REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FAF.N - Q1 2025 First American Financial Corp Earnings Call

EVENT DATE/TIME: APRIL 24, 2025 / 3:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Craig Barberio *First American Financial Corp - Investor Relations*

Mark Seaton *First American Financial Corp - Chief Executive Officer*

Matthew Wajner *First American Financial Corp - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Terry Ma *Barclays Capital Inc. - Analyst*

John Campbell *Stephens Inc. - Analyst*

Bose George *Keefe, Bruyette & Woods, Inc. - Analyst*

Mark Hughes *Truist Securities Inc. - Analyst*

Mark DeVries *Deutsche Bank Securities Inc. - Analyst*

Geoffrey Dunn *Dowling & Partners Securities, LLC - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the First American Financial Corporation First Quarter Earnings Conference Call. (Operator Instructions). A copy of today's press release is available on First American's website at www.firstam.com/investor. Please note that the call is being recorded and will be available for replay from the company's investor website and for a short time by dialing (877) 660-6853 or (201) 612-7415 and enter the conference ID 137-53085.

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

Craig Barberio - *First American Financial Corp - Investor Relations*

Good morning, everyone, and welcome to First American's Earnings Conference Call for the first quarter of 2025. Joining us today on the call will be our newly appointed Chief Executive Officer, Mark Seaton; and Matt Wajner, Chief Financial Officer. Some of the statements made today may contain forward-looking statements that do not relate strictly to historical or current fact. These forward-looking statements speak only as of the date they are made, and the company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

Risks and uncertainties exist that may cause results to differ materially from those set forth in these forward-looking statements. For more information on these risks and uncertainties, please refer to yesterday's earnings release and the risk factors discussed in our Form 10-K and subsequent SEC filings.

Our presentation today contains certain non-GAAP financial measures that we believe provide additional insight into the operational efficiency and performance of the company relative to earlier periods and relative to the company's competitors. For more details on these non-GAAP financial measures, including presentation with and reconciliation to the most directly comparable GAAP financials, please refer to yesterday's earnings release, which is available on our website at www.firstam.com.

I will now turn the call over to Mark Seaton.

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Thank you, Craig. I'll begin by commenting on our recent leadership changes. First, we announced that our prior CEO, Kenneth DeGiorgio, has departed the company. Ken was a pillar of strength at First American for over 20 years. Many of us worked with Ken for many years and valued his commitment and elect and dedication to First American. We wish him and his family all the best. We also announced that I have replaced Ken as CEO. I've been with the company for 18 years, serving as our Chief Financial Officer for the last 12. I believe in our purpose, which is to deliver certainty and trust at power seamless real estate transactions.

We have an amazing team and a great collection of businesses led by our core title and escrow business. We also have several adjacent businesses that are synergistic to our core title business, including data and analytics, home warranty, our bank, First American Trust and Service Macro subservicer. These adjacent businesses each have attractive growth characteristics and margin potential greater than our title business. We have a bright future given our people, unique assets and our commitment to be the best in the markets we operate in.

Next, we announced that Matt Wajner has been appointed our Chief Financial Officer. Matt has been with First American for 15 years, most recently serving as our Treasurer, and prior to that, our Chief Accounting Officer. Prior to First American, Matt held roles at JPMorgan Chase and PWC. He's a perfect fit for the role and has proven to be a great leader with sound judgment, a strong financial acumen. I look forward to our investor community, getting to know more of Matt in days and weeks to come.

Finally, we announced that our Chairman of the Board, Dennis Gilmore, will become our Executive Chairman. Dennis was our CEO for 12 years between 2010 and 2022, during which time we generated an 18% annual total shareholder return. I worked very closely with Dennis during that time and look forward to working with him in our new roles.

Turning to our business. I believe First American is poised for a good run. As we all know, our core business is title and escrow, which is driven by mortgage originations. Residential originations continue to be at trough levels, both in terms of purchase and refinance, but we experienced revenue improvement in both markets this quarter. Real estate goes in cycles, and we're at the very beginning of the next cycle. There's a lot of macro noise with tariffs, the path of interest rates, inflation and uncertainty in the general economy but I believe residential originations have hit a bottom and now we can debate the path and pace of growth.

The commercial side of the business, which began declining in the second half of 2022 is seeing meaningful improvement. Commercial volumes started picking up in the second half of last year, and the momentum continues into 2025 as our revenue was up 29% this quarter. With the macro uncertainty -- while the macro uncertainty may cause transactions to slow, we have a great pipeline heading into the second quarter.

As I mentioned earlier, we're at the very beginning of another growth cycle and are poised to outperform the market given our extraordinary people, deep expertise, unique assets and commitment to do what we need to do to win. For many years now, our data and analytics business has gained market share while dramatically expanding its title plant, property record database and document image repositories, as the world becomes increasingly digitized and the power of artificial intelligence continues to grow exponentially, data is needed to drive automation and since we have more of that data than anyone, it puts us in the driver's seat.

We are leveraging our bank in new ways to add value to our customers, and it also serves as a countercyclical business that is helping to mitigate the challenging residential origination market that we face. We also have momentum with our technology initiatives. In many ways, we're carrying redundant tech costs since we support both the new modern systems and the legacy tech that our business depends on today. But when this transition is complete, we'll not only reduce costs by eliminating redundant platforms, but more importantly, enhance the productivity of our operations. This will enable us to be the lowest cost producer of our products and services all while maintaining the high-touch customer experience our clients expect.

Our business will always be a people business, but data and technology become more important every day and First American is committed to winning with these capabilities. In the short term, our order counts are somewhat of a mixed bag. For the first three weeks in April, our open purchase orders are down 4%. Our refinance orders rose 52% relative to last year, but it's off a low base, and the market continues to be challenged with mortgage rates hovering between 5.5%-- sorry, between 6.5% and 7%.

Commercial orders are up 5% so far this month in line with the 5% growth we experienced during the first quarter. Finally, I'm pleased to report that we've been named 1 of the 100 best companies to work for by -- great Place to Work and Fortune Magazine for the tenth consecutive year. This is an incredible accomplishment and a testament to our hardworking teams around the world who tirelessly service our customers and make First American a great place to be.

Now I would like to turn the call back over to Matt for a more detailed review of our financial results.

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Thank you, Mark. This quarter, we generated GAAP earnings of $0.71 per diluted share. Our adjusted earnings, which exclude the impact of net investment losses and purchase-related intangible amortization was $0.84 per diluted share. Revenue in our Title segment was $1.5 billion, up 12% compared with the same quarter of 2024. Commercial revenue was $184 million, a 29% improvement over last year. Our closed orders were down 2% from the prior year, while our average revenue per order surged 31% due to broad-based strength across both asset class and transaction size.

Purchase revenue was up 1% during the quarter, driven by an 8% improvement in the average revenue per order, partly offset by a 6% decline in closed orders. Refinance revenue climbed 40% compared with the last year, primarily due to a 28% improvement in closed orders. Refinance accounted for just 5% of our direct revenue this quarter and highlights how challenged this market continues to be with mortgage rates hovering between 6.5% and 7%. In the Agency business, revenue was $655 million, up 16% from last year. Given the reporting lag in agent revenues of approximately one quarter, these results primarily reflect remittances related to fourth quarter economic activity.

Information and other revenues were $236 million during the quarter, up 9% compared with last year primarily due to our Canadian operations seeing higher refinance activity. Investment income was $138 million in the first quarter, up $21 million compared with the same quarter of last year primarily due to higher interest income from the company's investment portfolio and an increase in average interest-bearing deposit balances, which more than offset the reduction in investment income related to the Fed cutting rates by 100 basis points in the second half of 2024.

The provision for policy losses and other claims was $33 million in the first quarter or 3.0% of title premiums and escrow fees, unchanged from the prior year. The first quarter rate reflects an ultimate loss rate of 3.75% for the current policy year and a net decrease of $8 million in the loss reserve estimate for prior policy years. Pretax margin in the title segment was 7.2%, or 7.9% on an adjusted basis.

Turning to the Home Warranty segment. Total revenue was $108 million this quarter, up 2% compared with last year. The loss ratio was 37%, improving from 42% in the first quarter of 2024 driven primarily by lower claim severity. Pretax margin in the Home Warranty segment was 22.9% and or 23.5% on an adjusted basis.

The effective tax rate in the quarter was 22.6%, which is slightly below the company's normalized tax rate of 24%. Our debt-to-capital ratio was 31.2% excluding secured financings payable, our debt-to-capital ratio was 23.5%. In the first quarter, we repurchased 448,000 shares for a total of $28 million at an average price of $62.99. So far in April, we repurchased 323,000 shares for $19 million at an average price of $59.95.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Terry Ma, Barclays.

Terry Ma - *Barclays Capital Inc. - Analyst*

Maybe just to start off with commercial. You saw some strong revenue growth in the quarter. It actually came in ahead of your January update. So can you maybe just talk more about what you're seeing in commercial, how the pipeline is shaping up, particularly just given all the macro uncertainty in recent weeks?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes, Terry, thanks for the question. We're -- I'd say we're cautiously optimistic about commercial. This is the third quarter in a row where we've seen some meaningful improvement on a year-over-year basis. And we've got broad-based strength in commercial. We track 11 asset classes in commercial, and 9 of them were up year-over-year. And coast-to-coast, we've got roughly 45 commercial offices, and they're all sitting with deals these days. We've got strength across asset classes. We've got strength across geography. And one thing we're seeing is that the bid-ask spread between buyers and sellers is narrowing. So we've talked about the price discovery here in the last couple of quarters, and we're getting to the end of price discovery.

And even office, which has been a challenging commercial market for the last couple of years, I mean we had more office mega deals this quarter than any asset class. And so we are seeing a lot of strength. And we've seen volatility in the macro here these last couple of weeks, but our business hasn't slowed down as of yet. And so we feel really good about the pipeline heading into the second quarter. We feel like the momentum is going to continue. And based on what we're seeing now, we feel like the year is going to be good, but we'll see how it turns out. But overall, I think we're pleased with how commercial is performing right now.

Terry Ma - *Barclays Capital Inc. - Analyst*

Got it. That's very helpful color. And then on NII for the quarter, it was just a little bit under your guide. So any puts and takes there? And how should we kind of think about that as we kind of progress through the year?

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Terry, this is Matt. I'll take that question. So net interest -- or interest income or investment income for the quarter, if you're saying it was down a little bit, I assume you're talking about sequentially from Q4 to Q1. And that was really impacted by two things. One is lower average interest-earning balances in the quarter. And Q1, I'll just remind you, is kind of our seasonally low asset investment deposit earning balances just because of the seasonal flow of business.

And the other impact was due to our mortgage warehouse funding business. Interest income was down in that business sequentially as well. Year-over-year, we had pretty good growth -- that was driven by the portfolio rebalancing that we completed last year, so increased interest income for our investment portfolio. And then we had growth in our average balances year-over-year. So when we turn towards the full year, we expect that we're going to have modest improvement over 24 for full year -- we also expect that Q1 will be the low point for the year. So we expect it to grow from here.

And just as a reminder, that's including what we see today in the forward curve of approximately 3.5 rate cuts is considered in that. And I'll also remind you that we expect for each rate cut approximately $15 million of annual impact negatively to our investment income.

Operator

John Campbell, Stephens Inc.

John Campbell - *Stephens Inc. - Analyst*

Matt, congrats on the new role. Looking forward to working with you. And Mark, congrats on the move into the CEO seat that's exciting. Mark, maybe starting with you. I mean, you've been in this business for a while. I'm curious about kind of how you're viewing the path forward, whether you're looking to stick with the strategy in place or if there are areas of the business you're looking to tweak or address our stock?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. Thanks for the question, John. I think at least in the short term, in the medium term, there's not going to be any dramatic immediate changes with our strategy. I mean I feel really good about the path we're on. And we work on it as a team. I mean, can I and the rest of the executive team, I mean, we're a team here. We work on it together and I've fully bought into the strategy that we're on and not just in the last couple of years, but for the last 10 years feel really good about the businesses we're in. I feel like the path of the core title business is a good path. It's a good industry to be in.

And again, like I said, like we're at the first pitch of the first inning here of the next relistening cycle, I think that's a good place to be. I think when you look at our adjacent businesses, we're very optimistic about those two. I think they've got as much as we like the title business.

I think some of these adjacent businesses we have higher growth prospects and have higher margin potential. And I think we've got a right to win those businesses. So I like where we're playing, and I like how we're going to win in those businesses in terms of we've got to have the best people in the industry, and I think we do.

And we've got to win with data and technology. And I think with data, I think we're winning. I think with technology, we're doing an okay job. I think there's a lot of improvement we can make. But -- we've got a lot of momentum now in technology. I think the last couple of years, we've really built a good foundation, and now we just need to kind of prove it in our results. And I think that's going to happen in a couple of years.

So I think strategically, I really like the path that we're on, and we just got to execute -- and I'm sure there might be some things around the margins that will change over time. But you're not going to wake up and see some press release saying we get into some big business that has nothing to do with our core title and escrow business. And so as a general statement, I like the path, and there might be some changes around the margins, but we're on a good path right now.

John Campbell - *Stephens Inc. - Analyst*

Okay. Makes a lot of sense. And then on the success ratio for this year. I know there's always a lot of moving parts, but assuming you're going to get enough growth for that to matter? And then on the investment side, it does seem like you've tapered back a good bit. But just as far as what you have earmarked for this year as far as investment activity, taking that into account, would you expect to abide by your typical success ratio this year?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. We've talked about the 60% success ratio, and we were 51% in the first quarter, I think. And I think that's -- I would say somewhere between 50 to 60 for the full year and quarter are going to be volatile. But for the full year, I think we abide by that. And we are becoming more productive too. I mean, we haven't quite filed the Q yet, but our CapEx is down another 19% year-over-year. And so we're continuing to make progress on those fronts. But from a success ratio perspective, I think 50% to 60% is reasonable for this year.

John Campbell - *Stephens Inc. - Analyst*

Okay. Great. And if I could squeeze in one more. Just on the April title order data on purchase, down 4%. It looks like from a sequential standpoint, that's a pretty a decent step down relative to what you usually see from March to April, I know 30-year rates have been a bit volatile. I mean, I think in early maybe mid part of April, we hit a 2025 low and then here of late, we're back above the 7% level. So just curious about if you have this granularity just the week-to-week phasing, was there a pretty big step down later in the month or just kind of how that looked?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. So we've seen some volatility within the month of April the first week. We were up 5% second week, we're down 10%, third week, we're down 6%. That's purchased. So that includes resale and new home and with new homes, there's more volatility in that number. So as a general statement with our purchase orders down 4% in April, we have seen we saw a big decline in the second week. It's not as bad as the third week, but we have seen that. I would say relative to the beginning of the year, and even relative to the last earnings call we had in February, I think our outlook for the year is more positive now.

I think commercial is doing better than what we thought. I think the purchase side is less than what we thought heading into the year, we thought purchase revenue is going to be up kind of high single digits, and now we're looking at maybe low single digits. But on a net basis, I think we're more optimistic about the business today than we were a couple of months ago.

John Campbell - *Stephens Inc. - Analyst*

Yes, makes a lot of sense. It's like commercial is certainly got some strength. I appreciate the time, guys.

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Thanks a lot, John.

Operator

Bose George, KBW.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Congratulations to Mark and Matt, actually, a couple of questions just on expenses. Actually, first, on the margin impact from Endpoint and Sequoia, what was that this quarter?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

So this quarter, it was 130 basis points. And maybe just a couple of things on that, Bose, is it hasn't come down in the last couple of quarters, Q1 the season a little business for earnings, right? So earnings are more depressed in the first quarter. I mean, that number is going to be higher. So we would expect it to narrow over the next couple of quarters. But the other thing, too, is we've really started breaking out the Endpoint and Sequoia earnings separately because we really wanted investors to think about our core business differently, right? We wanted to separate it out, so investors could really monitor how our core business is doing without the drag, let's say, of some of our innovation initiatives.

But really for both Endpoint and Sequoia, for both of those, we're in the early stages of integrating them into our core business right now. And so I think at some point here, soon, if not today, it's not going to make as much sense to disclose that separately because now we're at the point where we think investors should judge us kind of on a consolidated basis because we need to get the value out of these investments. And so -- even though we still track it today, it's starting to get more integrated into our business, and it's just not going to be as meaningful to track, and we think that's fine for investors to judge us with those being included, if that makes sense for us.

Bose George - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Great. Yes, that definitely makes sense. And then Mark, just going back to the comments you made right at the beginning just about the cost of the new and legacy systems. Is that sort of referring to these investments as well? Or could you just kind of elaborate on that and kind of how that plays out?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Yes. It's primarily related to these investments. And really, we've got these new platforms, whether it's title in the case of Sequoia, whether it's closing and escrow in the case of Endpoint. And we've got systems that we've been running on for 20 years that support 99% of our orders. I mean our business runs on these systems. And we've been developing these new modern systems on the side, and they're working. We're very pleased with the milestones and I can go into details on this and hope to at some point.

But we're very pleased that this is going to really propel us into the next generation and make us more competitive and we know they work. But they haven't proven they can work at scale. And that's what we need to do now. We need to scale our and it's going to -- it's not going to happen in the quarter, but we are in the process of doing that. And once we're fully rolled out, well, then we can start sort of dismantling the old systems and we'll be running on a new technology that's going to make us more productive. And so we're really kind of have these redundant costs here. But over time, we'll get savings from that. And I don't think we're going to be spending any more than we are now. I think that as I mentioned before, like our CapEx is down 19%, and we're doing a good job of just becoming a lot more efficient with our tech spend.

So I don't I think we're spending as much as we need to right now. I think our spend will go down, and we'll see productivity improvements gradually over the next systems more market breaking up a little bit there --

Operator

(Operator Instructions) Mark Hughes, Truist Securities.

Mark Hughes - *Truist Securities Inc. - Analyst*

Congrats in that. Mark, what do you think of -- if we do go into a recession, how do you see the takeout you be enthusiastic to speak, at least in terms of the impact potential lower interest rates on the housing market, how would commercial react in that -- just a few thoughts on what you might anticipate?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Thanks a lot for the question, Mark. And you were kind of breaking up a little bit here on this side, so maybe we have a faulty line here, but let me try to answer your question just about how our business would impact -- be impacted in a recession. I think there's good news and bad news with the recession. I think as a general statement, a recession isn't good for the purchase market. But again, the purchase market is pretty low. I mean last year, we the industry had as many existing home sales as we did in 1995. I mean it's really -- the purchase market is like 1 out of 10 right now.

And so yes, would it be impacted with the recession sure, but it's pretty low right now. I think with the recession, it depends on what happens with rates, obviously. And most recessions, what happens is rates lower and we get a refi wave. And so that typically serves as somewhat of an offset for us. And so I think the refi business would pop a little bit. And then on the commercial side, commercial would typically follow purchase, right? They're not exactly 100% correlated. But if we're in a recession, I mean that would cause some decline in -- or at least some softness in the commercial market.

So I wouldn't say we're hoping for a recession. I don't think that would be a good thing for the economy. It wouldn't be a good thing for First American. But we do have some offsets in that scenario.

Mark Hughes - *Truist Securities Inc. - Analyst*

Any change in the philosophy that you might have around share buybacks? I think the company historically has been fairly deliberate in the buybacks. You've been active here lately, but how do you view buybacks as the use of capital?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

(technical difficulty) but we have to think our stock is undervalued, which we do now. And (technical difficulty) we should be buying back our stock every single trading day of the year forever. I think there's windows where it's open, where it's a good thing for our shareholders. I think there's times when it's not a good thing for our long-term shareholders. And so the window is open and close, and we -- but I think the window is open now because I do think our stock is undervalued, and I feel great about the future of the company and the trajectory of our earnings. And so because of those reasons we repurchase shares but that's kind of how we think about it going forward.

Mark Hughes - *Truist Securities Inc. - Analyst*

Very good. And then finally, the bank contribution to earnings than the contribution to -- or I guess just as a cyclical offset, perhaps, could you maybe just expand on any initiatives or what we might expect out of the bank in the next year or 2? And maybe you can even throw in if the economy does show some volatility, how might that influence the bank contribution?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

The bank is a real strategic asset for us. It makes our escrow operations extremely efficient because title companies work with banks every single day. And since we have a bank -- company, we can integrate our systems and it's very it's easier to operate and open up and close bank accounts with us than any other company out there. So there's operational benefits.

But obviously, a big benefit is financial. And we have really, over the last decade or so, we've really tried to maximize the number of deposits that we get internally. So historically, it's been an internal utility where we hold escrow deposits in connection with real estate transactions. We push a lot of those to our bank. We pushed a lot to third-party banks.

The thing that's exciting about our bank to us is there's a lot of growth potential. So historically, we've really had one big customer that's First American Title but every single month, we're signing up new customers. And we have what is called an agent banking strategy where -- we're trying to -- and having success with banking title agents that are out there, having title agents put their Escrow deposits at First American Trust. And every single month, we're signing up new agents and getting more deposits.

There's also synergies with Service Macro subservicer who carries certain types of deposits that we have at our bank. And so we're opening it up to third parties more, and we're having a lot of success with that. We stumbled early because we needed to invest in new technologies. We need to create a customer service team. But we finally figured out the system and the flywheel is really going right now with agent banking. So we're -- we're really excited about the future.

I would say, as a general statement, too, the higher the -- when I said offsets earnings offset in my script, when we have a higher Fed funds rate and higher rates, it's generally not good for the residential business, the resident, as I said before, the residential business is like a 1 out of 10. But the bank is going to have record earnings this year. I mean we won't have higher earnings than we will in 2025 for the bank. So higher interest rates are a good thing for the bank. Now if we get in a lower interest rate environment, obviously, that's going to help our title business, and it's not going to be as good for the bank.

But we have had -- we have taken more duration in the bank because we just feel like it's -- we kind of want to lock in these good spreads that we have. So the bank is a real strategic asset, and we feel like we can grow it over time. And it's unique because none of our competitors have one, and it's a good thing to have.

Operator

Mark DeVries, Deutsche Bank.

Mark DeVries - *Deutsche Bank Securities Inc. - Analyst*

Mark, could you give us an update on where you stand with the rollout of Endpoint and Sequoia?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

Sure. So with Sequoia, we've had -- we've had a pilot in two markets in Phoenix and Riverside. When we started the pilot, the goal was to have 50% of purchase transactions automated, 50% and we've got clear line of sight into 60%. So our hit rates are higher than what we initially thought, and we're going to be able to do it for a lower cost than we thought.

So the -- we've exceeded our base case with respect to Sequoia. The next step with Sequoia is we're in the early stages of rolling it out through the entire state of California. So that's sort of early stages right now. And we're coming up right now with the national rollout plan. I don't have it yet, but the team is working on it. For Sequoia -- or I'm sorry, for Endpoint, we've made so much progress with the system itself. We are running it in live, in Seattle. It's working really, really well.

I think it's exceeded our expectations. Now we're kind of in the early stages, and it's going to be a lot harder to roll out the technologies within Endpoint than it is on Sequoia for a lot of different reasons. But we're in the early stages of coming up with kind of a national rollout plan to try to figure out how we can get this technology and other technologies that we have in the hands of our reverses.

So really with the goal of eliminating more of the administrative tasks and giving our escrow officers more time with their customers more time closing transactions where they can get paid more -- and when -- and they can just deal with these edge cases where things go wrong in us for a transaction as opposed to spending so much time on administrative tasks. So that's the vision. And I would say we're going to have a national rollout plan by the end of the year with Endpoint.

We're coming up with it right now to figure out which offices we want to do and what type of people we want to roll it out to, but we're going to have a rollout plan by the end of this year ago. And we want to have users on it. We want to test users in our core business by the end of the year, too.

Mark DeVries - *Deutsche Bank Securities Inc. - Analyst*

Great. That's helpful. And then any updates on what the status is of the proposed rate cut in Texas and some of the efforts to push back on the initial proposal?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

It's going to go into effect July 1. I know there's a lot of groups fighting it. We're operating under an assumption that's going to happen. And so we're planning for it there's things we can do on the margins to mitigate the risk, but we're not going to be able to mitigate the entire blunt of it.

But one of the things that's helpful for us is we're a big national business with scale. I think it really hurts a lot of the title agents in Texas that don't have the scale where 100% of the business comes from Texas. It's a lot worse for the smaller title companies. And I don't think it's good for the industry as a whole. But we're planning on it happening as of July 1.

Mark DeVries - *Deutsche Bank Securities Inc. - Analyst*

Okay. Got it. And then finally, you made the point a couple of times that the macro uncertainty could cause a slowdown in commercial. Are you just saying that out of either abundance of cash and our past experience? Or are you actually seeing anything tangible whether it's in conversations with customers that point you to that?

Mark Seaton - *First American Financial Corp - Chief Executive Officer*

When we look back the last couple of recessions, we've had the purchase in the commercial market, both declined together. So there is evidence of that. Now what I'd say is we haven't seen it yet. We haven't seen it yet. Now we've seen one deal that I'm aware of in the US that has been postponed. It wasn't really recessionary. I think it was just because of tariff uncertainty.

We've seen a couple of international deals postponed commercial deals. But when I say postponed, these are refinanced deals that are going to happen eventually, and we just thought they were going to close in the first quarter, and now they're pushed off. So -- we haven't seen a decline at all in the -- we always see a strength right now in commercial. But if we see a recession, if we go into a recession, I got to imagine in our commercial business is going to get softer because that's how it's always been the last few recessions.

Operator

Geoffrey Dunn, Dowling & Partners.

Geoffrey Dunn - *Dowling & Partners Securities, LLC - Analyst*

I appreciate your thoughts on the philosophy of buyback. But I was wondering if you could walk us through how you're thinking about the resources for buyback. If the window remains open, can you walk through some math with respect to expected cash flows opco dividend capacity, common dividend and debt service obligations. What's the actual pool that could be an opportunity for buyback as we think about the year?

Matthew Wajner - *First American Financial Corp - Chief Financial Officer*

Jeff, this is Matt. I'll start on that one. So at the end of Q1, when we look at what's the capital that we have available for those type of activities. At the holding company, we had about $100 million of cash. And we feel good about that level of cash is kind of what we need -- and then when we turn to FATICO, the way we look at FATICO and measure what we believe is excess capital in FATICO is we try to approximate what we believe we need for rating agencies requirements and then also to run our business.

So we think we have about $160 million roughly in excess capital at Patio as well. So those right there, that's resources that we could use. We're also generating meaningful earnings every month, right? So that's a potential. As you know, we have our corporate revolver with $900 million. So if we were to need additional liquidity or capital, we could access our revolver. And then when we think about dividend capacity, -- right now, FATICO's dividend capacity is $535 million. So there's no regulatory constraints for what we would need to be able to pull out of patio if you wanted to access some of that excess capital.

And when we look at our debt to cap, we're at a comfortable 23.5% right now. It's a little bit over what our target would be through the cycle, which is 20%, but we're very comfortable at 23.5% given where we are in the cycle. And where we would think we want to be is generally not over 25% for a sustained period of time. But for rating agency purposes as long as we're not over 30% for a sustained period of time, the rating agencies would be fine. Our covenants are at 35%. So we do have quite a bit of kind of capacity to access debt if we needed to on our facility. So those are kind of -- that's kind of the pull that we think of capital available.

Operator

There are no additional questions at this time, and that will conclude this morning's call. I would like to remind listeners that today's call will be available for replay on the company's website or by calling (877) 660-6853 or (201) 612-7415 and enter the conference ID 13753085. The company would like to thank you for your participation. This concludes today's conference call. You may now disconnect.