	$ 11	$ 186
Municipal bonds					
Amortized cost	21	229	805	609	1,664
Estimated fair value	21	214	699	509	1,443
Foreign government bonds					
Amortized cost	28	111	73	12	224
Estimated fair value	28	108	63	8	207
Governmental agency bonds					
Amortized cost	1	189	7	59	256
Estimated fair value	1	182	6	48	237
U.S. corporate debt securities					
Amortized cost	60	694	275	86	1,115
Estimated fair value	60	627	240	64	991
Foreign corporate debt securities					
Amortized cost	36	306	111	51	504
Estimated fair value	35	278	95	39	447
Total debt securities (excluding mortgage-backed securities)					
Amortized cost	$ 263	$ 1,585	$ 1,281	$ 830	$ 3,959
Estimated fair value	$ 262	$ 1,459	$ 1,111	$ 679	$ 3,511
Total mortgage-backed securities					
Amortized cost					5,355
Estimated fair value					4,642
Total debt securities					
Amortized cost					$ 9,314
Estimated fair value					$ 8,153

Mortgage-backed securities, which include contractual terms to maturity, are not categorized by contractual maturity as borrowers may have the right to call or prepay obligations with, or without, call or prepayment penalties.

The composition of the debt securities portfolio at September 30, 2022, by credit rating, is as follows:

	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total
(dollars in millions)	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value
U.S. Treasury bonds	$ 186	100.0%	$ —	—%	$ —	—%	$ 186
Municipal bonds	1,404	97.3	39	2.7	—	—	1,443
Foreign government bonds	204	98.5	1	0.5	2	1.0	207
Governmental agency bonds	237	100.0	—	—	—	—	237
Governmental agency mortgage-backed securities	4,642	100.0	—	—	—	—	4,642
U.S. corporate debt securities	442	44.6	375	37.8	174	17.6	991
Foreign corporate debt securities	187	41.8	223	49.9	37	8.3	447
	$ 7,302	89.6%	$ 638	7.8%	$ 213	2.6%	$ 8,153

Included in debt securities at September 30, 2022, were bank loans totaling $151 million, of which $147 million were non-investment grade; high yield corporate debt securities totaling $57 million, all of which were non-investment grade; and emerging market debt securities totaling $64 million, of which $9 million were non-investment grade.

The composition of the debt securities portfolio in an unrealized loss position at September 30, 2022, by credit rating, is as follows:

	A- or higher		BBB+ to BBB-		Non-Investment Grade		Total
(dollars in millions)	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value	Percentage	Estimated fair value
U.S. Treasury bonds	$ 186	100.0%	$ —	—%	$ —	—%	$ 186
Municipal bonds	1,392	97.3	38	2.7	—	—	1,430
Foreign government bonds	199	98.0	1	0.5	3	1.5	203
Governmental agency bonds	161	100.0	—	—	—	—	161
Governmental agency mortgage-backed securities	4,532	100.0	—	—	—	—	4,532
U.S. corporate debt securities	442	44.8	375	38.1	169	17.1	986
Foreign corporate debt securities	187	41.9	223	50.0	36	8.1	446
	$ 7,099	89.4%	$ 637	8.0%	$ 208	2.6%	$ 7,944

Debt securities in an unrealized loss position at September 30, 2022, included bank loans totaling $146 million, of which $142 million were non-investment grade; high yield corporate debt securities totaling $57 million, all of which were non-investment grade; and emerging market debt securities totaling $64 million, of which $9 million were non-investment grade.

The credit ratings in the above tables reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. Governmental agency mortgage-backed securities are not rated by any of the ratings agencies; however, these securities have been included in the above table in the "A- or higher" rating category because the payments of principal and interest are guaranteed by the governmental agency that issued the security.

Note 4 – Equity Securities

Investments in equity securities, by accounting classification, are summarized as follows:

(in millions)	September 30, 2022	December 31, 2021
Marketable equity securities	$ 292	$ 657
Non-marketable equity securities	406	441
Equity method investments	66	78
	$ 764	$ 1,176

Investments in marketable equity securities are summarized as follows:

(in millions)	Cost	Unrealized gains (losses)	Estimated fair value
September 30, 2022			
Common stocks	$ 328	$ (48)	$ 280
Preferred stocks	15	(3)	12
	$ 343	$ (51)	$ 292
December 31, 2021			
Common stocks	$ 418	222	$ 640
Preferred stocks	17	—	17
	$ 435	$ 222	$ 657

Net losses of $49 million and $255 million resulting from changes in the fair values of marketable equity securities were recognized for the three and nine months ended September 30, 2022, respectively, which included net unrealized losses of $33 million and $231 million on securities still held at September 30, 2022, respectively. Included in net investment losses during the three and nine months ended September 30, 2022, were unrealized losses of $31 million and $167 million, respectively, related to the Company's investment in Offerpad Solutions Inc., a tech-enabled real estate company ("Offerpad"). Net losses of $16 million and net gains of $27 million resulting from changes in the fair values of marketable equity securities were recognized for the three and nine months ended September 30, 2021, respectively, which included net unrealized losses of $17 million and net unrealized gains of $26 million on securities still held at September 30, 2021, respectively. The Company recognized unrealized gains of $195 million for the three and nine months ended September 30, 2021 related to its investment in Offerpad. Net gains and losses resulting from changes in the fair values of marketable equity securities are recognized in net investment gains/losses on the condensed consolidated statements of income.

Investments in non-marketable equity securities are summarized as follows:

(in millions)	Cost	Unrealized gains	Carrying amount
September 30, 2022	$ 244	$ 162	$ 406
December 31, 2021	$ 215	$ 226	$ 441

The Company recognized net unrealized losses of $120 million and $116 million during the three and nine months ended September 30, 2022, respectively, which included impairment charges of $118 million related to investments in private venture-stage companies. The Company recognized net unrealized gains of $79 million and $165 million during the three and nine months ended September 30, 2021, respectively, related to its investments in private venture-stage companies. All such unrealized losses and gains related to securities still held at September 30, 2022 and 2021. Net gains and losses on non-marketable equity securities are recognized in net investment gains/losses on the condensed consolidated statements of income.

Also, during the nine months ended September 30, 2022, the Company realized a gain of $51 million and cash proceeds of $63 million related to the sale of an investment in a title insurance business.

Note 5 – Allowance for Credit Losses – Accounts Receivable

Activity in the allowance for credit losses on accounts receivable is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2022	2021	2022	2021
Balance at beginning of period	$ 16	$ 12	$ 14	$ 14
Provision for expected credit losses	3	2	8	2
Write-offs/recoveries	—	(1)	(3)	(3)
Balance at end of period	$ 19	$ 13	$ 19	$ 13

Note 6 – Goodwill

A summary of the changes in the carrying amount of goodwill, by reportable segment, for the nine months ended September 30, 2022, is as follows:

(in millions)	Title Insurance and Services	Specialty Insurance	Total
Balance at beginning of period	$ 1,575	$ 13	$ 1,588
Acquisitions	233	—	233
Foreign currency translation	(10)	—	(10)
Balance at end of period	$ 1,798	$ 13	$ 1,811
Accumulated impairment losses	$ —	$ (34)	$ (34)

The Company did not record any goodwill impairment losses during the nine months ended September 30, 2022. For discussion about the Company's acquisitions in 2022, see Note 17 Business Combinations.

Note 7 – Other Intangible Assets

Other intangible assets are summarized as follows:

(in millions)	September 30, 2022	December 31, 2021
Finite-lived intangible assets:		
Customer relationships	$ 190	$ 203
Noncompete agreements	45	49
Trademarks	65	32
Internal-use software licenses	25	21
Patents	3	3
	328	308
Accumulated amortization	(140)	(107)
	188	201
Indefinite-lived intangible assets:		
Licenses	17	17
	$ 205	$ 218

Amortization expense for finite-lived intangible assets was $12 million and $41 million for the three and nine months ended September 30, 2022, respectively, and $13 million and $37 million for the three and nine months ended September 30, 2021, respectively.

Estimated amortization expense for finite-lived intangible assets for the next five years is as follows:

Year	(in millions)
Remainder of 2022	$ 14
2023	$ 46
2024	$ 36
2025	$ 29
2026	$ 27
2027	$ 12

Note 8 – Reserve for Known and Incurred But Not Reported Claims

Activity in the reserve for known and incurred but not reported claims is summarized as follows:

	Nine Months Ended September 30,	
(in millions)	2022	2021
Balance at beginning of period	$ 1,284	$ 1,178
Provision related to:		
Current year	364	429
Prior years	16	17
	380	446
Payments, net of recoveries, related to:		
Current year	168	204
Prior years	170	152
	338	356
Other	(12)	(6)
Balance at end of period	$ 1,314	$ 1,262

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the three and nine months ended September 30, 2022 and 2021. The 4.0% loss rate reflects the ultimate loss rate for both the 2022 and 2021 policy years and no change in the loss reserve estimates for prior policy years.

A summary of the Company's loss reserves is as follows:

(dollars in millions)	September 30, 2022		December 31, 2021	
Known title claims	$ 61	4.6%	$ 67	5.2%
Incurred but not reported claims	1,191	90.7%	1,143	89.0%
Total title claims	1,252	95.3%	1,210	94.2%
Non-title claims	62	4.7%	74	5.8%
Total loss reserves	$ 1,314	100.0%	$ 1,284	100.0%

Note 9 – Income Taxes

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 174.2% and 21.4% for the three and nine months ended September 30, 2022, respectively, and 25.3% and 24.5% for the three and nine months ended September 30, 2021, respectively. The effective income tax rates differ from the federal statutory rate as a result of state and foreign income taxes for which the Company is liable, as well as permanent differences between amounts reported for financial statement purposes and amounts reported for income tax purposes, including the recognition of excess tax benefits or tax deficiencies associated with share-based payment transactions through income tax expense. The effective income tax rates for 2022 also reflect the impact on pretax earnings from losses and impairments on equity investments, benefits from the resolution of state tax matters from prior years and benefits associated with foreign currency exchange rate fluctuations. The effective income tax rates for 2021 also reflect benefits related to foreign tax law changes.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and makes adjustments to the allowance as necessary. The factors used in assessing the likelihood of realization include forecasts of future taxable income and available tax planning strategies that could be implemented. The Company's ability, or inability, to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of its deferred tax assets. Based on future operating results in certain jurisdictions, it is possible that the current valuation allowance positions of those jurisdictions could be adjusted during the next 12 months.

As of September 30, 2022 and December 31, 2021, the liabilities for income taxes associated with uncertain tax positions were $3 million and $8 million, respectively. The decrease in the liability during 2022 was primarily the result of the resolution of state tax matters from prior years. The liabilities as of September 30, 2022 and December 31, 2021 could be reduced by $2 million and $3 million, respectively, due to offsetting tax benefits associated with the correlative effects of potential adjustments, including timing adjustments, and state income taxes. The net liability, if recognized, would favorably affect the Company's effective income tax rate.

The Company's continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense. Accrued interest and penalties, net of tax benefits, related to uncertain tax positions were not material as of September 30, 2022 and December 31, 2021.

It is reasonably possible that the unrecognized benefit with respect to certain of the Company's unrecognized tax positions may increase or decrease within the next 12 months. Any such change may be the result of either ongoing audits or the expiration of federal and state statutes of limitations for the assessment of taxes.

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various state jurisdictions and various non-U.S. jurisdictions. The primary non-federal jurisdictions are California, Canada, India and the United Kingdom. As of September 30, 2022, the Company is, generally, no longer subject to U.S. federal and state income tax examinations for the years prior to 2019, and, for non-U.S. jurisdictions, income tax examinations for the years prior to 2014.

On August 16, 2022, the Inflation Reduction Act was signed into law. The Inflation Reduction Act includes various tax provisions, which are effective for tax years beginning on or after January 1, 2023. While the Company is still evaluating these tax law changes, it does not expect them to have a material impact on its condensed consolidated financial statements.

Note 10 – Earnings Per Share

The computation of basic and diluted earnings per share is as follows:

(in millions, except per share amounts)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Numerator				
Net income attributable to the Company	$ 2	$ 445	$ 209	$ 981
Denominator				
Basic weighted-average shares	105.3	111.0	107.8	111.0
Effect of dilutive restricted stock units ("RSUs")	0.2	0.4	0.3	0.3
Diluted weighted-average shares	105.5	111.4	108.1	111.3
Net income per share attributable to the Company's stockholders (1)				
Basic	$ 0.02	$ 4.01	$ 1.94	$ 8.84
Diluted	$ 0.02	$ 4.00	$ 1.93	$ 8.81

(1) Net income per share may not recalculate due to rounding.

For the three and nine months ended September 30, 2022, 272 thousand and 24 thousand RSUs, respectively, were excluded from diluted weighted-average common shares outstanding due to their antidilutive effect. For the three and nine months ended September 30, 2021 an immaterial amount of RSUs were excluded from diluted weighted-average common shares outstanding due to their antidilutive effect.

Note 11 – Employee Benefit Plans

Net periodic costs related to the Company's unfunded supplemental benefit plans are as follows:

(in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Expense:				
Interest costs	$ 2	$ 1	$ 5	$ 4
Amortization of net actuarial loss	1	2	4	5
Amortization of prior service credit	—	—	—	(1)
	$ 3	$ 3	$ 9	$ 8

The Company contributed $11 million to its unfunded supplemental benefit plans during the nine months ended September 30, 2022 and expects to contribute an additional $5 million during the remainder of 2022.

Note 12 – Fair Value Measurements

Certain of the Company's assets and liabilities are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company categorizes its assets and liabilities carried at fair value using a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the Company (observable inputs) and the Company's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. The hierarchy level assigned to the assets and liabilities is based on management's assessment of the transparency and reliability of the inputs used to estimate the fair values at the measurement date. The three hierarchy levels are defined as follows:

Level 1—Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2—Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment.

If the inputs used to measure fair value fall into different levels of the fair value hierarchy, the hierarchy level assigned is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present the fair values of the Company's assets and liabilities, measured on a recurring basis, as of September 30, 2022 and December 31, 2021:

(in millions)	Total	Level 1	Level 2	Level 3
September 30, 2022				
Assets:				
Debt securities:				
U.S. Treasury bonds	$ 186	$ —	$ 186	$ —
Municipal bonds	1,443	—	1,443	—
Foreign government bonds	207	—	207	—
Governmental agency bonds	237	—	237	—
Governmental agency mortgage-backed securities	4,642	—	4,642	—
U.S. corporate debt securities	991	—	991	—
Foreign corporate debt securities	447	—	447	—
	8,153	—	8,153	—
Equity securities:				
Preferred stocks	12	12	—	—
Common stocks	280	280	—	—
	292	292	—	—
Servicing related assets	38	—	19	19
Total assets	$ 8,483	$ 292	$ 8,172	$ 19
Liabilities:				
Servicing related liabilities	$ 18	$ —	$ —	$ 18

(in millions)	Total	Level 1	Level 2	Level 3
December 31, 2021				
Assets:				
Debt securities:				
U.S. Treasury bonds	$ 123	$ —	$ 123	$ —
Municipal bonds	1,649	—	1,649	—
Foreign government bonds	227	—	227	—
Governmental agency bonds	177	—	177	—
Governmental agency mortgage-backed securities	5,607	—	5,607	—
U.S. corporate debt securities	1,081	—	1,081	—
Foreign corporate debt securities	498	—	498	—
	9,362	—	9,362	—
Equity securities:				
Preferred stocks	17	17	—	—
Common stocks	640	640	—	—
	657	657	—	—
Servicing related assets	27	—	11	16
Total assets	$ 10,046	$ 657	$ 9,373	$ 16
Liabilities:				
Servicing related liabilities	$ 9	$ —	$ —	$ 9

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments not measured at fair value as of September 30, 2022 and December 31, 2021:

(in millions)	Carrying Amount	Estimated fair value Total	Level 1	Level 2	Level 3
September 30, 2022					
Assets:					
Cash and cash equivalents	$ 2,361	$ 2,361	$ 2,361	$ —	$ —
Deposits with banks	$ 61	$ 61	$ 9	$ 52	$ —
Notes receivable, net	$ 9	$ 8	$ —	$ —	$ 8
Secured financings receivable	$ 448	$ 448	$ —	$ 448	$ —
Loans eligible for repurchase	$ 30	$ 30	$ —	$ 30	$ —
Liabilities:					
Secured financings payable (1)	$ 323	$ 323	$ —	$ 323	$ —
Liability for loans eligible for repurchase	$ 30	$ 30	$ —	$ 30	$ —
Notes and contracts payable	$ 1,647	$ 1,392	$ —	$ 1,388	$ 4

(1) Excludes servicing related liabilities, which are measured at fair value on a recurring basis.

(in millions)	Carrying Amount	Estimated fair value Total	Level 1	Level 2	Level 3
December 31, 2021					
Assets:					
Cash and cash equivalents	$ 1,228	$ 1,228	$ 1,228	$ —	$ —
Deposits with banks	$ 58	$ 58	$ 13	$ 45	$ —
Notes receivable, net	$ 32	$ 32	$ —	$ —	$ 32
Secured financings receivable	$ 565	$ 565	$ —	$ 565	$ —
Loans eligible for repurchase	$ 47	$ 47	$ —	$ 47	$ —
Liabilities:					
Secured financings payable (1)	$ 529	$ 529	$ —	$ 529	$ —
Liability for loans eligible for repurchase	$ 47	$ 47		$ 47	$ —
Notes and contracts payable	$ 1,648	$ 1,724	$ —	$ 1,720	$ 4

(1) Excludes servicing related liabilities, which are measured at fair value on a recurring basis.

Note 13 – Share-Based Compensation

The following table summarizes the costs associated with the Company's share-based compensation plans:

(in millions)	Three Months Ended September 30, 2022	2021	Nine Months Ended September 30, 2022	2021
Expense:				
RSUs	$ 7	$ 6	$ 55	$ 42
Employee stock purchase plan	1	1	5	5
	$ 8	$ 7	$ 60	$ 47

The following table summarizes RSU activity for the nine months ended September 30, 2022:

(in millions, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date fair value
Unvested at December 31, 2021	0.9	$ 58.11
Granted during 2022	1.0	$ 68.01
Vested during 2022	(1.0)	$ 63.71
Unvested at September 30, 2022	0.9	$ 63.02

In March 2022, the Company's board of directors amended the First American Financial Corporation 2010 Employee Stock Purchase Plan (the "Amended ESPP"), effective July 1, 2022. The Amended ESPP increases the maximum number of shares of Company common stock available for sale from 5 million to 14 million. In addition, the Amended ESPP extends the term of the plan from July 1, 2023 to July 1, 2032.

Note 14 – Stockholders' Equity

The Company maintains a stock repurchase plan with authorization up to $400 million, of which $321 million remained as of September 30, 2022. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. Cumulatively, during the nine months ended September 30, 2022, the Company repurchased and retired, under both the Company's prior authorization that terminated in June 2022 and current authorization, 6.8 million shares of its common stock for a total purchase price of $407 million.

Note 15 – Accumulated Other Comprehensive Income (Loss) ("AOCI")

The following table presents a summary of the changes in each component of AOCI for the nine months ended September 30, 2022:

(in millions)	Unrealized gains (losses) on debt securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)
Balance at December 31, 2021	$ 29	$ (39)	$ (82)	$ (92)
Change in unrealized gains (losses) on debt securities	(1,206)	—	—	(1,206)
Change in foreign currency translation adjustment	—	(59)	—	(59)
Amortization of net actuarial loss	—	—	4	4
Tax effect	304	1	—	305
Balance at September 30, 2022	$ (873)	$ (97)	$ (78)	$ (1,048)

The following table presents the other comprehensive income (loss) reclassification adjustments for the three months ended September 30, 2022 and 2021:

(in millions)	Unrealized gains (losses) on debt securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Three Months Ended September 30, 2022				
Pretax change before reclassifications	$ (404)	$ (36)	$ —	$ (440)
Reclassifications out of AOCI	50	—	1	51
Tax effect	90	1	—	91
Total other comprehensive income (loss), net of tax	$ (264)	$ (35)	$ 1	$ (298)
Three Months Ended September 30, 2021				
Pretax change before reclassifications	$ (50)	$ (13)	$ —	$ (63)
Reclassifications out of AOCI	(7)	—	2	(5)
Tax effect	15	—	(1)	14
Total other comprehensive income (loss), net of tax	$ (42)	$ (13)	$ 1	$ (54)

The following table presents the other comprehensive income (loss) reclassification adjustments for the nine months ended September 30, 2022 and 2021:

(in millions)	Unrealized gains (losses) on debt securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Nine Months Ended September 30, 2022				
Pretax change before reclassifications	$ (1,264)	$ (59)	$ —	$ (1,323)
Reclassifications out of AOCI	58	—	4	62
Tax effect	304	1	—	305
Total other comprehensive income (loss), net of tax	$ (902)	$ (58)	$ 4	$ (956)
Nine Months Ended September 30, 2021				
Pretax change before reclassifications	$ (121)	$ (4)	$ —	$ (125)
Reclassifications out of AOCI	(18)	—	4	(14)
Tax effect	34	—	(1)	33
Total other comprehensive income (loss), net of tax	$ (105)	$ (4)	$ 3	$ (106)

The following table presents the effects of the reclassifications out of AOCI on the respective line items in the condensed consolidated statements of income:

	Three Months Ended September 30,		Nine Months Ended September 30,		
(in millions)	2022	2021	2022	2021	Affected line items
Unrealized gains (losses) on debt securities:					
Net realized (losses) gains on sales of debt securities	$ (50)	$ 7	$ (58)	$ 18	Net realized investment (losses) gains
Tax effect	$ 13	$ (2)	$ 15	$ (4)	
Pension benefit adjustment (1):					
Amortization of net actuarial loss	$ (1)	$ (2)	$ (4)	$ (5)	Other operating expenses
Amortization of prior service credit	—	—	—	1	Other operating expenses
Pretax total	$ (1)	$ (2)	$ (4)	$ (4)	
Tax effect	$ —	$ 1	$ —	$ 1	

(1) Amounts are components of net periodic cost. See Note 11 Employee Benefit Plans for additional details.

Note 16 – Litigation and Regulatory Contingencies

The Company and its subsidiaries are parties to a number of lawsuits and are also involved in numerous ongoing routine legal and regulatory proceedings related to their operations. These lawsuits and proceedings frequently are similar in nature to other lawsuits and proceedings pending against the Company's competitors. When the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded. Actual losses may materially differ from the amounts recorded.

With respect to the Company's outstanding ordinary course lawsuits and proceedings, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's ordinary course lawsuits include putative or purported class action lawsuits, which challenge practices in the Company's title insurance and services and home warranty businesses.

The Company and/or its subsidiaries are also parties to consumer class actions in connection with the information security incident that occurred during the second quarter of 2019. All of these lawsuits are putative class actions for which a class has not been certified. Due to the complexity and uncertainty involved with these class action lawsuits, including the requirements for the certification of a class, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss of these lawsuits. While these lawsuits could be material to the Company's financial results in any particular period if an unfavorable outcome results, the Company does not believe that any of these lawsuits will have a material adverse effect on the Company's overall financial condition, results of operations or cash flows.

The Company's title insurance, property and casualty insurance, home warranty, mortgage servicing and subservicing, banking, thrift, trust and wealth management businesses are regulated by various federal, state and local governmental agencies. Many of the Company's other businesses operate within statutory guidelines. Consequently, the Company may from time to time be subject to examination or investigation by such governmental agencies. Currently, governmental agencies are examining or investigating certain of the Company's operations. Exams and investigations by governmental agencies include an investigation initiated in connection with the information security incident that occurred during the second quarter of 2019 by the New York Department of Financial Services. The New York Department of Financial Services has alleged violations of its cyber security requirements for financial services companies and filed a statement of charges on July 22, 2020, as amended on March 10, 2021, and the previously scheduled administrative hearing has been postponed and not rescheduled. While the ultimate disposition of the New York Department of Financial Services matter is not yet determinable, the Company does not believe that it or any of the other pending examinations or investigations will have a material adverse effect on the Company's financial condition, results of operations or cash flows. Some of these exams or investigations could, however, result in changes to the Company's business practices which could ultimately have a material adverse impact on the Company's financial condition, results of operations or cash flows.

Note 17 – Business Combinations

In May 2022, the Company acquired a California-based provider of title insurance, underwriting and escrow services for residential and commercial real estate transactions for a purchase price of $300 million in cash. In connection with the purchase, the Company recorded preliminary fair value estimates for goodwill, other intangible assets and other assets of $236 million, $37 million and $12 million, respectively. The Company recognized revenues of $79 million and pre-tax income of $11 million since the acquisition date, related to the acquiree, during the nine months ended September 30, 2022.

Note 18 – Segment Information

The Company consists of the following reportable segments:

- The Company's title insurance and services segment issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. This segment also provides closing and/or escrow services; accommodates tax-deferred exchanges of real estate; provides products, services and solutions designed to mitigate risk or otherwise facilitate real estate transactions; maintains, manages and provides access to title plant data and records; provides appraisals and other valuation-related products and services; provides lien release, document custodial and default-related products and services; provides warehouse lending services; subservices mortgage loans; and provides banking, trust and wealth management services. The Company, through its principal title insurance subsidiary and such subsidiary's affiliates, transacts its title insurance business through a network of direct operations and agents. Through this network, the Company issues policies in the 49 states that permit the issuance of title insurance policies, the District of Columbia and certain United States territories. The Company also offers title insurance, closing services and similar or related products and services, either directly or through third parties in other countries, including Canada, the United Kingdom, Australia, South Korea and various other established and emerging markets.

- The Company's specialty insurance segment sells home warranty products including residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 35 states and the District of Columbia.

  The Company's wind-down of the property and casualty insurance business was substantially completed in the third quarter of 2022.

- The Company's corporate segment, which was expanded in 2021 to include its investments in venture-stage companies, also includes certain financing facilities and corporate services that support the Company's business operations.

Selected financial information about the Company's operations, by segment, is as follows:

For the three months ended September 30, 2022:

(in millions)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 1,883	$ 186	$ 40	$ 69
Specialty Insurance	105	(6)	1	1
Corporate and eliminations	(164)	(183)	—	—
	$ 1,824	$ (3)	$ 41	$ 70

(in millions)	Direct premiums and escrow fees	Agent premiums	Information and other	Net investment income	Net investment gains (losses)	Total Revenues
Title Insurance and Services	$ 656	$ 910	$ 279	$ 105	$ (67)	$ 1,883
Specialty Insurance	102	—	3	2	(2)	105
Corporate and eliminations	—	—	—	(7)	(157)	(164)
	$ 758	$ 910	$ 282	$ 100	$ (226)	$ 1,824

For the three months ended September 30, 2021:

(in millions)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 2,145	$ 351	$ 37	$ 45
Specialty Insurance	133	(1)	2	—
Corporate and eliminations	278	254	—	—
	$ 2,556	$ 604	$ 39	$ 45

(in millions)	Direct premiums and escrow fees	Agent premiums	Information and other	Net investment income	Net investment gains (losses)	Total Revenues
Title Insurance and Services	$ 793	$ 999	$ 306	$ 49	$ (2)	$ 2,145
Specialty Insurance	128	—	3	2	—	133
Corporate and eliminations	—	—	—	—	278	278
	$ 921	$ 999	$ 309	$ 51	$ 276	$ 2,556

For the nine months ended September 30, 2022:

(in millions)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 5,933	$ 644	$ 120	$ 192
Specialty Insurance	324	11	4	2
Corporate and eliminations	(337)	(387)	—	—
	$ 5,920	$ 268	$ 124	$ 194

(in millions)	Direct premiums and escrow fees	Agent premiums	Information and other	Net investment income	Net investment gains (losses)	Total Revenues
Title Insurance and Services	$ 2,115	$ 2,795	$ 886	$ 227	$ (90)	$ 5,933
Specialty Insurance	314	—	13	4	(7)	324
Corporate and eliminations	—	—	—	(32)	(305)	(337)
	$ 2,429	$ 2,795	$ 899	$ 199	$ (402)	$ 5,920

For the nine months ended September 30, 2021:

(in millions)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$ 6,053	$ 989	$ 113	$ 112
Specialty Insurance	421	25	5	2
Corporate and eliminations	374	295	—	—
	$ 6,848	$ 1,309	$ 118	$ 114

(in millions)	Direct premiums and escrow fees	Agent premiums	Information and other	Net investment income	Net investment gains (losses)	Total Revenues
Title Insurance and Services	$ 2,238	$ 2,749	$ 881	$ 139	$ 46	$ 6,053
Specialty Insurance	386	—	10	6	19	421
Corporate and eliminations	—	—	(1)	11	364	374
	$ 2,624	$ 2,749	$ 890	$ 156	$ 429	$ 6,848

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," "WILL LIKELY RESULT," OR OTHER SIMILAR WORDS AND PHRASES.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE THE FACTORS SET FORTH ON PAGES 3-4 OF THIS QUARTERLY REPORT. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. 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.

This Management's Discussion and Analysis contains certain financial measures that are not presented in accordance with generally accepted accounting principles ("GAAP"), including adjusted information and other revenues, adjusted personnel costs, and adjusted other operating expenses, in each case excluding the effects of recent acquisitions, and adjusted debt to capitalization ratio as it excludes the effect of secured financings payable. The Company is presenting these non-GAAP financial measures because they provide the Company's management and readers of this Quarterly Report on Form 10-Q with additional insight into the operational performance of the Company relative to earlier periods and additional insight into the financial leverage of the Company. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In this Quarterly Report on Form 10-Q, these non-GAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Readers of this Quarterly Report on Form 10-Q should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures. Because not all companies use identical calculations, the presentation of adjusted debt to capitalization ratio may not be comparable to other similarly titled measures of other companies.

CRITICAL ACCOUNTING ESTIMATES

A summary of the Company's significant accounting policies that it considers to be the most dependent on the application of estimates and assumptions can be found in the Management's Discussion and Analysis section of the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Pending Accounting Pronouncements

See Note 1 Basis of Condensed Consolidated Financial Statements to the condensed consolidated financial statements.

Results of Operations

Summary

(dollars in millions)	Three Months Ended September 30, 2022	2021	$ Change	% Change	Nine Months Ended September 30, 2022	2021	$ Change	% Change
Revenues by Segment								
Title insurance and services	$ 1,883	$ 2,145	$ (262)	(12.2)%	$ 5,933	$ 6,053	$ (120)	(2.0)%
Specialty insurance	105	133	(28)	(21.1)	324	421	(97)	(23.0)
Corporate and eliminations	(164)	278	(442)	(159.0)	(337)	374	(711)	(190.1)
	$ 1,824	$ 2,556	$ (732)	(28.6)%	$ 5,920	$ 6,848	$ (928)	(13.6)%

A substantial portion of the revenues for the Company's title insurance and services segment results from the sale and refinancing of residential and commercial real estate. In the Company's specialty insurance segment, revenues associated with the initial year of coverage in the home warranty operations are impacted by volatility in residential purchase transactions. Traditionally, the greatest volume of real estate activity, particularly residential purchase activity, has occurred in the spring and summer months. However, changes in interest rates, as well as other changes in general economic conditions in the United States and abroad, can cause fluctuations in the traditional pattern of real estate activity.

The Company's total revenues decreased $732 million, or 28.6%, in the third quarter of 2022 when compared with the third quarter of 2021. This decrease was primarily attributable to a decrease in net investment gains/losses of $502 million, or 181.9%, a decrease in direct premiums and escrow fees in the title insurance business of $137 million, or 17.3%, and a decline in agent premiums in the title insurance business of $89 million, or 8.9%. In the title insurance and services segment, direct premiums and escrow fees from domestic commercial, residential purchase and residential refinance transactions decreased $2 million, or 0.8%, $52 million, or 14.9%, and $78 million, or 68.2%, respectively, in the third quarter of 2022 when compared to the third quarter of 2021.

According to the Mortgage Bankers Association's October 23, 2022 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 54.8% in the third quarter of 2022 when compared with the third quarter of 2021. According to the MBA Forecast, the dollar amount of purchase originations decreased 22.4% and refinance originations decreased 83.6%. This volume of domestic residential mortgage origination activity contributed to a decrease in direct premiums and escrow fees for the Company's direct title operations of 14.9% from domestic residential purchase transactions and a decrease of 68.2% from domestic refinance transactions in the third quarter of 2022 when compared with the third quarter of 2021.

During the third quarter of 2022, the level of domestic title orders opened per day by the Company's direct title operations decreased 35.3% when compared with the third quarter of 2021. Residential purchase, refinance and commercial opened orders per day decreased 23.1%, 70.8%, and 10.7%, respectively, when compared with the third quarter of 2021.

The Company recorded net investment losses of $226 million in the third quarter of 2022, which included unrealized losses totaling $151 million related to the Company's venture investment portfolio. Investments within the Company's venture portfolio are expected from time to time to cause material fluctuations in the Company's results of operations due to the recognition of gains or losses in connection with observable price changes, such as from liquidity events, subsequent equity sales, price changes in investments that trade publicly, or from impairment charges, which changes can be volatile.

Title Insurance and Services

(dollars in millions)	Three Months Ended September 30, 2022	2021	$ Change	% Change	Nine Months Ended September 30, 2022	2021	$ Change	% Change
Revenues								
Direct premiums and escrow fees	$ 656	$ 793	$ (137)	(17.3%)	$ 2,115	$ 2,238	$ (123)	(5.5%)
Agent premiums	910	999	(89)	(8.9)	2,795	2,749	46	1.7
Information and other	279	306	(27)	(8.8)	886	881	5	0.6
Net investment income	105	49	56	114.3	227	139	88	63.3
Net investment (losses) gains	(67)	(2)	(65)	NM[1]	(90)	46	(136)	(295.7)
	1,883	2,145	(262)	(12.2)	5,933	6,053	(120)	(2.0)
Expenses								
Personnel costs	554	563	(9)	(1.6)	1,751	1,623	128	7.9
Premiums retained by agents	725	794	(69)	(8.7)	2,231	2,184	47	2.2
Other operating expenses	284	296	(12)	(4.1)	905	861	44	5.1
Provision for policy losses and other claims	61	73	(12)	(16.4)	196	200	(4)	(2.0)
Depreciation and amortization	40	37	3	8.1	120	113	7	6.2
Premium taxes	23	26	(3)	(11.5)	68	67	1	1.5
Interest	10	5	5	100.0	18	16	2	12.5
	1,697	1,794	(97)	(5.4)	5,289	5,064	225	4.4
Income before income taxes	$ 186	$ 351	$ (165)	(47.0%)	$ 644	$ 989	$ (345)	(34.9%)
Pretax margins	9.9%	16.4%	(6.5%)	(39.6%)	10.9%	16.3%	(5.4%)	(33.1%)

(1) Not meaningful

Direct premiums and escrow fees were $656 million and $2.1 billion for the three and nine months ended September 30, 2022, respectively, decreases of $137 million, or 17.3%, and $123 million, or 5.5%, when compared with the respective periods of the prior year. The decreases for the three months and nine months ended September 30, 2022 were due to reductions in the number of domestic title orders closed by the Company's direct title operations, partially offset increases in domestic average revenues per order. Domestic average revenues per order closed were $3,734 and $3,383 for the three and nine months ended September 30, 2022, respectively, increases of 29.5% and 33.5% when compared with $2,884 and $2,535 for the respective periods of the prior year, which were due to a shift in mix from lower premium residential refinance transactions to higher premium commercial transactions and, to a lesser extent, higher average revenues per order from residential purchase transactions due primarily to recent acquisitions of escrow companies, which have contributed escrow revenue to the numerator when determining average revenues per order without a corresponding title order included in the denominator. The increase for the nine months ending September 30, 2022, was also due to higher average revenues per order from commercial transactions. The Company's direct title operations closed 160,500 and 570,600 domestic title orders during the three and nine months ended September 30, 2022, respectively, decreases of 36.5% and 29.7% when compared with 252,700 and 811,400 domestic title orders closed during the respective periods of the prior year, which were generally consistent with the changes in residential mortgage origination activity in the United States as reported in the MBA Forecast. Domestic residential refinance orders closed per day decreased by 67.7% and 63.1%, respectively, and domestic residential purchase orders closed per day decreased by 23.0% and 14.1%, respectively, for the three and nine months ended September 30, 2022, when compared to the respective periods of the prior year.

Agent premiums were $910 million and $2.8 billion for the three and nine months ended September 30, 2022, respectively, a decrease of $89 million, or 8.9%, and an increase of $46 million, or 1.7%, when compared with the respective periods of the prior year. Agent premiums are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent's issuance of a title policy and the Company's recognition of agent premiums. Therefore, current quarter agent premiums typically reflect prior quarter mortgage origination activity. The decrease in agent premiums for the three months ended September 30, 2022 is generally consistent with the 0.7% increase in the Company's direct premiums and escrow fees in the second quarter of 2022 as compared with the second quarter of 2021.

Information and other revenues primarily consist of revenues generated from fees associated with title search and related reports, title and other real property records and images, other non-insured settlement services and risk mitigation products and services. These revenues generally trend with direct premiums and escrow fees but are typically less volatile since a portion of the revenues are subscription based and do not fluctuate with transaction volumes.

Information and other revenues were $279 million and $886 million for the three and nine months ended September 30, 2022, respectively, a decrease of $27 million, or 8.8%, and an increase of $5 million, or 0.6%, when compared with the respective periods of the prior year. The added revenues from recent acquisitions were $51 million and $123 million for the three and nine months ended September 30, 2022, respectively. Excluding the revenues from recent acquisitions, information and other revenues decreased $78 million, or 25.5%, and $118 million, or 13.4%, respectively, when compared with the respective periods of the prior year. The decreases in information and other revenues for the three and nine months ended September 30, 2022, adjusted for the impact of acquisitions, were primarily due to decreases in the demand for the Company's information products, post-close services and document generation services.

Net investment income totaled $105 million and $227 million for the three and nine months ended September 30, 2022, respectively, increases of $56 million, or 114.3% and $88 million, or 63.3%, when compared with the respective periods of the prior year. The increases in investment income were primarily driven by higher short-term interest rates in the Company's investment portfolio and escrow and like-kind exchange deposits.

Net investment losses of $67 million and $90 million for the three and nine months ended September 30, 2022, respectively, were primarily attributable to changes in the fair values of marketable equity securities and losses recognized on sales of debt securities. Net investment losses for the nine months ended September 30, 2022 were partially offset by a $51 million gain realized on the sale of an investment in a title insurance business. Net investment losses totaled $2 million for the three months ended September 30, 2021 and were primarily from decreases in the fair values of equity securities. Net investment gains totaled $46 million for the nine months ended September 30, 2021 and were primarily attributable to increases in the fair values of equity securities and gains on sales of debt securities.

Personnel costs were $554 million and $1.8 billion for the three and nine months ended September 30, 2022, respectively, a decrease of $9 million, or 1.6%, and an increase of $128 million, or 7.9%, when compared with the respective periods of the prior year. Excluding the $65 million and $163 million impact from recent acquisitions for the three and nine months ended September 30, 2022, respectively, personnel expenses decreased $74 million, or 13.1%, and $35 million, or 2.2%, when compared with the respective periods of the prior year. The decreases for the three months and nine months ended September 30, 2022, adjusted for the impact of recent acquisitions, were due to lower incentive compensation resulting from lower revenue and profitability, lower expense related to the Company's 401(k) savings plan match and lower overtime expense. The decrease in personnel costs for the nine months ended September 30, 2022, adjusted for the impact of recent acquisitions, was partially offset by higher salaries expense due to higher headcount and higher average salaries, higher severance expense and higher medical claims expense.

Agents retained $725 million and $2.2 billion of title premiums generated by agency operations for the three and nine months ended September 30, 2022, respectively, which compares with $794 million and $2.2 billion for the respective periods of the prior year. The percentage of title premiums retained by agents was 79.7% and 79.8% for the three and nine months ended September 30, 2022, respectively, compared to 79.5% for the respective periods of the prior year.

Other operating expenses for the title insurance and services segment were $284 million and $905 million for the three and nine months ended September 30, 2022, respectively, a decrease of $12 million, or 4.1%, and an increase of $44 million, or 5.1%, when compared with the respective periods of the prior year. Excluding the $24 million and $68 million impact from recent acquisitions for the three and nine months ended September 30, 2022, respectively, other operating expenses decreased $36 million, or 12.2%, and $24 million, or 2.8%, when compared with the respective periods of the prior year. The decreases for the three months and nine months ended September 30, 2022, adjusted for the impact of recent acquisitions, were primarily attributable to lower production expense due to lower transaction volumes, partially offset by higher software expense.

The provision for policy losses and other claims, expressed as a percentage of title premiums and escrow fees, was 4.0% for the three and nine months ended September 30, 2022 and 2021. The 4.0% loss rate reflects the ultimate loss rate for both the 2022 and 2021 policy years and no change in the loss reserve estimates for prior policy years.

Depreciation and amortization expense was $40 million and $120 million for the three and nine months ended September 30, 2022, respectively, increases of $3 million, or 8.1%, and $7 million, or 6.2%, when compared with the respective periods of the prior year. The increases for the three and nine months ended September 30, 2022 were primarily due to higher amortization of software and intangible assets related to recent acquisitions.

Premium taxes were $23 million and $68 million for the three and nine months ended September 30, 2022, respectively, a decrease of $3 million, or 11.5%, and an increase of $1 million, or 1.5%, respectively, when compared with the respective periods of the prior year. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.4% for the three and nine months ended September 30, 2022, and were 1.4% and 1.3% for the three and nine months ended September 30, 2021, respectively.

Interest expense was $10 million and $18 million for the three and nine months ended September 30, 2022, respectively, increases of $5 million, or 100.0%, and $2 million, or 12.5%, respectively, when compared with the respective periods of the prior year. The increases for the three and nine months ended September 30, 2022 were primarily attributable to higher deposit balances at the Company's banking operations.

Pretax margins for the title insurance business reflect the high cost of performing the essential services required before insuring title, whereas the corresponding revenues are subject to regulatory and competitive pricing restraints. Due to the relatively high proportion of fixed costs in the title insurance business, pretax margins generally improve as closed order volumes increase. Pretax margins for the segment are also impacted by (1) net investment income and net investment gains and losses, which may not move in the same direction as closed order volumes, (2) the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity and (3) by the percentage of title insurance premiums generated by agency operations as margins from direct operations are generally higher than from agency operations due primarily to the large portion of the premium that is retained by the agent. The title insurance and services segment recorded pretax margins of 9.9% and 10.9% for the three and nine months ended September 30, 2022, respectively, compared with 16.4% and 16.3% in the respective periods of the prior year.

Specialty Insurance

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in millions)	2022	2021	$ Change	% Change	2022	2021	$ Change	% Change
Revenues								
Direct premiums	$ 102	$ 128	$ (26)	(20.3)%	$ 314	$ 386	$ (72)	(18.7)%
Information and other	3	3	—	—	13	10	3	30.0
Net investment income	2	2	—	—	4	6	(2)	(33.3)
Net investment (losses) gains	(2)	—	(2)	—	(7)	19	(26)	(136.8)
	105	133	(28)	(21.1)	324	421	(97)	(23.0)
Expenses								
Personnel costs	20	22	(2)	(9.1)	61	69	(8)	(11.6)
Other operating expenses	19	26	(7)	(26.9)	61	71	(10)	(14.1)
Provision for policy losses and other claims	70	83	(13)	(15.7)	184	246	(62)	(25.2)
Depreciation and amortization	1	2	(1)	(50.0)	4	5	(1)	(20.0)
Premium taxes	1	1	—	—	3	5	(2)	(40.0)
	111	134	(23)	(17.2)	313	396	(83)	(21.0)
Income before income taxes	$ (6)	$ (1)	$ (5)	NM[1]%	$ 11	$ 25	$ (14)	(56.0)%
Pretax margins	(5.7)%	(0.8)%	(4.9)%	NM[1]%	3.4%	5.9%	(2.5)%	(42.4)%

(1) Not meaningful

Direct premiums were $102 million and $314 million for the three and nine months ended September 30, 2022, respectively, decreases of $26 million, or 20.3%, and $72 million, or 18.7%, when compared with the respective periods of the prior year. The decreases were primarily attributable to declines in direct premiums in the property and casualty insurance business of $24 million and $76 million for the three and nine months ended September 30, 2022, respectively, reflecting the Company's wind-down of the business. Direct premiums in the home warranty business decreased $2 million and increased $4 million for the three and nine months ended September 30, 2022, respectively. The decline for the three months ended September 30, 2022 was due to lower unit sales in the real estate channel. The increase for the nine months ended September 30, 2022 was due to an increase in the average price charged per contract.

Net investment losses totaled $2 million and $7 million for the three and nine months ended September 30, 2022, respectively, and were primarily from changes in the fair values of marketable equity securities. Net investment gains totaled $19 million for the nine months ended September 30, 2021 and were primarily from the sale of the Company's property and casualty insurance agency operations and, to a lesser extent, sales of debt securities.

Personnel costs and other operating expenses were $39 million and $122 million for the three and nine months ended September 30, 2022, respectively, decreases of $9 million, or 18.8%, and $18 million, or 12.9%, when compared with the respective periods of the prior year. The decreases were primarily attributable to decreases in deferred policy costs, software expense, incentive compensation, lower expense related to the Company's 401(k) savings plan match and salary expense, partially offset by higher advertising expense in the home warranty business. The decrease for the nine months ended September 30, 2022 was also due to lower agent commission expense in the property and casualty insurance business.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 58.9% and 52.6% for the three and nine months ended September 30, 2022, respectively, compared with 56.8% and 55.4% for the respective periods of the prior year. The increase in the claims rate for the three months ended September 30, 2022 was primarily attributable to higher claims severity, partially offset by lower claims frequency. The decrease in the claims rate for the nine months ended September 30, 2022 was primarily attributable to lower claims frequency, partially offset by higher claims severity.

The Company's wind-down of the property and casualty insurance business was substantially completed in the third quarter of 2022.

The property and casualty insurance business recorded no revenue in the three months ended September 30, 2022 and revenues of $13 million for the nine months ended September 30, 2022, compared with revenues of $25 million and $104 million for the respective periods of the prior year. Losses before income taxes for the three and nine months ended September 30, 2022 were $10 million and $18 million, respectively, compared with losses before income taxes of $10 million for the three and nine months ended September 30, 2021.

Premium taxes were $1 million and $3 million for the three and nine months ended September 30, 2022, respectively, compared with $1 million and $5 million for the respective periods of the prior year. Premium taxes as a percentage of premiums were 1.2% and 1.1% for the three and nine months ended September 30, 2022, respectively, and 1.0% and 1.3% for the three and nine months ended September 30, 2021, respectively.

A large part of the revenues for the specialty insurance segment are generated by renewals and are not dependent on the level of real estate activity in the year of renewal. With the exception of policy losses, the majority of the expenses for this segment are variable in nature and, therefore, generally fluctuate consistent with revenue fluctuations. Accordingly, pretax margins for this segment (before policy losses) are relatively constant, although as a result of some fixed expenses, profit margins (before policy losses) should nominally improve as premium revenues increase. Specialty insurance pretax margins are also impacted by the segment's net investment income and net investment gains and losses, which may not move in the same direction as premium revenues. The specialty insurance segment recorded pretax margin loss of (5.7%) and a pretax margin of 3.4% for the three and nine months ended September 30, 2022, respectively, compared with a pretax margin loss of (0.8%) and a pretax margin of 5.9% in the respective periods of the prior year.

Corporate

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in millions)	2022	2021	$ Change	% Change	2022	2021	$ Change	% Change
Revenues								
Net investment (losses) income	$ (6)	$ —	$ (6)	—%	$ (31)	$ 12	$ (43)	(358.3%)
Net investment (losses) gains	(157)	278	(435)	(156.5)	(305)	364	(669)	(183.8)
	(163)	278	(441)	(158.6)	(336)	376	(712)	(189.4)
Expenses								
Personnel costs	(4)	—	(4)	—	(22)	16	(38)	(237.5)
Other operating expenses	9	10	(1)	(10.0)	27	28	(1)	(3.6)
Interest	15	14	1	7.1	46	37	9	24.3
	20	24	(4)	(16.7)	51	81	(30)	(37.0)
Loss before income taxes	$ (183)	$ 254	$ (437)	(172.0%)	$ (387)	$ 295	$ (682)	(231.2%)

Net investment (losses) income totaled losses of $6 million and $31 million for the three and nine months ended September 30, 2022, respectively, compared with net investment income of $12 million for the nine months ended September 30, 2021. The decreases in net investment (losses) income for the three and nine months ended September 30, 2022 were primarily attributable to lower earnings on investments associated with the Company's deferred compensation plan when compared to the same periods of 2021.

Net investment (losses) gains totaled losses of $157 million and $305 million for the three and nine months ended September 30, 2022, respectively, compared with net investment gains of $278 million and $364 million for the respective periods of the prior year. Net investment losses for the three and nine months ended September 30, 2022 included impairment charges of $118 million related to venture portfolio investments. Net investment gains and losses are primarily related to pricing changes and impairment charges on equity investments within the Company's venture portfolio.

Corporate personnel costs and other operating expenses were $5 million for the three and nine months ended September 30, 2022, compared with $10 million and $44 million for the respective periods of the prior year. The decreases were primarily attributable to lower expenses related to the Company's deferred compensation plan

Interest expense was $15 million and $46 million for the three and nine months ended September 30, 2022, respectively, increases of $1 million, or 7.1%, and $9 million, or 24.3%, when compared with the respective periods of the prior year. The increases were due to additional interest accrued on the $650 million of 2.4% senior unsecured notes issued by the Company in August 2021.

Eliminations

The Company's inter-segment eliminations were not material for the three and nine months ended September 30, 2022 and 2021.

INCOME TAXES

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 174.2% and 21.4% for the three and nine months ended September 30, 2022, respectively, compared with 25.3% and 24.5% for the respective periods of the prior year. The differences in the effective tax rates are primarily due to the recognition, in 2022, of losses and impairments on equity securities, benefits from the resolution of state tax matters from prior years and the benefits associated with foreign currency exchange rate fluctuations and, in 2021, additional state income taxes related to non-insurance income and benefits related to foreign tax law changes.

The Company evaluates the realizability of its deferred tax assets by assessing the valuation allowance and makes adjustments to the allowance as necessary. The factors used in assessing the likelihood of realization include forecasts of future taxable income and available tax planning strategies that could be implemented. The Company's ability or inability to achieve forecasted taxable income in the applicable taxing jurisdictions could affect the ultimate realization of its deferred tax assets. Based on future operating results in certain jurisdictions, it is possible that the current valuation allowance positions of those jurisdictions could be adjusted during the next 12 months.

NET INCOME AND NET INCOME ATTRIBUTABLE TO THE COMPANY

Net income for the three and nine months ended September 30, 2022 was $3 million and $211 million, respectively, compared with $450 million and $988 million for the respective periods of the prior year. Net income attributable to the Company for the three and nine months ended September 30, 2022 was $2 million, or $0.02 per diluted share, and $209 million, or $1.93 per diluted share, respectively, compared with $445 million, or $4.00 per diluted share, and $981 million, or $8.81 per diluted share, for the respective periods of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash requirements. The Company generates cash primarily from the sale of its products and services and investment income. The Company's current cash requirements include operating expenses, taxes, payments of principal and interest on its debt, capital expenditures, dividends on its common stock, and may include business acquisitions, investments in private companies, primarily those in the venture-stage, and repurchases of its common stock. Management forecasts the cash needs of the holding company and its primary subsidiaries and regularly reviews their short-term and long-term projected sources and uses of funds, as well as the asset, liability, investment and cash flow assumptions underlying such forecasts. Based on the Company's ability to generate cash flows from operations, its liquid-asset position and amounts available on its revolving credit facility, management believes that its resources are sufficient to satisfy its anticipated operational cash requirements and obligations for at least the next twelve months.

The substantial majority of the Company's business is dependent upon activity in the real estate and mortgage markets, which are cyclical and seasonal. Periods of increasing interest rates and reduced mortgage financing availability generally have an adverse effect on residential real estate activity and therefore typically decrease the Company's revenues. In contrast, periods of declining interest rates and increased mortgage financing availability generally have a positive effect on residential real estate activity, which typically increases the Company's revenues. Residential purchase activity is typically slower in the winter months with increased volumes in the spring and summer months. Residential refinance activity is typically more volatile than purchase activity and is highly impacted by changes in interest rates. Commercial real estate volumes are less sensitive to changes in interest rates but fluctuate based on local supply and demand conditions for space and mortgage financing availability.

Cash provided by operating activities totaled $533 million and $876 million for the nine months ended September 30, 2022 and 2021, respectively, after claim payments, net of recoveries, of $338 million and $356 million, respectively. The principal nonoperating uses of cash and cash equivalents for the nine months ended September 30, 2022 and 2021 were advances and repayments related to secured financing transactions, purchases of debt and equity securities, repurchases of Company shares, dividends to common stockholders and acquisitions. The principal nonoperating sources of cash and cash equivalents for the nine months ended September 30, 2022 and 2021 were borrowings and collections related to secured financing transactions, proceeds from the sales and maturities of debt and equity securities and increases in the deposit balances at the Company's banking operations. The net effect of all activities on cash and cash equivalents were increases of $1.1 billion and $678 million for the nine months ended September 30, 2022 and 2021, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. In August 2022, the quarterly cash dividend was increased to 52 cents per common share, representing an 2% increase. The dividend increase was effective beginning with the September 2022 dividend. Management expects that the Company will continue to pay quarterly cash dividends at or above the current level. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company's board of directors and will depend upon many factors, including the Company's financial condition and earnings, the capital requirements of the Company's businesses, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time.

The Company maintains a stock repurchase plan with authorization up to $400 million, of which $321 million remained as of September 30, 2022. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. Cumulatively, during the nine months ended September 30, 2022, the Company repurchased and retired, under both the Company's prior authorization that terminated in June 2022 and current authorization, 6.8 million shares of its common stock for a total purchase price of $407 million.

During the nine months ended September 30 2022, the Company completed acquisitions for an aggregate purchase price of $311 million in cash.

Holding Company. First American Financial Corporation is a holding company that conducts all of its operations through its subsidiaries. The holding company's current cash requirements include payments of principal and interest on its debt, taxes, payments in connection with employee benefit plans, dividends on its common stock and other expenses. The holding company is dependent upon dividends and other payments from its operating subsidiaries to meet its cash requirements. The Company's target is to maintain a cash balance at the holding company equal to at least twelve months of estimated cash requirements. At certain points in time, the actual cash balance at the holding company may vary from this target due to, among other factors, the timing and amount of cash payments made and dividend payments received. Pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available to the holding company is limited, principally for the protection of policyholders. As of September 30, 2022, under such regulations, the maximum amount available to the holding company from its insurance subsidiaries for the remainder of 2022, without prior approval from applicable regulators, was dividends of $475 million and loans and advances of $126 million. However, the timing and amount of dividends paid by the Company's insurance subsidiaries to the holding company falls within the discretion of each insurance subsidiary's board of directors and will depend upon many factors, including the level of total statutory capital and surplus required to support minimum financial strength ratings by certain rating agencies. Such restrictions have not had, nor are they expected to have, an impact on the holding company's ability to meet its cash obligations.

As of September 30, 2022, the holding company's sources of liquidity included $121 million of cash and cash equivalents and $700 million available on the Company's revolving credit facility. Management believes that liquidity at the holding company is sufficient to satisfy anticipated cash requirements and obligations for at least the next twelve months.

Financing. The Company maintains a credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement, which is comprised of a $700 million revolving credit facility, includes an expansion option that permits the Company, subject to satisfaction of certain conditions, to increase the revolving commitments and/or add term loan tranches in an aggregate amount not to exceed $350 million. Unless terminated earlier, the credit agreement will terminate on April 30, 2024. The obligations of the Company under the credit agreement are neither secured nor guaranteed. Proceeds under the credit agreement may be used for general corporate purposes. At September 30, 2022, the Company had no outstanding borrowings under the facility.

In addition to amounts available under its credit facility, certain subsidiaries of the Company maintain separate financing arrangements. The primary financing arrangements maintained by subsidiaries of the Company are as follows:

- FirstFunding, Inc., a specialized warehouse lender to correspondent mortgage lenders, maintains secured warehouse lending facilities with several banking institutions. At September 30, 2022, outstanding borrowings under these facilities totaled $323 million.
- First American Trust, FSB ("FA Trust"), a federal savings bank, maintains a secured line of credit with the Federal Home Loan Bank and federal funds lines of credit with certain correspondent institutions. In addition, FA Trust is a party to master repurchase agreements under which securities may be loaned or sold. At September 30, 2022, no amounts were outstanding under any of these facilities.
- First Canadian Title Company Limited, a Canadian title insurance and services company, maintains credit facilities with certain Canadian banking institutions. At September 30, 2022, no amounts were outstanding under these facilities.

The Company's debt to capitalization ratios were 30.5% and 27.4% at September 30, 2022 and December 31, 2021, respectively. The Company's adjusted debt to capitalization ratios, excluding secured financings payable of $341 million and $538 million and accumulated other comprehensive loss of $1.0 billion and $92 million at September 30, 2022 and December 31, 2021, were 22.8% and 21.9%, respectively.

Investment Portfolio. The Company maintains a high quality, liquid investment portfolio that is primarily held at its insurance and banking subsidiaries. As of September 30, 2022, 97% of the Company's investment portfolio consisted of debt securities, of which 67% were either United States government-backed or rated AAA and 97% were either rated or classified as investment grade. Percentages are based on the estimated fair values of the securities. Credit ratings reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. For further information on the credit quality of the Company's debt securities portfolio at September 30, 2022, see Note 3 Debt Securities to the condensed consolidated financial statements.

In addition to its debt and marketable equity securities portfolio, the Company maintains investments in non-marketable equity securities and securities accounted for under the equity method. For further information on the Company's equity securities, see Note 4 Equity Securities to the condensed consolidated financial statements.

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its direct customers. Escrow deposits totaled $11.7 billion and $10.8 billion at September 30, 2022 and December 31, 2021, respectively, of which $5.5 billion and $4.8 billion, respectively, were held at FA Trust. The remaining deposits were held at third-party financial institutions.

Trust assets held or managed by FA Trust totaled $3.9 billion and $4.6 billion at September 30, 2022 and December 31, 2021, respectively. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable for the disposition of these assets.

In conducting its operations, the Company often holds customers' assets in escrow, pending completion of real estate transactions and, as a result, the Company has ongoing programs for realizing economic benefits with various financial institutions. The results from these programs are included as income or a reduction in expense, as appropriate, in the consolidated statements of income based on the nature of the arrangement and benefit received.

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of each such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds administered by the Company totaled $4.1 billion and $6.0 billion at September 30, 2022 and December 31, 2021, respectively. The like-kind exchange deposits are held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the returns on such proceeds.

In conducting its residential mortgage loan servicing, subservicing, originations and sales operations, the Company administers cash deposits on behalf of investors, mortgagors and subservicing clients. Cash deposits totaled $1.7 billion at September 30, 2022, of which $0.9 billion were held at FA Trust. The remaining deposits were held at third-party financial institutions. Cash deposits totaled $0.4 billion at December 31, 2021, all of which were held at third-party financial institutions. Cash deposits held at third-party financial institutions are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. The Company could be held contingently liable for the disposition of these assets. In connection with certain accounts, the Company has ongoing programs for realizing economic benefits with various financial institutions whereby it earns economic benefits either as income or as a reduction in expense.

Deposit balances held at FA Trust are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's primary exposure to market risk relates to interest rate risk associated with certain financial instruments. Although the Company monitors its risk associated with fluctuations in interest rates, it does not currently use derivative financial instruments on any significant scale to hedge these risks.

There have been no material changes in the Company's market risks since the filing of its Annual Report on Form 10-K for the year ended December 31, 2021.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer have concluded that, as of September 30, 2022, the end of the quarterly period covered by this Quarterly Report on Form 10-Q, the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) thereunder.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the quarter ended September 30, 2022, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 16 Litigation and Regulatory Contingencies to the condensed consolidated financial statements included in “Item 1. Financial Statements (unaudited)” of Part I of this report, which is incorporated by reference into this Item 1 of Part II.

Item 1A. Risk Factors.

The following “risk factors” could materially and adversely affect the Company’s business, operations, reputation, financial position or future financial performance. You should carefully consider each of the following risk factors and the other information contained in this Quarterly Report on Form 10-Q. The Company faces risks other than those listed here, including those that are unknown to the Company and others of which the Company may be aware but, at present, considers immaterial. Because of the following factors, as well as other variables affecting the Company’s operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

STRATEGIC RISK FACTORS

1. The Company’s risk management framework could prove inadequate, which could adversely affect the Company

The Company’s risk management framework is designed to identify, monitor and mitigate risks that could have a negative impact on the Company’s financial condition or reputation. This framework includes departments or groups dedicated to enterprise risk management, information security, disaster recovery and other information technology-related risks, business continuity, legal and compliance, compensation structures and other human resources matters, vendor management and internal audit, among others. Many of the processes overseen by these departments function at the enterprise level, but many also function through, or rely to a certain degree upon, risk mitigation efforts in local operating groups. This is especially the case with respect to the Company’s operations outside of the United States and recently acquired businesses, which may not be fully integrated into the Company’s risk management framework. Similarly, with respect to the risks the Company assumes in the ordinary course of its business through the issuance of title insurance policies and the provision of related products and services, the Company employs localized, as well as centralized risk mitigation efforts. These efforts include the implementation of underwriting policies and procedures, automated underwriting and other risk-decisioning tools and other mechanisms for assessing and managing risk. Underwriting title insurance policies and making other risk-assumption decisions frequently involves a substantial degree of individual judgment and, accordingly, underwriters are maintained at the state, regional, divisional, and corporate levels with varying degrees of underwriting authority. These individuals may be encouraged by customers or others to assume risks or to expeditiously make risk determinations. If the Company’s risk mitigation efforts prove inadequate, the Company could be adversely affected.

2. The Company is pursuing various innovative initiatives, which could result in increased title claims or otherwise adversely affect the Company

In an effort to speed the delivery of its products, increase efficiency, improve quality, improve the customer experience and decrease risk, the Company is increasingly utilizing innovative technologies, processes and techniques in the creation and automation of its products and services. These efforts include converting certain manual processes into automated ones to streamline searches, examinations, and other underwriting functions in connection with the issuance of title insurance policies, the building, maintaining and updating of title plants and other data assets. The Company believes these innovations will improve the customer experience by simplifying and reducing the time it takes to close a transaction, reducing risk and improving communication. Risks from these and other innovative initiatives include those associated with potential defects in the design and development of the technologies used to automate processes; misapplication of technologies; the reliance on data, rules or assumptions that may prove inadequate; information security vulnerabilities; and failure to meet customer expectations, among others. As a result of these risks, the Company could experience increased claims, reputational damage or other adverse effects, which could be material to the Company.

3. Potentially disruptive innovation in the real estate industry and/or the Company's participation in these efforts could adversely affect the Company

In addition to the Company's innovative activities, other participants in the real estate industry are seeking to innovate in ways that could adversely impact the Company's businesses. These participants include certain of the Company's sources of business, competitors, investments and ultimate customers. Innovations by these participants may change the demand for the Company's products and services, the manner in which the Company's products and services are ordered or fulfilled and the revenue or profitability derived from the Company's products and services. The Company's investments in some of these participants could also facilitate efforts that ultimately disrupt the Company's business or enable competitors. Accordingly, the Company's efforts to anticipate and participate in these transformations could require significant additional investment and management attention and may not succeed. These innovative efforts by third parties, and the manner in which the Company, its agents and other industry participants respond to them, could therefore have an adverse effect on the Company.

OPERATIONAL RISK FACTORS

4. Conditions in the real estate market generally impact the demand for a substantial portion of the Company's products and services

Demand for a substantial portion of the Company's products and services generally decreases as the number of real estate transactions in which its products and services are purchased decreases. The number of real estate transactions in which the Company's products and services are purchased typically decreases in the following situations, among others:

- when mortgage interest rates are high or rising;
- when the availability of credit, including commercial and residential mortgage funding, is limited;
- when real estate affordability is declining;
- when real estate inventory levels are insufficient; and
- when economic conditions are unfavorable, including during periods of high unemployment.

Certain of these circumstances, particularly when combined with declining real estate values and the increase in foreclosures that often results therefrom, also tend to adversely impact the Company's title claims experience. National inventory levels for the residential market have been declining over the past several years and remain below historical average levels. Combined with the rapidly rising mortgage interest rates in 2022 that have decreased demand, the number of residential purchase transactions have and are likely to continue to decline. Residential refinance activity is also strongly correlated with changes in mortgage interest rates and rising mortgage rates during 2021 and 2022 have had an adverse impact on the Company's refinance business that is expected to continue for so long as mortgage rates continue to rise or if they subsequently remain high relative to the interest rates of outstanding mortgages.

5. Unfavorable economic conditions adversely affect the Company

Historically, uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets and a general decline in the value of real property, have created a difficult operating environment for the Company. These conditions also tend to negatively impact the amount of funds the Company receives from third parties held in trust pending the closing of commercial and residential real estate transactions. The Company deposits a substantial portion of these funds, as well as its own funds, with the federal savings bank it owns. The Company's bank invests those funds and any realized losses incurred on those investments will be reflected in the Company's consolidated results. The likelihood of such losses, which generally would not occur if the Company were to deposit these funds in an unaffiliated entity, increases when economic conditions are unfavorable. Moreover, during periods of unfavorable economic conditions, the return on these funds deposited at the Company's bank, as well as funds the Company deposits with third party financial institutions, tends to decline. In addition, the Company holds investments in entities, such as title agencies, settlement service providers and venture-stage companies, some of which have been negatively impacted by these conditions, as well as other securities in its investment portfolio, which also may be, and recently have been, negatively impacted by these conditions.

The Company may not be able to accurately predict the effects of periods or expectations of high or rapidly rising inflation rates, and governmental responses thereto, and may not respond in a timely or adequate manner to mitigate the negative effects of such inflation, such as decreases in the demand for the Company's products and services, higher labor and other expenses, and, as experienced during 2021 and 2022 due to inflation and supply shortages, higher home warranty claims severity.

Depending upon the ultimate severity and duration of any economic downturn and other negative economic conditions, the resulting effects on the Company could be materially adverse, including a significant reduction in revenues, earnings and cash flows, higher claims, challenges to the Company's ability to satisfy covenants or otherwise meet its obligations under debt facilities and other contracts, difficulties in obtaining access to capital, challenges to the Company's ability to pay dividends at currently anticipated levels, deterioration in the value of or return on its investments and increased credit risk from customers and others with obligations to the Company.

6. The Company's use of models involves risks and uncertainties that could adversely affect the Company

The Company utilizes models to support decisions related to risk management, capital and liquidity planning, financial accounting and other business purposes. Models are, by their nature, inherently limited due to their reliance on statistical, economic, financial or mathematical theories, techniques, data and assumptions that may be erroneous or inappropriate for the intended or actual use. Flawed models or uses of models may result in, among other consequences, erroneous or misleading outputs, inappropriate business decisions, inadequate risk management or enhanced regulatory supervision, which could have a material adverse effect on the Company's results of operations, financial condition and reputation.

7. Climate change, severe weather conditions, health crises and other catastrophe events could adversely affect the Company

Climate change, global or extensive health crises, severe weather and other catastrophe events and responses to these events could adversely affect the Company. The extent to which these catastrophe events and responses to them impact the Company's business, operations and financial results will depend on numerous factors that the Company may not be able to accurately predict, including: the duration and scope of the catastrophe event and restrictions and responses to it; the impact of the catastrophe event on economic activity and actions taken in response, including the efficacy of governmental and other relief efforts or countermeasures; the effect on participants in real estate transactions and the demand for the Company's products and services.

The Company's home warranty business has been and may be impacted by increases in the frequency of severe weather events. Home warranty claims, including those pertaining to climate control units, tend to rise as temperatures become extreme, especially in geographies where extreme temperatures are infrequent. In response to the coronavirus pandemic, the Company made changes to the way it conducted business, including by altering certain underwriting practices, production processes, employee working arrangements and employee engagement efforts. Some of these changes have altered employee, client and other expectations and are expected to alter the way the Company conducts business and engages with its employees over an extended period of time, and, in some cases, permanently. Certain of these changes could result in increased claims and expose the Company to other risks. In addition, the Company manages its financial exposure for losses in its title insurance business with third-party reinsurance. Catastrophe events could adversely affect the cost and availability of that reinsurance. Moreover, to the extent climate change, health crises, severe weather conditions and other catastrophe events impact companies or municipalities whose securities the Company invests in, the value of its investments may also decrease due to these factors.

The frequency, severity, duration, and geographic location and scope of such health crises, catastrophe and severe weather events are inherently unpredictable, and, therefore, the Company is unable to predict the ultimate impact climate change, catastrophe events and responses to them will have on its businesses. The impacts of catastrophe events and responses to them may also exacerbate the risks discussed elsewhere in Part II, Item 1A of this Quarterly Report.

8. The Company may find it difficult to acquire necessary data

Certain data used and supplied by the Company are subject to regulation by various federal, state and local regulatory authorities. Compliance with existing federal, state and local laws and regulations with respect to such data has not had a material adverse effect on the Company's results of operations to date. Nonetheless, federal, state and local laws and regulations in the United States designed to protect the public from the misuse of personal information in the marketplace and adverse publicity or potential litigation concerning the commercial use of such information may affect the Company's operations and could result in substantial regulatory compliance expense, litigation expense and a loss of revenue. The suppliers of data to the Company face similar burdens. As a result of these and other factors, the Company may find it financially burdensome to acquire necessary data.

9. Changes in the Company's relationships with large mortgage lenders or government–sponsored enterprises could adversely affect the Company

Large mortgage lenders and government-sponsored enterprises, because of their significant role in the mortgage process, have significant influence over the Company and other service providers. Changes in the Company's relationship with any of these lenders or government-sponsored enterprises, the loss of all or a portion of the business the Company derives from these parties, any refusal of these parties to accept the Company's products and services, the modification of the government-sponsored enterprises' requirements for title insurance or mortgage servicing in connection with mortgages they purchase or the use of alternatives to the Company's products and services, could have a material adverse effect on the Company.

10. A downgrade by ratings agencies, reductions in statutory capital and surplus maintained by the Company's title insurance underwriters or a deterioration in other measures of financial strength could adversely affect the Company

Certain of the Company's customers use measurements of the financial strength of the Company's title insurance underwriters, including, among others, ratings provided by ratings agencies and levels of statutory capital and surplus maintained by those underwriters, in determining the amount of a policy they will accept and the amount of reinsurance required. Each of the major ratings agencies currently rates the Company's title insurance operations. The Company's principal title insurance underwriter's financial strength ratings are "A2" by Moody's Investor Services, Inc., "A" by Fitch Ratings, Inc., "A-" by Standard & Poor's Ratings Services and "A" by A.M. Best Company, Inc. These ratings provide the agencies' perspectives on the financial strength, operating performance and cash generating ability of those operations. These agencies continually review these ratings and the ratings are subject to change. Statutory capital and surplus, or the amount by which statutory assets exceed statutory liabilities, is also a measure of financial strength. The Company's principal title insurance underwriter maintained $1.7 billion of total statutory capital and surplus as of December 31, 2021. Accordingly, if the ratings or statutory capital and surplus of these title insurance underwriters are reduced from their current levels, or if there is a deterioration in other measures of financial strength, the Company's results of operations, competitive position and liquidity could be adversely affected. In addition, a downgrade in the ratings or rankings for the Company's federal savings bank subsidiary or its mortgage servicing business could have an adverse effect on that particular business.

11. The issuance of the Company's title insurance policies and related activities by title agents, which operate with substantial independence from the Company, could adversely affect the Company

The Company's title insurance subsidiaries issue a significant portion of their policies through title agents that usually operate independent of the Company. There is no guarantee that these title agents will fulfill their contractual obligations to the Company, which contracts include limitations that are designed to limit the Company's risk with respect to their activities. In addition, regulators are increasingly seeking to hold the Company responsible for the actions of these title agents and, under certain circumstances, the Company may be held liable directly to third parties for actions (including defalcations) or omissions of these agents. Case law in certain states also suggests that the Company is liable for the actions or omissions of its agents in those states, regardless of contractual limitations. As a result, the Company's use of title agents could result in increased claims on the Company's policies issued through agents and an increase in other costs and expenses.

12. Systems damage, failures, interruptions, cyberattacks and intrusions, and unauthorized data disclosures by the Company or its service providers may disrupt the Company's business, harm the Company's reputation, result in material claims for damages or otherwise adversely affect the Company

The Company uses computer software applications, systems and other technologies (collectively referred to as "systems"), some of which it owns and manages and some of which are owned and/or managed by third parties, including providers of distributed computing infrastructure platforms commonly known as the "cloud." The Company and its agents, suppliers, service providers, and customers use systems to receive, process, store and transmit business information, including non-public personal information as well as data from suppliers and other information upon which the Company's business relies. The Company also uses these systems to manage substantial cash, investment assets, bank deposits, trust assets and escrow account balances on behalf of itself and its customers, among other activities. Many of the Company's products, services and solutions involving the use of real property related data are fully reliant on these systems and are only available electronically. Accordingly, for a variety of reasons, the integrity of these systems and the protection of the information that resides thereon are critically important to the Company's successful operation.

These systems have been subject to, and are likely to continue to be the target of, computer viruses, cyberattacks, ransomware attacks, phishing attacks and other malicious activity. These attacks have increased in frequency and sophistication. The Company's employees working remotely are more susceptible to social engineering attacks, intrusions and other malicious activity, and this risk has increased given that a substantial number of the Company's employees are working from home following the onset of the coronavirus pandemic. These systems also have known and unknown vulnerabilities. Once identified, the Company's information technology and information security personnel seek to remediate these vulnerabilities based on the level of risk presented. For a number of reasons, including the introduction of new vulnerabilities, resource constraints, competing business demands and dependence on third parties, a number of unremediated vulnerabilities will always exist. Remediation of some vulnerabilities are outside of the control of the Company and third-party remediation efforts may not be timely provided or implemented or otherwise adequate, even when the level of risk is critical or high. Further, certain other potential causes of system damage or other negative system-related events are wholly or partially beyond the Company's control, such as natural disasters, vendor failures to satisfy service level requirements and power or telecommunications failures. These circumstances could expose the Company to system-related damages, failures, interruptions, cyberattacks and other negative events or could otherwise disrupt the Company's business and could also result in the loss or unauthorized release, gathering, monitoring or destruction of confidential, proprietary and other information pertaining to the Company, its customers, employees, agents or suppliers. The Company had an information security incident that occurred during the second quarter of 2019 involving unauthorized access to non-public personal information as a result of a vulnerability in one of the Company's applications. The risk associated with any future incidents, particularly the risk of damage to the Company's reputation, is heightened as a result of the 2019 incident.

In conducting its business and delivering its products and services, the Company also utilizes service providers. These service providers and the systems they utilize are typically subject to similar types of system- and information security-related risks that the Company faces. The Company provides certain of these service providers with data, including nonpublic personal information. There is no guarantee that the Company's due diligence or ongoing vendor oversight will be sufficient to ensure the integrity and security of the systems utilized by these service providers or the protection of the information that resides thereon.

Certain laws and contracts the Company has entered into require it to comply with certain information security requirements and to notify various parties, including consumers or customers, in the event of certain actual or potential data breaches or systems failures, including those of the Company's service providers. Further, the Company's financial institution customers have obligations to safeguard their systems and sensitive information and the Company may be bound contractually and/or by regulation to comply with the same requirements. If the Company or its service providers fail to comply with applicable regulations and contractual requirements, the Company could be exposed to lawsuits, governmental proceedings or the imposition of fines, among other consequences.

Any inability of the Company or its service providers to prevent or adequately respond to the issues described above could disrupt the Company's business, delay the delivery of its products and services, inhibit its ability to retain existing customers or attract new customers, divert management's time and energy, otherwise harm its reputation and/or result in financial losses, litigation, regulatory inquiries, increased costs or other adverse consequences that could be material to the Company.

13. Errors and fraud involving the transfer of funds may adversely affect the Company

The Company relies on its systems, employees and domestic and international banks to transfer its own funds and the funds of third parties. In addition to relying on third-party banks to transfer these funds, the Company's federal savings bank subsidiary transfers funds on behalf of the Company as well as title agents that are not affiliates of the Company. These transfers are susceptible to user input error, fraud, system interruptions, incorrect processing and similar errors that from time to time result in lost funds or delayed transactions. The Company's email and computer systems and systems used by its agents, customers and other parties involved in a transaction have been subject to, and are likely to continue to be the target of, fraudulent attacks, including attempts to cause the Company or its agents to improperly transfer funds. These attacks have increased in frequency and sophistication. Funds transferred to a fraudulent recipient are often not recoverable. In certain instances the Company may be liable for those unrecovered funds. The controls and procedures used by the Company to prevent transfer errors and fraud may prove inadequate, resulting in financial losses, reputational harm, loss of customers or other adverse consequences which could be material to the Company.

14. The Company's failure to recruit and retain qualified personnel may adversely affect the business.

The Company's continued success depends, in large part, on its ability to hire and retain qualified people. Competition for highly qualified people is intense, and there is no assurance that the Company will be successful in attracting, training or retaining people to fill vacant or new positions. Policies adopted during the coronavirus pandemic may allow Company employees to work remotely or in hybrid situations. Over the long-term, the Company may not successfully adapt to this new work environment in a manner that maintains a healthy and vibrant Company culture or that results in the Company being viewed as an employer of choice. If the Company is unable to attract and retain qualified people, its business and operations may be impaired or disrupted.

15. The Company's use of a global workforce involves risks that could adversely affect the Company

The Company utilizes lower cost labor in countries such as India and the Philippines, among others. These countries are subject to relatively high degrees of political and social instability and may lack the infrastructure to withstand natural disasters, health crises and other catastrophe events. Such disruptions could decrease efficiency and increase the Company's costs, which the Company has experienced during the coronavirus pandemic. Weakness of the United States dollar in relation to the currencies used in these countries may also reduce the savings achievable through this strategy. Laws, regulations, business requirements or social or political pressures may require the Company to use labor based in the United States or may otherwise effectively increase the Company's labor costs abroad. The Company may not be able to pass on these increased costs to its customers.

16. Acquisitions may have an adverse effect on our business

The Company has in the past acquired, and is expected to acquire in the future, other businesses. When businesses are acquired, the Company may not be able to integrate or manage these businesses in such a manner as to realize the anticipated synergies or otherwise produce returns that justify the investment. Acquired businesses, such as the Company's acquisition of ServiceMac, LLC, may subject the Company to increased regulatory or compliance requirements. The Company's acquisitions have involved, and are likely to continue to involve, the entry into businesses in which the Company's management has limited prior experience, making the Company reliant on the management team of the acquired business. The Company may not be able to successfully retain employees of acquired businesses or integrate them, and could lose customers, suppliers or other partners as a result of the acquisitions. For these and other reasons, including changes in market conditions, the projections used to value the acquired businesses may prove inaccurate. In addition, the Company might incur unanticipated liabilities from acquisitions. These and other factors related to acquisitions could have a material adverse effect on the Company's results of operations, financial condition and liquidity. The Company's management also will continue to be required to dedicate substantial time and effort to the integration of its acquisitions. These efforts could divert management's focus and resources from other strategic opportunities and operational matters.

LEGAL AND COMPLIANCE RISK FACTORS

17. Regulatory oversight and changes in government regulation could require the Company to raise capital, make it more difficult to deploy capital, including dividends to stockholders and repurchases of the Company's shares, prohibit or limit the Company's operations, make it more costly or burdensome to conduct such operations, result in decreased demand for the Company's products and services or otherwise adversely affect the Company

Many of the Company's businesses, including its title insurance, property and casualty insurance, home warranty, mortgage servicing and subservicing, banking, trust and wealth management businesses, are regulated by various federal, state, local and foreign governmental agencies. These and other of the Company's businesses also operate within statutory guidelines, which can include requirements to maintain certain licenses at the federal, state and/or local levels. The industry in which the Company operates and the markets into which it sells its products are also regulated and subject to statutory guidelines. In general, in recent years, the Company experienced increasing regulatory oversight and became subject to increasingly complex statutory guidelines.

Regulatory oversight could require the Company to raise capital, and/or make it more difficult to deploy capital, including dividends to stockholders and repurchases of the Company's shares. For example, regulatory capital requirements for the Company have historically applied only at the subsidiary level, specifically to the Company's federal savings bank subsidiary and the Company's insurance underwriter subsidiaries. However, both the National Association of Insurance Commissioners and the Board of Governors of the Federal Reserve System have issued proposals for group capital calculations. These proposals, if finalized and adopted in their current forms, would apply to the Company at the group level and would be in addition to existing subsidiary-level capital requirements. It is possible that the group capital calculations, particularly in an economic downturn, could have the effect of requiring the Company to raise capital and/or making it more difficult to otherwise deploy capital, including dividends to stockholders and repurchases of the Company's shares.

An increasing number of federal, state, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. The effects of these privacy and data protection laws, including the cost of compliance and required changes in the manner in which the Company conducts its business, are not fully known and are potentially significant, and the failure to comply could adversely affect the Company. The Company has incurred costs to comply with these laws and to respond to inquiries about its compliance with them.

In addition, changes in the applicable regulatory environment, statutory guidelines or interpretations of existing regulations or statutes; reform of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac); enhanced governmental oversight or efforts by governmental agencies to cause customers to refrain from using the Company's products or services could prohibit or limit its future operations or make it more costly or burdensome to conduct such operations or result in decreased demand for the Company's products and services or a change in its competitive position. The impact of these changes would be more significant if they involve jurisdictions in which the Company generates a greater portion of its title premiums, such as the states of Arizona, California, Florida, New York, and Texas. These changes may compel the Company to reduce its prices, may restrict its ability to implement price increases or acquire assets or businesses, may limit the manner in which the Company conducts its business or otherwise may have a negative impact on its ability to generate revenues, earnings and cash flows.

18. Scrutiny of the Company's businesses and the industries in which it operates by governmental entities and others could adversely affect the Company

The real estate settlement services industry, an industry in which the Company generates a substantial portion of its revenue and earnings, and the mortgage servicing and subservicing industry are subject to continuous scrutiny by regulators, legislators, the media and plaintiffs' attorneys. Though often directed at these industries generally, these groups also focus their attention directly on the Company's businesses from time to time. In either case, this scrutiny may result in changes which could adversely affect the Company's operations and, therefore, its financial condition and liquidity.

Governmental entities have routinely inquired into certain practices in the real estate settlement services industry and the mortgage servicing and subservicing industry to determine whether certain of the Company's businesses or its competitors have violated applicable laws, which include, among others, the insurance codes of the various jurisdictions, the Real Estate Settlement Procedures Act, the Truth in Lending Act and similar state, federal and foreign laws. The Consumer Financial Protection Bureau ("CFPB"), for example, has actively utilized its regulatory authority over the mortgage and real estate markets by bringing enforcement actions against various participants in the mortgage and settlement industries and we expect that such enforcement activity will intensify. Departments of insurance in the various states, the CFPB and other federal regulators and applicable regulators in international jurisdictions, either separately or together, also periodically conduct targeted inquiries into the practices of title insurance companies, other settlement services providers and mortgage servicers in their respective jurisdictions. Currently, the Company is the subject of regulatory inquiries.

Further, from time to time plaintiffs' lawyers have targeted, and are expected to continue to target, the Company and other members of the Company's industry with lawsuits claiming legal violations or other wrongful conduct. These lawsuits often involve large groups of plaintiffs and claims for substantial damages. These types of inquiries or proceedings have from time to time resulted, and may in the future result, in findings of a violation of the law or other wrongful conduct and the payment of fines or damages or the imposition of restrictions on the Company's conduct. This could impact the Company's operations and financial condition. Moreover, these laws and standards of conduct often are ambiguous and, thus, it may be difficult to ensure compliance. This ambiguity may force the Company to mitigate its risk by settling claims or by ending practices that generate revenues, earnings and cash flows. Currently the Company is a party to class action lawsuits.

19. Regulation of title insurance rates could adversely affect the Company

Title insurance rates are subject to extensive regulation, which varies from state to state. In many states the approval of the applicable state insurance regulator is required prior to implementing a rate change. These regulations could hinder the Company's ability to promptly adapt to changing market dynamics through price adjustments, which could adversely affect its results of operations, particularly in a rapidly declining market.

FINANCIAL RISK FACTORS

20. Failures at financial institutions at which the Company deposits funds could adversely affect the Company

The Company deposits substantial funds in financial institutions. These funds include amounts owned by third parties, such as escrow deposits, like-kind exchange deposits and investor, mortgagor and subservicer deposits. Should one or more of the financial institutions at which deposits are maintained fail, there is no guarantee that the Company would recover the funds deposited, whether through Federal Deposit Insurance Corporation coverage or otherwise. In the event of any such failure, the Company also could be held liable for the funds owned by third parties.

21. Unfavorable economic or other conditions could cause the Company to write off a portion of its goodwill and other intangible assets

The Company performs an impairment test of the carrying value of goodwill and other indefinite-lived intangible assets annually in the fourth quarter, or sooner if circumstances indicate a possible impairment. Finite-lived intangible assets are subject to impairment tests on a periodic basis. Factors that may be considered in connection with this review include, without limitation, underperformance relative to historical or projected future operating results, reductions in the Company's stock price and market capitalization, increased cost of capital and negative macroeconomic, industry and company-specific trends. These and other factors could lead to a conclusion that goodwill or other intangible assets are impaired, in which case the Company would be required to write off the portion believed to be impaired. Total goodwill and other intangible assets reflected on the Company's condensed consolidated balance sheet as of September 30, 2022 are $2.0 billion. Any substantial goodwill and other intangible asset impairments that may be required could have a material adverse effect on the Company's results of operations and financial condition.

22. The Company's investment portfolio is subject to certain risks and could experience losses

The Company maintains a substantial investment portfolio, primarily consisting of fixed income debt securities. The investment portfolio also includes adjustable-rate debt securities, common and preferred stock, as well as money-market and other short-term investments. Securities in the Company's investment portfolio are subject to certain economic and financial market risks, such as credit risk, interest rate (including call, prepayment and extension) risk and/or liquidity risk. The risk of loss associated with the portfolio is increased during periods of instability in credit markets and economic conditions, such as during the current environment precipitated by rapidly rising interest rates. Debt and equity securities are carried at fair value on the Company's balance sheet. Changes in the fair values of debt securities are recorded as a component of accumulated other comprehensive income/loss on the balance sheet. For debt securities in an unrealized loss position, where the loss is determined to be due to credit-related factors, the Company records the loss in earnings. Changes in the fair values of marketable equity securities are recognized in earnings. Changes in the fair values of securities in the Company's investment portfolio have had an adverse impact on the Company and could have a material adverse effect on the Company's results of operations, statutory surplus, financial condition and cash flow.

23. The Company's venture investment portfolio is volatile and subject to certain risks and could experience losses

Investments in non-marketable equity securities reflected on the Company's condensed consolidated balance sheet as of September 30, 2022 totaled $406 million, a substantial majority of which makes up the Company's venture investment portfolio. This venture investment portfolio is primarily comprised of investments in the equity of private venture-stage companies that operate in the real-estate industry and related industries (many of which offer technology-enabled products and services), investments in funds that typically invest in these same types of companies, and a similar investment that is trading publicly. The venture investment portfolio is managed independent of the Company's portfolio of debt securities and marketable equity securities, which is overseen by the Company's investment department and an investment committee. The Company is likely to continue to make similar venture investments. These positions are concentrated in a limited number of holdings and are high-risk, illiquid investments. In certain circumstances, such as when one of these companies raises capital, merges with another company or sells itself at a valuation that is less than the valuation at which the Company made its investment or when one of these companies fails and/or liquidates itself, the Company could be required to impair all or part of its investment in that company and the Company has impaired certain venture investments, including an impairment charge of $118 million during the quarter ended September 30, 2022 related to a number of these investments. The prospects of these companies depend on a number of factors, including the condition of the general economy, the general availability of capital, the performance of and volatility in the public markets, the regulatory and political environments, the condition of the real estate industry, the competitive environment for such companies and the operational and financial performance of such companies. Even if one of these companies is successful, the Company's ability to realize the value of its investment may take a significant amount of time and may be dependent on the occurrence of a liquidity event, such as an initial public offering or the sale of the company. Even when a liquidity event occurs, the Company may be subject to restrictions on resale or may choose to continue to hold the investment for strategic or other reasons and, as a result, the Company may not monetize the value of its investment during periods in which it could be financially advantageous to sell the investment. These investments have caused, and are expected from time to time to cause, material fluctuations in the Company's quarterly results of operations due to the recognition of gains or losses in connection with observable price changes, such as from liquidity events, subsequent equity sales, or price changes in investments that begin trading publicly, which changes can be volatile. These impairments and fluctuations may have a material adverse effect on the Company's results of operations.

Offerpad Solutions Inc., one of the Company's investments, trades publicly and the fair value of Offerpad's equity securities recognized in the Company's earnings has and will fluctuate as Offerpad's trading price changes. The Company holds a large position in Offerpad and significant fluctuations in the fair value of Offerpad's securities have been and could be material to the Company's earnings in any given quarter. The Company recognized unrealized losses of $167 million and unrealized gains of $195 million for the nine months ended September 30, 2022 and 2021, respectively.

24. Actual claims experience could materially vary from the expected claims experience reflected in the Company's reserve for incurred but not reported claims

The Company maintains a reserve for incurred but not reported ("IBNR") claims pertaining to its title, escrow and other insurance and guarantee products. The majority of this reserve pertains to title insurance policies, which are long-duration contracts with the majority of the claims reported within the first few years following the issuance of the policy. Generally, 70% to 80% of claim amounts become known in the first six years of the policy life, and the majority of IBNR reserves relate to the six most recent policy years. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the IBNR reserves. Based on historical experience, management believes a 50 basis point change to the loss rates for recent policy years, positive or negative, is reasonably likely given the long duration nature of a title insurance policy. In uncertain economic times, an even larger change is more likely. As examples, if the expected ultimate losses for each of the last six policy years increased or decreased by 50 basis points, the resulting impact on the Company's IBNR reserve would be an increase or decrease, as the case may be, of $157 million, and if expected ultimate losses for those same years were to fluctuate by 100 basis points, the resulting impact would be $315 million. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss ratios exceeding historical norms. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be materially different from actual claims experience.

Changes in laws or regulations impacting real estate, particularly when applied retroactively, may cause a material change in expected ultimate losses and corresponding loss rates for recent and/or older policy years. For example, the 2020 United States Supreme Court decision in McGirt v. Oklahoma calls into question the governing authority for certain real estate-related matters in Native American reservations once thought to have been disestablished. To the extent the Company, in those areas, underwrote title insurance policies or closed real estate transactions in conformity with authority that ultimately proves inapplicable, expected ultimate losses arising from those policies and transactions could change materially and could result in a material change to loss rates.

25. As a holding company, the Company depends on distributions from its subsidiaries, and if distributions from its subsidiaries are materially impaired, the Company's ability to declare and pay dividends may be adversely affected; in addition, insurance and other regulations limit the amount of dividends, loans and advances available from the Company's insurance subsidiaries

The Company is a holding company whose primary assets are investments in its operating subsidiaries. The Company's ability to pay dividends is dependent on the ability of its subsidiaries to pay dividends or repay funds. If the Company's operating subsidiaries are not able to pay dividends or repay funds, the Company may not be able to fulfill parent company obligations and/or declare and pay dividends to its stockholders. Moreover, pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available is limited. As of September 30, 2022, under such regulations, the maximum amount available for the remainder of 2022 from these insurance subsidiaries, without prior approval from applicable regulators, was dividends of $475 million and loans and advances of $126 million.

26. Changes in the composition of deposits at the Company's federal savings bank subsidiary could require the Company to borrow funds to maintain liquidity

The deposits of the Company's federal savings bank subsidiary consist almost entirely of funds deposited by its affiliates, the majority of which are from third parties to be held in trust pending the closing of real estate transactions. Following the Company's acquisition of ServiceMac, LLC, a residential mortgage subservicer, an increasing proportion of the bank's deposits are custodial funds held on behalf of clients of ServiceMac that are owners of loans or mortgage servicing rights (MSRs), and a substantial portion of such deposits are currently associated with a single client of ServiceMac. This client and others may cause their custodial funds to be moved out of the Company's bank subsidiary in connection with the transfer of ownership of MSRs or loans, termination of subservicing contracts or otherwise. The likelihood of clients causing funds to be moved increases as interest rates rise, which could result in a marked decline in the bank's deposits. When the bank's deposits decline, the Company may be required to borrow funds to maintain liquidity.

GENERAL RISK FACTORS

27. Certain provisions of the Company's bylaws and certificate of incorporation, as well as regulatory hurdles, may reduce the likelihood of any unsolicited acquisition proposal or potential change of control that the Company's stockholders might consider favorable

The Company's bylaws and certificate of incorporation contain provisions that could be considered "anti-takeover" provisions because they make it harder for a third-party to acquire the Company without the consent of the Company's incumbent board of directors. Under these provisions:

- election of the Company's board of directors is staggered such that only one-third of the directors are elected by the stockholders each year and the directors serve three year terms prior to reelection;
- stockholders may not remove directors without cause, change the size of the board of directors or, except as may be provided for in the terms of preferred stock the Company issues in the future, fill vacancies on the board of directors;
- stockholders may act only at stockholder meetings and not by written consent;
- stockholders must comply with advance notice provisions for nominating directors or presenting other proposals at stockholder meetings; and
- the Company's board of directors may without stockholder approval issue preferred shares and determine their rights and terms, including voting rights, or adopt a stockholder rights plan.

While the Company believes that they are appropriate, these provisions may only be amended by the affirmative vote of the holders of approximately 67% of the Company's issued voting shares. In addition, federal banking laws and regulations and state insurance laws and regulations require third parties to obtain prior approval to acquire control of the Company due to its status as a savings and loan holding company and an insurance holding company. These provisions and regulatory requirements could have the effect of discouraging an unsolicited acquisition proposal or delaying, deferring or preventing a change of control transaction that might involve a premium price or otherwise be considered favorably by the Company's stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Unregistered Sales of Equity Securities

During the quarter ended September 30, 2022, the Company did not issue any unregistered common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Pursuant to the share repurchase program approved by the Company's board of directors in June 2022, which program has no expiration date, the Company may repurchase up to $400 million of the Company's issued and outstanding common stock. The following table describes purchases by the Company under the share repurchase program that settled during each period set forth in the table. Prices in column (b) include commissions. Cumulatively, as of September 30, 2022, the Company had repurchased $79 million (including commissions) of its shares authorized under the share repurchase program and had the authority to repurchase an additional $321 million (including commissions) under that program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2022 to July 31, 2022	963,105	$ 54.20	963,105	$ 340,279,959
August 1, 2022 to August 31, 2022	56,437	57.55	56,437	337,031,831
September 1, 2022 to September 30, 2022	328,730	49.96	328,730	320,607,473
Total	1,348,272	$ 53.31	1,348,272	$ 320,607,473

Item 6. Exhibits.

Each management contract or compensatory plan or arrangement in which any director or named executive officer of First American Financial Corporation, as defined by Item 402(a)(3) of Regulation S-K (17 C.F.R. §229.402(a)(3)), participates that is included among the exhibits listed on the Exhibit Index is identified on the Exhibit Index by an asterisk (*).

Exhibit No.	Description	Location
3.1	Amended and Restated Certificate of Incorporation of First American Financial Corporation dated May 28, 2010.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed June 1, 2010.
3.2	Bylaws of First American Financial Corporation, effective as of January 19, 2022.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed January 21, 2022.
31(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
31(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
32(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
32(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
101.INS	Inline XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	N/A.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	Attached.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	Attached.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	Attached.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	Attached.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	Attached.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	N/A.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST AMERICAN FINANCIAL CORPORATION
(Registrant)

Date: October 27, 2022

By /s/ Kenneth D. DeGiorgio
Kenneth D. DeGiorgio
Chief Executive Officer
(Principal Executive Officer)

Date: October 27, 2022

By /s/ Mark E. Seaton
Mark E. Seaton
Executive Vice President,
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31(a)

CERTIFICATIONS

I, Kenneth D. DeGiorgio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First American Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2022

/s/ Kenneth D. DeGiorgio
Kenneth D. DeGiorgio
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31(b)

CERTIFICATIONS

I, Mark E. Seaton, certify that:

(a) I have reviewed this quarterly report on Form 10-Q of First American Financial Corporation;

(b) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(c) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(d) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(e) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 27, 2022

/s/ Mark E. Seaton
Mark E. Seaton
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

Exhibit 32(a)

Certification pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-Q of First American Financial Corporation (the "Company") for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth D. DeGiorgio, chief executive officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Kenneth D. DeGiorgio
Kenneth D. DeGiorgio
Chief Executive Officer
Date: October 27, 2022

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32(b)

Certification pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-Q of First American Financial Corporation (the "Company") for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark E. Seaton, chief financial officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Mark E. Seaton
Mark E. Seaton
Executive Vice President, Chief Financial Officer
Date: October 27, 2022

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.