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FAF.N - Q3 2025 First American Financial Corp Earnings Call

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**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Mark Hughes** *Truist Securities Inc - Analyst*

**Terry Ma** *Barclays Services Corp - Analyst*

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

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

**Mark DeVries** *Deutsche Bank AG - Analyst*

## PRESENTATION

**Operator**

Greetings and welcome to the First American Financial Corporation's third-quarter earnings conference call. (Operator Instructions) A copy of today's press release is available on First American's website at www.firstam.com/investor.

Please note that the call is being recorded and will be available for replay from the company's investor website and for a short time by dialing 877-660-6853 or 201-612-7415 and enter the conference ID 13756641.

We will now turn the call over to Craig Barberio, Vice President of Investor Relations, to make an introductory statement. Craig, please go ahead.

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

Thank you. Good morning, everyone, and welcome to First American's earnings conference call for the third quarter of 2025. Joining us today on the call will be our 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.

Risk 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 on our Form 10-K and subsequent SEC filings.

Our presentation today also 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 width 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.

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

Thank you, Craig, and thank you to everyone joining our call. Today, I will provide a brief review of our earnings and share our outlook on the market. Today, we announced adjusted earnings per share of $1.70 for the third quarter, another strong result that highlights the resilience of our business.

We continue to see two distinct market dynamics. Our commercial business delivered outstanding performance, while the residential market remains in a period of transition. Even so, our adjusted consolidated revenue grew 14%, and adjusted EPS increased 27%.

Commercial revenue increased 29%, and we set a record for average revenue per order at just over $16,000 per closing. The rebound in the commercial market began in the third quarter of 2024, which means the year-over-year comparisons are becoming more challenging. Nonetheless, even against tougher comps, we delivered another strong quarter with a 29% growth rate.

We continue to see broad-based strength in commercial, led by the industrial sector, which includes data center transactions, a consistently high-performing sub-asset class. Even excluding data centers, the industrial market remains robust, driven by sustained e-commerce demand for logistics and warehouse space.

Multifamily was our second strongest asset class, with solid performance across a wide range of geographies. Investment income grew 12% this quarter. Our investment portfolio, and particularly our bank, continues to serve as a counter-cyclical earnings driver. The residential side of our business continues to navigate challenging market conditions. Purchase revenue declined 2%, primarily due to reduced demand for new homes.

The purchase market has remained soft over the last three years, largely driven by affordability challenges and elevated mortgage rates. However, when purchase volumes begin to normalize and return to long-term trends, we are well-positioned to capture growth, thanks to our operating leverage and strong relationships with local real estate professionals who play a critical role in driving purchase activity.

Refinance revenue was up 28% this quarter. Although we've seen an uptick in volumes, the refinance market remains at historically low levels. Our home warranty business continues to post very strong earnings. Our pre-tax income was up 80%, driven by a lower loss rate, and we continue to grow our direct-to-consumer channel, which is offsetting the ongoing weakness in real estate.

I'm optimistic about our long-term outlook. We're at the early stages of the next real estate cycle, and our industry-leading investments in data, technology, and AI position us to outperform as the market strengthens. By modernizing our platforms and integrating AI across our operations, we expect to drive significant productivity gains, reduce risk, and unlock new revenue opportunities, further extending First Americans' leadership in the industry.

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

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

Thank you, Mark. This quarter, we generated GAAP earnings of $1.84 per diluted share. Our adjusted earnings, which exclude the impact of net investment gains and purchase-related intangible amortization, was $1.70 per diluted share. Adjusted revenue in our title segment was $1.8 billion, up 14% compared with the same quarter of 2024.

Commercial revenue was $246 million, a 29% increase over last year. Our closed orders increased 6% from the prior year, and our average revenue per order was up 22%. Purchase revenue was down 2% during the quarter, driven by a 5% decline in closed orders, partially offset by a 3% improvement in the average revenue per order. While refinance revenue was up 28% compared with last year, it accounted for just 6% of our direct revenue this quarter and highlights how challenged this market continues to be.

In the agency business, revenue was $799 million, up 17% from last year. Given the reporting lag in agent revenues of approximately one quarter, these results primarily reflect remittances related to second-quarter economic activity. Information and other revenues were $276 million during the quarter, up 14% compared with last year, primarily due to refinance activity in the company's Canadian operations, revenue growth in the company's subservicing business, and higher demand for non-insured information products and services.

Investment income was $153 million in the third quarter, up 12% compared with the same quarter of last year, primarily due to higher interest income from the company's investment portfolio, partly offset by a decline in interest income from operating cash due to lower balances and lower short-term interest rates.

Net investment gains were $6 million in the current quarter, compared with net investment losses of $308 million in the third quarter of 2024, which were primarily due to losses realized from the company's investment portfolio rebalancing project. Personnel costs were $543 million in the third quarter, up 10% compared with the same quarter of 2024. The increase was primarily due to incentive compensation expense resulting from higher revenue and profitability and higher salary expense and employee benefit costs.

Other operating expenses were $276 million in the quarter. up 9% compared with last year, primarily due to higher production expense driven by higher volumes and increased software expense. Our success ratio for the quarter was 62%, which is in line with our historic target of 60%. The provision for policy losses and other claims was $42 million in the third quarter, or 3.0% of title premiums and escrow fees, unchanged from the prior year. The third-quarter rate reflects an ultimate loss rate of 3.75% for the current policy year and a net decrease of $11 million in the loss reserve estimate for prior policy years.

Pre-tax margin in the title segment was 12.9% on both a GAAP and adjusted basis. Looking at October, we are seeing a similar pattern in opened orders to what we have experienced so far this year, with a strong commercial market and sluggish residential market continuing. For the first three weeks of October, commercial orders are up 14%, while purchase orders are down 6%. The strength in commercial order activity is positioning us well for the remainder of the year and into 2026.

Turning to the home warranty segment, total revenue was $115 million this quarter, up 3% compared with last year. The loss ratio was 47%, down from 54% in the third quarter of 2024. The improvement in the loss ratio was primarily due to lower claim frequency, largely driven by favorable weather conditions.

Pre-tax margin in the home warranty segment was 14.1% or 13.5% on an adjusted basis. The effective tax rate in the quarter was 23.1%, which is slightly below the company's normalized tax rate of 24%. Our debt-to-capital ratio was 33.0%, Excluding secured financings payable, our debt-to-capital ratio was 22.5%. This quarter, we raised our common stock dividend by 2% to an annual rate of $2.20 per share. We also repurchased 598,000 shares in the third quarter for a total of $34 million at an average price of $56.24.

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

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## QUESTIONS AND ANSWERS

**Operator**

Thank you, sir. (Operator Instructions) Mark Hughes, Truist Securities.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

Yes, thank you very much. On the commercial ARPO revenue per order, obviously, 3Q is very strong. Could you talk about that, the sustainability, perhaps what you're seeing so far in 4Q?

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

Thanks for the question, Mark. Yes, I would say it's sustainable. I mean, typically in commercial, there is some seasonality to ARPO, right? It usually builds throughout the year. And we think it'll continue to build in Q4. We're just seeing a lot of momentum in commercial. There's a lot of big transactions. We track 11 asset classes. 10 of our asset classes were up in the third quarter year over year.

The only one that wasn't up was energy, which has historically been a really good asset class for us, but Q4 is typically a big energy quarter. We've got some big deals in the pipeline. So just in terms of Q3, it exceeded our expectations, and we're really optimistic about what we see in Q4. So it's been a really good story for us.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

Yes. How about the outlook currently for investment income? I know you've talked about some -- historically, some sensitivities, but kind of what should we anticipate in Q4?

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

Hi, this is Matt. Thanks for the question, Mark. So for Q4, we continue to see -- we think it'll be down slightly sequentially just due to kind of some of the headwinds from the rate cuts. But it should be modestly down sequentially is the expectation right now.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

Okay. And then when we think about the refi orders, what's the kind of recent trend in refi per day?

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

So for the first three weeks of October, we're opening about 875 open orders per day in refi.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

Thank you very much.

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

Thanks, Mark.

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**Operator**

Terry Ma, Barclays.

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**Terry Ma** - *Barclays Services Corp - Analyst*

Hey, thank you. Good morning. I was hoping you could give an update on maybe just Sequoia and Endpoint in terms of the timeline for the pilots. I think last quarter you said Endpoint pilot was going to roll out December. Is that still on track? And then for Sequoia and the markets that you're piloting currently, any kind of early results?

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

Yes, thanks, Terry. First of all, in terms of Endpoint, yes, we're still on track with everything we talked about in the third quarter. The product is ready for testing. In fact, we got people here on campus last week and this week testing the product. Testing is going well, and we are still on track to roll it out in our first office in December. Right now, we're planning a broader rollout in the springtime to start rolling it out throughout the country.

It's going to take us roughly two years or so to get it national, but it's something we're really excited about. Our current system, which we call FAST, we rolled it out in 2002. And so we've been on the system for 23 years. It's been a good system for us for a long time. But obviously, technology has changed and AI is here, and we're really excited about Endpoint. It's going to give us productivity improvements we haven't seen before.

It's going to be a great user interface for our escrow officers, and it's really going to amplify their talent. It's going to reduce the mundane tasks that are part of the escrow transaction and free up more time for our escrow officers to spend more time with the clients. We're really excited about it, and we're really on track with everything since last quarter, since we talked about last quarter. So that's good. We keep hitting our milestones.

In terms of Sequoia, we're also very optimistic about Sequoia. And we really started Sequoia with the vision of having instant title for purchase transactions. It's never been done in the industry. There's instant title for refinance transactions. We've got a solution for that. Our competitors have solutions for that. Nobody has it for purchase transactions.

And we're continuing to make milestones with Sequoia too. We have rolled out our AI engine for Sequoia and we're running live refinance orders through Sequoia today. And that's a big milestone. The product is out there. It's in production. It's in three counties. We've sort of exceeded our expectations in terms of the hit rates that we can get. And as of right now, the plan is to have our first purchase transaction go live in the first quarter. That's been our plan, and it continues to be our plan, and we see really good progress with Sequoia as well.

So we're going to start testing the purchase product in the first quarter. And that's similar. It's going to take us roughly two years or so to do a national rollout. But when we do, we'll be able to produce a commitment faster, arguably with more accuracy and cheaper than anything that's out there in the market. So we're really excited about really both Endpoint and Sequoia.

**Terry Ma** - *Barclays Services Corp - Analyst*

Got it. Thank you. That's helpful.

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

Thank you, Terry.

**Operator**

Bose George, KBW.

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

Hey, guys. Good morning. Just sticking to Sequoia and Endpoint, can you remind us just what the margin impact of those programs are, off just running the two platforms and just the way to think about the timeline for that kind of rolling off?

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

Yes, thanks a lot, Bose. One thing I would say is we initially broke out our -- we call it our margin drag from Endpoint and Sequoia early on because we really wanted investors to be able to evaluate the performance of our core title business without these investments that we were making with Endpoint and Sequoia.

And at the time, we didn't know if they were going to work or not. There were big technological hurdles. We weren't sure if it was going to work. Well, now we know it's going to work. I think there's always questions on the timing of things. But we know that they're both going to work. And so we are integrating them into our core operations now. It's just part of our title segment.

So we're not going to disclose the drag with Endpoint/Sequoia anymore. A, because we don't feel like it's fair to back that out. We want investors to judge us on our core operating performance, including those. And B, it's because they're being integrated in their core operations before they were really standalone entities. But now it's harder and harder for us to track it just because they're being more integrated into what we're doing. So we're not going to give that anymore.

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

Yes, that makes sense, but I guess I'm just trying to think about -- but there will be a benefit once they roll that and your old platforms are shut down, right? So I guess it's hard to quantify at the moment, but there is going to be that sort of benefit at the end of this process.

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

There's no question about that, Bose. And the last time that we have talked about the drag, it's been roughly 100 basis points. And so you don't spend 100 basis points just to get nothing. I mean, you spend 100 basis points to get more than 100 basis points, right? And so there's a few different ways to get value. The first is we're really supporting two different systems.

I think for both endpoints, Sequoia, we've got our old system where our business is running on the old systems; and then we have the new systems, which are showing a lot of promise, but they have very little volumes, right? So we're really double paying with technology right now. And eventually we'll get everything on the new systems and there'll be some savings by shutting down the old systems. That's the first thing.

The second thing is, the thing we're excited about is it's not just a copy and paste in terms of productivity. The new system is going to create a lot more productivity, and we'll see that. And the third is I really believe that we can gain market share for both of those products.

That remains to be seen. It's tough to gain market share in our business, but I think there's a lot of reasons to believe that more customers are going to want to do business with First American because of this modern platform that we have. And so I think there's three different levels of value creation, and they'll happen gradually over time. You'll see incremental improvements.

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

Okay, that's helpful. Thanks. And then actually just on the order count, the default and the other -- that line item has gone up quite a bit again. Is that, I mean, are those like new sort of clients allocating products or just curious what's going on there?

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

Just so you know, you're looking at the default and other, both?

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

Yes, just that -- yes, the order count, just the increase in the order count in that other line item.

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

I would say -- I would just say, first of all, it's -- of all of our order counts we look at purchase, commercial, refi -- and of course, what you're referring to is the other. We have seen an increase in default activity. It's there, but it's -- I wouldn't say it's material, and it's really not a material part of our business right now, but we have seen it.

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

Okay, great. Thank you.

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

There's like -- it's not necessarily like foreclosures. There could be some foreclosures. A lot of it is like loss mitigation work that we do and some alternative products.

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

Okay. Okay, great. Thanks a lot.

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

Thanks, Bose.

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**Operator**

(Operator Instructions) Geoffrey Dunn, Dowling and Partners.

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

Thanks. Good morning. Mark, back on Sequoia, it doesn't seem like there's a demand for instantaneous title, so it really sounds like it's more about efficiency gains. But then, obviously, you have political pressure picking up every so often, pointing to the cost of title. So as you think about the longer-term profile of the business, is this just naturally where the business is evolving to, and maybe you struggle to keep those gains, or do you think that there's something more sustainable in those efficiency gains over time?

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

Well, I think it's -- well, there's a few things there, Jeff, and I want to make sure I answer your questions. If I don't, call me back, call me out on it. But first of all, I think for Sequoia -- I don't know. I would take issue that the demand isn't there for instant title. I mean, I've heard that, but I'll tell you, I've talked to customers and our sales team that think that instant title for purchase transactions is a big deal. And so maybe it is, maybe it isn't, but we're going to test it. We're going to be the ones that test it.

And even if it's not, even in the worst case that it's not helpful to have an instant purchase transaction, and you can have an instant purchase transaction when the transaction won't close in 55 days -- even if it's not, we're really turning a labor product into a data product. And it gives us a lot more flexibility and innovation to create new products out there. So I think it will be at advantages. And I think particularly on the agency side, if you can have a lower cost to produce your product, you're going to have an advantage out there.

In terms of the title waivers and where the market's going and are these sustainable, we're in the title insurance business. We're not in the title waiver business. I think we've got a responsibility to consumers to not only, a, protect consumers and lenders, but also to do it at a reasonable price point too. And so there's been a lot of talk about the title waiver pilot. I just think the title insurance is going to be here. It's necessary.

And the title waivers -- we all as an industry have an obligation to do what's best for the consumer, both in terms of protections, protecting their property rights. But also, we've got an obligation to make it affordable too. And so we'll see. We'll see what happens. We'll see what happens and how the market develops. But I think particularly with Sequoia, it just gives us a lot of strategic optionality going forward once it's nationally rolled out.

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

Okay. And then I thought it was interesting that you brought up AI directly in your press release. You mentioned again on the call. Can you give some examples of how you're using AI? And I guess, in particular, how much is AI coming into play with your kind of living title initiatives?

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

It's a huge deal for, well, okay, for both Endpoint and Sequoia, which we were getting a lot of questions on this call, and for good reasons. We're spending a lot of time talking about it internally and focusing on it. We started both of those initiatives and -- without AI. We started to reimagine the title production process through Sequoia and the settlement process through Endpoint, and it wasn't AI driven at first. We wanted to build modern platforms.

And really, about six to 12 months ago, these AI models came out, these new LLM models came out, agentic AI has come out, and it's really changed our thinking on how to do things, and so we pivoted. And both of those are AI-native platforms now. Both Endpoint and Sequoia, they leverage AI at the core to build a better product than we were on pace to build just because these technologies have become available to us in the last year. So those are AI-driven and AI-native products that we're very excited about, and they're just going to be better than the track that we were on.

So we have this top-down approach with leveraging AI, but we also have a bottoms-up approach with leveraging AI. And we've got ChatGPT Enterprise for all 19,000 of our employees. We just rolled it out in October, October 1. And I'm very excited to see what that produces, too. And I have anecdotes of us keeping customers because of AI, us reducing risk, us thinking about new ways to do our process.

And so we have a top-down and bottoms-up approach. And I think the gains are going to happen over time. We're not going to wake up one quarter and see a 300-basis-point jump in margins because of AI. But I think over time, gradually, we will start to become more and more efficient as we as a company learn how to use these technologies.

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

Okay. And then just specifically to the living title efforts, is AI a big part of that?

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

It is, yes.

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

Or is that still -- it is, okay.

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

No. It's -- so the living title, it is AI. And so I can go into more details on this. I'll just say that when I think of Sequoia now, it's an AI-driven product that is producing an automated title commitment for refis today and purchase tomorrow using AI.

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

All right, great. Thank you.

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

Thanks, Geoff.

**Operator**

Mark DeVries, Deutsche Bank.

**Mark DeVries** - *Deutsche Bank AG - Analyst*

Thanks. Looks like you only purchased about 20,000 shares after you reported two key results. Is there any color you can provide on why you pulled back and what you need to see to get more active?

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

Hi, Mark. Thanks for the question. This is Matt. So yes, I mean, we're continuing to focus on returning excess capital to shareholders. During the quarter, we raised our dividend. And like you mentioned, we repurchased some shares are in the quarter. We purchased $122 million worth of shares this year. But at this time, we've paused our buyback program to just evaluate how things develop and consider whether there may be better uses for the capital. But we continually evaluate it, and we will be buying back shares opportunistically.

**Mark DeVries** - *Deutsche Bank AG - Analyst*

Okay, thanks. It looks like you ended up de-levering a little bit in the core. Just kind of discuss the range of debt-to-capital ratios you'll look to operate in and kind of where you'd expect to get more aggressive on using excess capital.

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

Yes, so over the long term of the cycle, we target a debt-to-capital of 20%. Right now, we're a little bit over that at 22.5%. which we feel very comfortable in because we're at the lower part of the market right now, lower part of the cycle. So it's okay for us to have a little bit of a higher debt to cap.

And when you say we did levered, we didn't pay down any debt. As we generate earnings, we obviously generate additional capital. So went from, I think, 23% to 22.5%. So we're comfortable where we're at. As the market continues to increase and the cycle turns, we look to get back towards the 20% over time.

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**Mark DeVries** - *Deutsche Bank AG - Analyst*

Okay. Are you guys seeing more of potential interest on the M&A front that could be a use of some of that excess?

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

Yes, we are. We are seeing it. When the market initially fell in the first half of 2022, I think we were really hopeful that there would be acquisitions and deals to do. And we just really didn't see much. And over the last couple of years, we really kind of leaned into the buyback and we felt really good about that. But now there are more things that are coming across our desk. And so we'll see if those deals close or what happens. But they're both on the title side and the non-title side. And there's just more opportunities today than there have been the last couple of years.

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**Mark DeVries** - *Deutsche Bank AG - Analyst*

Yes, it makes sense. I mean, is it fair to say that some of the weakness on the residential side is creating more and more pressure from potential sellers at this point?

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

Yes. Yes, we're seeing that. We're definitely seeing that.

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**Mark DeVries** - *Deutsche Bank AG - Analyst*

Okay.

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

So we're disciplined. I mean, I would just say just on the M&A side, too, Mark, is we don't feel like we have to do anything. We're not just trying to grow for the sake of growing. the deal has to make sense and has to be strategic, and we have to make sure we have a good expected outcome in terms of the financials. So if we don't do any deals, we're fine with that. But we do think, what we know, there's just more and more opportunities that are rising because the sluggish market has lasted a long time. And I think more and more people are calling us now.

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**Mark DeVries** - *Deutsche Bank AG - Analyst*

Got it. Makes sense. Thank you.

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

Thanks, Mark.

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**Operator**

Mark Hughes, Truist Securities.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

Yes, thanks for taking the follow up. Mark, you've mentioned the title waiver. You're proposing a title solution. Anything new on the regulatory front, either on the demonstration project or maybe even on the rate front at the various states? Anything new?

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

I would say there's nothing new since last quarter. I mean, the title waiver pilot is still going on, and we're just on the sidelines waiting to kind of -- we're sort of monitoring results and seeing where that goes. There's been nothing new on that front. On the state front, I would say there's nothing new. I mean, the most material thing is the Texas rate issue. And again, that's not new from the last call.

But there's -- the industry now is expecting a 6.2% rate cut in Texas in March. It's not final yet. There's still another hearing that needs to happen, but I think that's what we're sort of expecting internally. That's probably the biggest news on the rate side, but again, that's not new since the last call we had.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

Yes. And then I want to think about net investment income for 2026. Any early thoughts there?

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

Yes, Mark. From an early thought perspective, when I look out into '26, right, the obvious headwinds for investment income are the expected rate cuts, and then we've already gotten a rate cut this year. As a reminder, each 25-basis-point rate cut impacts us by $15 million on an annual basis. So each rate cut will reduce investment income by approximately $15 million based on kind of current balances.

I would say the offsets that we have potentially for next year that could help that are, one, is we are expecting growth in kind of all of our markets that matter to us, specifically commercial and moderately in purchase. And if we get growth in transaction levels and transaction volumes, we'll get growth in deposit balances. So we'll have a higher balance rate or a higher level of balances, which will be helpful.

The other thing that we did recently towards the end of Q3 is we made some operational enhancements at our bank which now allows us to put 1031 exchange deposits at our bank. So historically, we've had to put those deposits at third-party banks and now our bank can handle those deposits, which will just increase the economic value of those deposits. And that'll be a tailwind going into next year. That'll hopefully offset any impacts of rate cuts.

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**Mark Hughes** - *Truist Securities Inc - Analyst*

And just to follow up on that, so the -- is the kind of takeaway message the balances, the operational enhancements, maybe offsetting the rate cuts and so therefore kind of a more stable outlook for '26?

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

I'd say it's too early to say, right? And it's dependent on the level of activity and the level of rate cuts. But right now where we sit, we would probably see investment income being down year over year.

**Mark DeVries** - *Deutsche Bank AG - Analyst*

Yes, okay. All right. Appreciate the feedback. Thank you.

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

Thanks, Mark.

**Operator**

Thank you. There are no additional questions at this time. And this will conclude this morning's call. We'd like to remind listeners today that today's call will be available for replay on the company's website or by dialing 877-660-6853 or 201-612-7415 and enter the conference ID 13756641. The company would like to thank you for your participation, and this concludes today's conference call. You may now disconnect.