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FAF.N - Q4 2025 First American Financial Corp Earnings Call

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OVERVIEW:

Company Summary

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Oscar Nieves Santana *Stephens Inc - Analyst*

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Mark DeVries *Deutsche Bank AG - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the First American Financial Corporation's fourth quarter and full year 2025 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 the conference 137581-80.

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 - Vice President - Investor Relations*

Thank you, operator. Good morning, everyone, and welcome to First American's earnings conference call for the fourth quarter and full year of 2025. Joining us today on the call will be our Chief Executive Officer, Mark Seaton; and Matt Wagner, Executive Vice President and Chief Financial Officer.

Some of the statements made today may contain forward-looking statements that do not relate strictly to historical or current fact. These forward-looking statements 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 contain certain 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, Director*

Thank you, Craig. The fourth quarter was a strong one for First American. We generated adjusted EPS of $1.99, a 47% improvement from the prior year. In the fourth quarter, we experienced trends similar to those we saw throughout 2025. And a strong commercial market contrasted with a sluggish residential market.

On the commercial side, revenue grew 35% as we saw improvement in 9 of the 11 asset classes we track. Several positive dynamics are driving this growth. We achieved price stability in 2025, which provides a solid foundation for future transaction activity. We've seen a persistent increase in sales volumes, rising commercial lending and higher levels of refinance activity. Historically, refinance activity accounted for about 30% of our commercial premiums.

In 2025, that figure increased to roughly 40%. Some lenders are choosing to write shorter maturities, which naturally leads to more refinance activity. Our commercial revenue growth was driven by both higher average revenue per order and transaction volumes. Commercial ARPU increased by 22%, while closed orders increased by 10%.

On the residential side, conditions remain challenging. Existing home sales are running approximately 4 million units well below the 5.5 million units we consider to be a normalized level as the rate lock-in effect discouraged homeowners from selling and, therefore, also not buying and affordability remain constrained.

One benefit of operating in a trough market is that it creates an opportunity to implement meaningful change. In December, we reached an important milestone with the launch of endpoint in one office and we closed the industry's first AI-powered escrow.

As of last week, we have opened 153 orders and closed 47 on the Endpoint platform. While the volumes are immaterial today, the learnings are highly consequential, Endpoint improves every day, and we plan to roll it out nationally over the next two years. We believe the capabilities we're building over time will be a durable competitive advantage.

On the refinance side, revenue grew 47%. While [refans] volumes remain at relatively low levels, the recent drop in mortgage rates has given us some optimism. Continuing on the technology theme. In the fourth quarter, we launched our enhanced AI-powered excuse me, Sequoia title production engine for refinance transactions. Sequoia AI is now live in Phoenix, Arizona and three markets in Southern California.

In these markets, we've achieved 40% automation rates in the search and examination functions for the products that are supported. By Q2, we expect to roll out Sequoia AI purchase capabilities in these markets. with plans to expand Sequoia across California and Florida by year-end, followed by a broader national rollout in 2027.

As with Endpoint, we are learning and improving every day. Over time, we expect geographic expansion, higher capture rates and improved operating leverage as market issues improve, while reducing risk, cost and cycle time.

I also want to highlight another strategic initiative we're excited about, the owner's portal. In the 25 states where we have direct operations, customers who closed with First American received free property title monitoring and fraud alert service, providing an important layer of protection for homeowners amid rising real estate fraud risk.

Today, we have approximately 53,000 users on the platform, which has grown 580% just over last quarter. At our bank, First American Trust, we recently launched our 1031 exchange product. Historically, we've managed savings and checking deposits at First American Trust. Now we are also supporting 1031 exchange deposits.

We ended the year with $94 million in 1031 deposits and has quickly grown to over $300 million today. We expect to be closer to $1 billion by year-end. The growth in deposits will help offset the impact to investment income related to lower short-term interest rates.

Looking ahead to 2026, we expect growth across each of our major revenue drivers, commercial purchase and refinance. On the commercial side, we expect a record revenue year, exceeding our prior peak in 2022. While uncertainty remains our pipeline is strong.

On the purchase side, we are less optimistic in some industry forecasts were calling for 7% to 8% growth but we do expect improvement in 2026 as the rate lock in effect discouraging homeowners from selling and buying stays and slow house price appreciation allows affordability to modestly improve in many markets.

Open purchase orders were down 7% in the fourth quarter, implying continued weakness in purchase revenue in the first quarter. January open ores were essentially flat, with growth expected to emerge later in the year.

Refinance activity is harder to predict, but refinance open orders were up 72% in January, a good sign for a seasonally weak first quarter. In closing, we remain focused on being the best title and escrow company in the industry. Based on the most recent ALTA data, we've gained 90 basis points of organic market share over the last 12 months with additional initiatives underway to expand that further.

We are reimagining our core title and escrow business by building modern AI-powered products that improve the experience for our customers, amplify the work of our employees and ultimately create long-term value for our shareholders.

Our adjacent businesses also enhance our competitive advantage and contribute to our earnings growth. Our data assets become more valuable over time. And in 2025, we delivered record earnings at our bank in home warranty at ServiceMac and its first funding.

With that, I'll turn the call 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 $2.05 per diluted share. Our adjusted earnings, which exclude the impact of net investment gains and purchase-related intangible amortization were $1.99 per diluted share.

Both our GAAP and adjusted earnings include onetime benefits of $28 million or $0.20 per diluted share. The onetime benefits are comprised of a $13 million or $0.09 per diluted share reserve release in Canada recorded in the title segment and a $15 million or $0.11 per diluted share insurance recovery recorded in the corporate segment. Adjusted revenue in our Title segment was $1.9 billion, up 14% compared with the same quarter of 2024.

Looking at the components of title revenue, commercial revenue was $339 million a 35% increase over last year. Our closed orders increased 10% from the prior year, and our average revenue per order was up 22%, setting a record at $18,600 per closing. Purchase revenue was down 4% during the quarter, driven by a 7% decline in closed orders, partially offset by a 4% improvement in the average revenue per order, reflecting the ongoing softness in the residential market.

Refinance revenue was up 47% compared with last year, driven by a 44% increase in closed orders and a 2% increase in the average revenue per order. Refinance accounted for just 7% of our direct revenue this quarter and highlights how challenged this market continues to be compared to historic levels.

In the Agency business, revenue was $790 million, up 13% from last year. Given the reporting lag in agent revenues of approximately one quarter, these results primarily reflect remittances related to third quarter economic activity. Information and other revenues were $274 million during the quarter, up 15% compared with last year.

The increase was driven by refinance activity in the company's Canadian operations revenue growth at ServiceMac, the company's subservicing business and higher demand for noninsured information products and services. Investment income was $157 million in the fourth quarter, up 1% compared with the same quarter last year despite the Fed cutting rates 5 times since the beginning of the fourth quarter of 2024.

The impact of declining interest rates was offset by higher average balances driven by commercial activity, and by our bank subsidiary shifting its asset mix to fixed income securities, which are less sensitive to changes in short-term interest rates.

Net investment gains were $28 million in the current quarter compared with net investment losses of $62 million in the fourth quarter of 2024. The net investment gains in the current quarter were primarily due to recognized gains in the venture portfolio while net investment losses last year were primarily due to asset impairments.

Personnel costs were $581 million in the fourth quarter, up 11% compared with the same quarter of 2024. The increase was mainly due to incentive compensation expense as a result of improved financial performance.

Other operating expenses were $282 million in the quarter up 7% compared with last year, primarily attributable to higher production expense driven by higher volumes and increased software expense. These higher costs were partly offset by the previously mentioned $13 million reserve release in Canada. Our success ratio for the quarter was 47%.

The provision for policy losses and other claims was $44 million in the fourth quarter or 3.0% of title premiums and escrow fees, unchanged from the prior year. The fourth 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 14.9% or 14.0% on an adjusted basis.

Turning to 2026. In January, closed orders per day were down 7% for purchase up 13% for commercial and up 48% for refinance. Open orders per day were essentially flat for purchasing commercial and up 72% for refinance.

Moving to the Home Warranty segment. Total revenue was $110 million this quarter, up 7% compared with last year. The loss ratio was 40%, down from 44% in the fourth quarter of 2024. The improvement in the loss ratio was mainly due to fewer claims, partly offset by higher claim severity.

Pre-tax margin in the Home Warranty segment was 21.1% or 21.0% on an adjusted basis. The effective tax rate in the quarter of 25.7% was higher than the company's normalized tax rate of 24%, primarily attributable to higher income from the company's noninsurance businesses which are taxed at a higher rate relative to its insurance businesses, which pay state premium tax in lieu of income tax. Our debt-to-capital ratio was 30.7%, Excluding secured financings payable, our debt-to-capital ratio was 21.9%.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bose George, KBW.

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

Hey, guys. Good morning. I just wanted to go back to your -- Mark, the comment just about commercial, hitting a record year in 2026. Can you help us think about the potential improvement over 25%. I mean if you look at the 2022 number, you've already, I guess, there's so 4% away from that in 2025, year-over-year growth is 35% in the year-end '25. So yes, just based on the pipeline, where do you think it's trending now versus over 2025.

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

It's -- thanks for the question, Bose. It's hard to say. One thing I'd say about commercial is it's always something we have a hard time forecasting. But I'll tell you, I mean, we're very optimistic about what '26 is shaping out. I talked about some of the trends we're seeing in my prepared remarks, but there's just a lot of momentum in commercial broad-based strength. We did a lot of refinance transactions. There's a lot of data center deals we're doing. There's a lot of big energy deals we're doing.

And I would just say the team is probably is more confident as I've ever in terms of how the year is going to shape out. Now is that 5%? Is it 10%? Is it higher than that? We just don't know. We don't know, but I think we have a lot of conviction that it's going to be.

I would say, definitely growth over 2025 and an all-time record relative to 2020, but we're just going to have to see how it plays out. But I'd say you the first six weeks of the year are looking really, really good for commercial. And we'll just see if it sustains. So I don't have a number to give out though.

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

Okay. That's helpful. Thanks, again. And then actually in terms of the contribution from data centers to commercial premiums, is there a way to kind of quantify what that is.

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

Yeah. There's been a lot of growth in data centers, as I'm sure you can imagine, and we're involved in all or many of those just because if customers need to underwrite big transactions, I mean, there's not -- they got to us or Fidelity really. And so we're really involved in all these data center transactions. Last year, it was roughly 10% of our premiums. And so we've seen a big growth in it.

And again, we've got a big pipeline heading into this year. So I would say data centers kind of this new asset class that we've just started to track because it's really emerged. But it's a lot more based than just data centers, though. I mean, when you look at -- again, I talked about earlier, I mean, 9 of the 11 asset classes were up last quarter, and data centers is one of them, but it's really broad-based for that. But really, right now, it's about 10% of our premiums.

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

Bose, this is Matt -- sorry,. Just to clarify, it's 10% of our commercial premiums.

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

Okay. Perfect. Okay. Great. Thank you.

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

Thanks, Bose.

Operator

Terry Ma, Barclays.

Terry Ma - *Barclays Services Corp - Analyst*

Hey, thank you. Good morning. Maybe just to touch on support endpoint, I appreciate the co-underollout and expansion time line. And any way to think about kind of the impact to the margin just from the drag that you guys had previously kind of talked about subsiding over the next 2 years? Like how should we kind of think about that?

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

Yeah. The drag on the margin is going to -- it's going to gradually alleviate itself, and we're already kind of starting to see it as we invest more in our modern platforms, which endpoint score like you point out. And we just invest less in the legacy platforms, and we're going to start to see that play out. You can see we had a really strong success ratio this quarter. And at least some of that is because we're reducing our investment in these legacy platforms. And so -- the margin drag will just dissipate over time. And I'd just say we're really excited about both platforms.

And we've reached a big milestone with Endpoint this quarter. It's live now. It's really hard to get that first order onto the system. But it's working now. It's in one market. We learn every day, and we've got significant plans for endpoint.

And ultimately, what we're trying to do is we're really trying to improve the experience for employees we're trying to reduce a lot of the tasks that you just have to close the transaction. And I think the work-life balance of our team will be better.

I think we'll be able to close more transactions and they'll be paid more. And I think it's going to be a better experience for our customers that we're going to have modern technology that we can update very, very frequently, and it's going to be a system that the industry hasn't seen before. I think it will be a real competitive advantage for us for a long time.

Same thing for Sequoia on the title side, too. I mean, Sequoia, we really marched with Sequoia to try to do instant title for purchase transactions, and we think that we're going to achieve that vision next month of having instant title for purchase transactions. And it's just going to get better and better over time. When we roll something out, it's not going to be a 10 out of 10 day one. But over time, we just continue to get better and better.

I think over the next two years, we're going to show some real progress. We've talked about the success ratio of 60% being like a target for us, but I think we can beat that over the next couple of years with these new tools we're rolling out.

Terry Ma - *Barclays Services Corp - Analyst*

Got it. That's helpful. And then -- maybe just following up on commercial. You guys mentioned kind of broad-based strengths but also kind of called out larger kind of deals on the energy side and obviously, data center is big. I look at ARPU like at 18.6% this past quarter, and we rolled forward to '26, do you think more of the revenue growth comes from kind of order count increase? Or is it kind of more ARPU? Like any color on that?

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

Yeah. I think it will be a mix. I think as a general statement, I would say when you look into 2026. We're expecting the mix to be higher transaction growth as opposed to ARPU growth. So we'll see if that plays out. But I think that when we look at the growth in commercial, more higher percentage will come from more orders as opposed to ARPU.

Terry Ma - *Barclays Services Corp - Analyst*

Got it. Thank you.

Operator

Mark Hughes, Truist Securities.

Mark Hughes - *Truist Securities Inc - Analyst*

Yeah. Thank you. Good morning, good afternoon. The 90 basis points you talked about the organic market share. Is that a mix issue, geography issue? What would you say is driving that?

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

There's two big drivers to that, and they're both roughly equally weighted. One is we're gaining market share in our Agency division. And the second is we're gaining market share in commercial. And so those are the two things I'd point to, to say that that's where the market share is coming from. And so we're really proud of that.

Mark Hughes - *Truist Securities Inc - Analyst*

Yeah. And then your refi [ARPO] is up a little, it has been down pretty meaningfully in the last few quarters. And I guess you've probably lapped some of that downdraft. Do you think that stays in positive territory? Any visibility there?

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

Mark, this is Matt. So yes, [ARPU] for refi went up a little bit this quarter year-over-year. I'll point you to in Q4, we revised some of our refi order accounts and which also impacted historic ARPU. So if you look at the revised numbers, you'll see that the trend is very similar.

Mark Hughes - *Truist Securities Inc - Analyst*

Okay. Alright. Very good. And then in the purchase ARPO has been up 3%, 3.5% the last couple of quarters. You talked about maybe pressure on housing prices benefiting affordability that could impact volume -- do you think that ARPU maybe comes under a little pressure through the year?

Unidentified Company Representative

Yes. So in our -- the way we're thinking about '26, we do think ARPU is going to moderate. We think it will still be positive in '26, but it will be less than what we saw in '25. The growth, sorry.

Mark Hughes - *Truist Securities Inc - Analyst*

Yeah. Okay. Alright. Thank you very much

Unidentified Company Representative

Thanks, Mark.

Operator

(Operator Instructions)

Oscar Nieves, Stephens.

Oscar Nieves Santana - *Stephens Inc - Analyst*

Hey, good morning. I have a question on the title segment's adjusted pre-tax margin. This quarter, it reached its highest level since, I think, in 2Q '22, and you break down the primary drivers of that expansion, whether that was volume mix, pricing, expense control or other?

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

Thanks, Oscar. There's a few drivers. I mean one of the things is we absolutely have commercial tailwinds in our backs, right? And so the margin is higher than it's been because we're getting some revenue tailwinds and we're managing our expenses well. And also the fact that the commercial market is doing very, very well right now. And commercial just has a higher margin relative to some other lines of business. So there's a little bit of a mix issue there too. And so there's a lot of factors, but I think that's the key driver.

Mark Hughes - *Truist Securities Inc - Analyst*

That's helpful. And as a follow-up to that, you've talked about Sequoia endpoint already. But since you have repriced in the past, under basis like drag from you've done the technology costs from those initiatives. Has that headwind now allows to rolled off? Or is some of that on better in the margin profile. When you look at just the reason I'm asking is we're looking at 14 margins-plus. So I wonder if there is still some upside from those investments rolling on?

Unidentified Company Representative

I think there's significant upside with those investments for a couple of reasons. Number 1 is we've achieved big milestones with both endpoint and Sequoia in the sense that they're both live in markets working. But they're really beta versions I'll call it. They don't have many orders running through me, and we're testing it. We're learning, we're improving every day. But we're still running our business on other platforms, right?

And so you've got two benefits that are going to be realized over the next couple of years. One is the fact that once we transition all of our work to the new platforms, we can decommission the old technology, and there'll be a benefit to that. And that is already starting because we're not investing as much in the old technology, but there'll be more benefit over time.

The second thing is -- once we do get national scale on those two platforms, we do think that we'll have productivity improvements. And -- and that definitely hasn't shown up in the numbers yet. So I think over time, it's not going to just happen in one quarter, all of a sudden, but we'll have incremental gains over time as we roll these platforms nationally. And again, once we roll it out nationally, they'll just continue to improve from them too. So we feel like this is going to be a long-term benefit for margin improvement.

Oscar Nieves Santana - *Stephens Inc - Analyst*

Great. And if I can ask just one last one on Capital allocation. What are the priorities heading into 2026 across dividends, buybacks, set investments and potentially M&A?

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

It's something we think a lot about. So really, our first priority is we want to make sure that we're investing in our core business. And we want to make sure that we have when we equip our employees, our team members with the best tools, the best products in the industry. And so that's the first priority, building our technology, building out our databases, investing in the future -- that's our priority number 1. But I'll say, we're -- we don't need to kind of ramp that up.

Everything we're building is sort of already in a run rate. And if you look at -- if you look at our capital expenditures the last three years, they've been falling every single year. So when you look at our CapEx this year in 2025, they were $188 million.

Last year was -- in 2024, it was $218 million. The year before that was $263 million. So we've been lowering our CapEx every year despite the fact that our operating cash flow has been increasing every single year. And so I would say the first priority is investing in our core business. But we're already -- we don't need to ramp it up. We're already doing as much as we need to do. We feel like to be competitive.

The second priority is acquisitions. And the acquisition pipeline, at least the last couple of years has been pretty dry. I think we did $2.5 million of M&A in 2025. So we talked about gaining 90 basis points of market share when we did that with only investing $2.5 million in M&A. So it's something that is -- it's -- we look at buying title companies and we look at buying businesses that are outside of title but adjacent to our core title business. And I would say that's the second priority. We don't have anything that's material in the pipeline. Things can always change, but that's the second priority.

And the third priority is returning capital back to the shareholders. At the end of the day, we're trying to generate good returns to our shareholders organically or [$3 million]. If we can't do that, we'll give it back to shareholders. We do that through dividends or buybacks. So in 2025, our payout ratio -- our dividend payout ratio was 36%.

And so that's a priority for us. We haven't -- we've typically raised it like $0.01 in the last couple of years just because we've been in a strong market. But our target is 40%, and so we're running a little bit below that, but dives the priority.

And then with buybacks, we've talked a lot about this over the last several quarters and really several years. But we're opportunistic with buybacks. When you look at 2025, we bought back the equivalent of like 20% of our net income went to buybacks. And so look at the 20% for buybacks and 36% for dividends, we returned 56% of our net income to shareholders last year. And so that's something that we're focused on doing.

And I'd say this -- the last thing I'd say just on capital management is we think that AI is going to have a big impact. And it's hard exactly to see exactly what the impact is going to be, but our cash flow has been really improving. And we want to just build a little bit of dry powder.

And I'm not saying we need to do that to strengthen our balance sheet because our balance sheet is already strong enough. But there's a lot of things moving around with AI. And everything we do, whether it's the buyback or whether it's M&A, we look through an AI lens now that we didn't have before. And so -- we're also going to just try to keep a little bit more dry powder here just to pounce on opportunities that may arise in the future. But that's kind of how we're thinking about heading into '26.

Oscar Nieves Santana - *Stephens Inc - Analyst*

[It was] helpful. Thank you.

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

Thanks, Oscar.

Operator

Geoffrey Dunn, Dowling & Partners.

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

Thanks. Good morning.

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

Good morning, Geoff.

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

Mark, is the size of some of the commercial deals tempering the appetite to upstream capital from the operating company? And how do you think about striking a balance between the necessary balance sheet strength and returning excess capital.

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

The big deals that we're doing there's no thought of making sure that we like, for example, don't pay dividends at our First American tell insurance company that we need more capital in the underwriter to support these big. There's no thought of that.

We have adequate ratings underwriting these big deals is not going to prevent us from maximizing our dividends. So there's no thought about that. And I'll just say, we've got a very robust reinsurance program. And so we feel very comfortable with the risk that we're running.

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

Okay. And then as we think about potential margin improvement as the tech investment comes down and sipendpoint run out, -- is it truly gradual? Or is it more of a cliff improvement given the rollout costs that you might occur?

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

It's going to be gradual. And remember, like we have other -- as you know, Jeff, I mean, we're really talking about our direct division, I think these will benefit our Agency division, particularly Sequoia, some other ones. It's not every single piece of the company that endpoint in Sequoia is going to benefit. But it's going to be gradual. And we're already starting to see it.

I talked about this where we're not just -- we're not investing as much in our legacy platforms. Otherwise, if we didn't have endpoints go, we'd have to do that. So Eventually, we'll decommission legacy platforms. Eventually, our productivity will continue to improve. And it really will be gradual every single quarter for a while. And it will not be a cliff benefit.

But the important thing to note is -- I'll just say like we just continue to hit our milestones. And we laid out a plan a year ago for our new AI-powered version -- and I'm just really pleased with how we're really sticking to that plan. And we talked about a national rollout by the end of '27, and we're still on track for that. Sorry, go ahead.

Go ahead, John.

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

Last question just on the loss provision. Expectation for it to remain steady at $375 million?

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

Hey, Geoff, this is Matt. So it's too early to say because it's obviously based on the way claims come in. And we re-evaluated every quarter. But as you know, for the policy rate for this year was 3.75, we had 75 basis points of reserve release for prior periods which put the calendar rate at 3.0, and that's consistent with the prior year. I would say that, as you know, the normalized loss rate is closer to 4% or 5%.

So I do think it's likely that sometime here in the call in the future, we'll stop releasing prior year or slow down the release of a prior year. But a 3.75% policy year loss rate feels kind of right and near kind of the normalized rate. And we're not seeing any claims pressures or any adverse claims activity that makes me think we'll see significant changes here soon.

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

I appreciate it. 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*

Yeah, thanks. Got another question for you on the tech investments. so far in the markets where you started to roll out support endpoint, are the productivity benefits that you're seeing kind of comparable to what you saw in kind of the pilot stage? And then also, Mark, are you able to go on kind of record on kind of the margin lift you think we could get over the next couple of years as you fully roll these out?

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

Yeah. So Mark, I'd say like with end points, let me just start there. It's in the AI-powered versions in one office in Washington. And so again, when we roll it out, it's just beta version, things aren't going to work perfectly. I'd say it's probably better than our expectations, though than what we thought when we rolled it out.

And so we -- it's -- I wouldn't say it's ready to be rolled out nationally right now. We still got a lot of work to do, but that's what we're doing right now. So really, the plan with endpoint is -- let's just continue to work on the products, we continue to make it better. The plan is in the second quarter, we're going to launch it to 15 escrow teams in the state of Washington. And so before we do that, we got to make the product a little bit better -- and we also just need to kind of fine-tune or change management.

By the end of this year, we'll have it in a few other states launched. And again, we want to have most of the company on at the end of next year. And so I would just say the technology is -- I would say it's a little bit better than what we thought it was going to be. but we still need -- we still have work to do. And then on the Sequoia side, I would say that when we're getting 40% automation rates for refinance transactions for the products that we support in those four markets, we are seeing savings.

I mean we've completely automated the search. We've completely automated the examination. And we're still doing some QC just because we're checking to make sure that the product is working. But we are seeing benefits. But again, it's very small numbers at this point. But I would say with both Sequoia and endpoint, both of those are sort of in line, maybe a little bit better than our expectations.

In terms of like guiding to like what does this mean? I know we've talked a lot about this with investors, really what we need is we just need to show the benefit on more of a scale. We need to show it more of a scale, and we just haven't had that yet. But once we kind of roll these out, to, I would say, a statistically significant sample size, we can share those numbers. But right now, in one office, in the case of endpoint and for markets in the case it's just too small to kind of share those right now.

Mark DeVries - *Deutsche Bank AG - Analyst*

Okay. Got it. And I think, Mark, earlier you alluded to having some of the investments roll off and some of the efficiency gains could keep the efficiency ratio at a pretty attractive level, I guess, it was 47% this quarter. You said at least for the next couple of years, is there any reason to think it's not just going to be kind of structurally better than it has in the 60% cut target is out the window.

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

I think that it can be better than 60%, as I mentioned. I mean we haven't really thought hard about what's the new guidance. But I do think that the 60% was -- and I would say, like a very labor-intensive model and now we're transitioning parts of our business to -- we're always going to be a people business. We're always going to be labor intensive, but it's going to be more data-driven and you're just going to have better operating leverage in that model. So we just need to prove it out. We got to prove it out.

And again, we're hitting milestones. We've got products in the market. We've got to prove it out over the next couple of years. But I do think that based on what we believe we know we can do better than that 60% for a period of time.

Mark DeVries - *Deutsche Bank AG - Analyst*

Okay. Great. And then just one last one. On the commercial volumes, I think you indicated that the refi activity has been kind of higher than normal recently. I think you alluded to lenders doing shorter duration loans. Is that just a product of kind of where rates are? -- borrowers less excited about locking in at high rates? And if so, are we looking at like a multiyear tailwind here on kind of the refi side.

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

I believe so. I believe that's the case. I mean, typically, I have talked to life insurance companies, lenders that typically went five years to seven years maturities and they've moved to two years to three years. And so when you think about that, there's just a lot more frequency of refinance activity, and they're putting two year to three year loans on right now.

And so it's sort of the opposite of what's happening on the residential side. And so I do think there'll be a refi tailwind here on the commercial business for a few years. And as you know, for our commercial business, we -- our premiums are basically the same for purchase and refinance, so that's a big benefit to us.

Mark DeVries - *Deutsche Bank AG - Analyst*

Yeah, got it. Thank you.

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

Thanks, Mark.

Operator

Oscar Neves, Stephens.

Oscar Nieves Santana - *Stephens Inc - Analyst*

Thanks, Mark, for taking my questions. So Texas recently implemented total insurance rate reduction -- can you quantify the expected revenue and margin impact for 2026 under your current volume and other operating assumptions?

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

Yeah. Oscar, this is Matt. So if we assume similar volumes to 2025, like if we just basically assume that the rate change went in at the beginning of 2025. It would lower the total revenue and net operating revenue in the Title segment by about 50 basis points.

Oscar Nieves Santana - *Stephens Inc - Analyst*

Okay. That's helpful. And as a follow-up to that -- as we think about your Texas exposure, how much is residential versus commercial? And are there any offsets? Just obviously the very good options bring down your premium, but they should also bring out how much you paid to your hedging, right?

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

In terms of -- in terms of the offsets, I wouldn't count on too many offsets. I mean, the premium is where most of the economics are as opposed to like the escrow fees or other fees. And so I wouldn't assume that we're going to get anything materially on the offsets. We don't have this broad-based plan to just raise rates on other products 6.2%. So I wouldn't really assume anything on that. And I'd just say with Texas, some states, we do better, some states will do worse.

Texas were underweight market share, particularly on the residential side, but we do very well in commercial. So I don't have the numbers in front of you, but I would just say we do really well in commercial in Texas. In residential, it's something that we're really focused on, but we're underweight market share on the residential side.

Oscar Nieves Santana - *Stephens Inc - Analyst*

That's helpful. Thank you so much.

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

Okay. Thanks a lot, Oscar.

Operator

Mark Hughes, Truist.

Mark Hughes - *Truist Securities Inc - Analyst*

Thank you. I'm sorry if I missed this, but did you give guidance for investment income for Q1 or for the full year?

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

Hi, Mark, we did not give guidance, but so where we sit today, the way we're thinking about investment income for full year '26 is that it's going to come in roughly flat with what we saw in '25 for the title segment.

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

I'll just add to that, Mark. I mean we -- I think this is a big win for us because we've talked about how every time the Fed lowers rates, I mean we're going to lose investment income, and we've talked about that for a long time, and we really haven't -- and we haven't because a couple of reasons. One is commercial balances have been -- have been higher. The second is we've gone longer in the bank's portfolio, which kind of insulates us from that risk.

And I think the third thing, which I talked about in my comments is that now we're capturing 1031 exchange deposits at the bank. And so all those factors we've really been able to defend our investment income, and we think we can continue to be defended if the Fed lowers rates a couple of times this year. So I think that's a big win relative to where we were a couple of years ago.

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

Appreciate it. Thank you.

Operator

Bose George, KBW.

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

Actually, a follow-up on the regulatory side. There's obviously been a lot of noise about affordability from the White House and the FHFA. Have you heard anything specific from D.C. about potential changes to title insurance?

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

I haven't heard anything directly or new about any changes to title insurance, no. I mean we have talked about wells in the past. We've talked about the title waiver pilot with Fannie Mae that is still continuing, and it's going to be up in May. And -- but there's nothing new.

And we look at a couple of these bills are going through Congress, the House past the housing for 21st Century Bill, the Senate passed the Road to Housing Act and our industry trade association, the ALC both supports those bills. And so there is a lot going on with -- but to answer your question, there's nothing new or noteworthy that we're aware of around Palancian directly.

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

Okay. Great. Thanks. And then actually one more follow-up on the commercial. You noted the -- I guess, the shorter expected duration because of these loan sizes. But I assume that doesn't impact the premium, so the premiums are similar even if these are going to roll off more quickly?

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

That's right. Correct.

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

Okay. Great. Thanks.

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

Thanks a lot, Bose.

Operator

There are no additional questions at this time. And that concludes this morning's call. We'd like to remind listeners that today's call will be available for replay on the company's website or by dialing 877 660-6853 and or 201 612-7415 and enter the conference ID 137-58180. The company would like to thank you for your participation. This concludes today's teleconference. You may now disconnect

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