First American Financial Corp
Form 10-Q
April 25, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from ______ to ______

Commission file number 001-34580

FIRST AMERICAN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(714) 250-3000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No 1

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 1

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 1 No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes 1 No 1

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

On April 22, 2019, there were 112,098,764 shares of common stock outstanding.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

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

2

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

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

- INTEREST RATE FLUCTUATIONS;
- CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;
- VOLATILITY IN THE CAPITAL MARKETS;
- UNFAVORABLE ECONOMIC CONDITIONS;
- FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;
- CHANGES IN APPLICABLE LAWS AND GOVERNMENT REGULATIONS, INCLUDING DATA PRIVACY LAWS;
- HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY’S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY’S BUSINESSES;
- USE OF SOCIAL MEDIA BY THE COMPANY AND OTHER PARTIES;
- REGULATION OF TITLE INSURANCE RATES;
- LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;
- CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS AND GOVERNMENT-SPONSORED ENTERPRISES;
- CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY’S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY CAPITAL AND SURPLUS;
- LOSSES IN THE COMPANY’S INVESTMENT PORTFOLIO;
- MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE;
- DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY’S USE OF TITLE AGENTS;
- ANY INADEQUACY IN THE COMPANY’S RISK MANAGEMENT FRAMEWORK;
- SYSTEMS DAMAGE, FAILURES, INTERRUPTIONS AND INTRUSIONS, OR UNAUTHORIZED DATA DISCLOSURES;
- INNOVATION EFFORTS OF THE COMPANY AND OTHER INDUSTRY PARTICIPANTS AND ANY RELATED MARKET DISRUPTION;
- ERRORS AND FRAUD INVOLVING THE TRANSFER OF FUNDS;
- THE COMPANY’S USE OF A GLOBAL WORKFORCE;
- INABILITY OF THE COMPANY’S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS; AND
-

OTHER FACTORS DESCRIBED IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING UNDER THE CAPTION "RISK FACTORS" IN ITEM 1A OF PART II.

THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.
FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Balance Sheets

(in thousands, except par values)

(unaudited)

	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$1,337,052	$1,467,129
Accounts and accrued income receivable, net	310,813	325,686
Income taxes receivable	8,952	11,007
Investments:		
Deposits with banks	45,062	36,209
Debt securities, includes pledged securities of $82,698 and $110,975	5,959,345	5,713,811
Equity securities	344,790	353,535
Other investments	195,220	121,965
	6,544,417	6,225,520
Secured financings receivable	127,640	76,311
Property and equipment, net	452,911	457,840
Operating lease assets	309,880	—
Title plants and other indexes	580,073	577,467
Deferred income taxes	16,636	16,636
Goodwill	1,145,285	1,144,166
Other intangible assets, net	102,559	109,372
Other assets	224,050	219,501
	$11,160,268	$10,630,635
Liabilities and Equity		
Deposits	$3,921,903	$3,786,183
Accounts payable and accrued liabilities	631,536	778,688
Deferred revenue	228,547	243,280
Reserve for known and incurred but not reported claims	1,033,634	1,042,679
Income taxes payable	54,451	8,988
Deferred income taxes	217,097	217,097
Secured financings payable	127,647	76,313
Operating lease liabilities	333,964	—
Notes and contracts payable	730,953	732,019
	7,279,732	6,885,247

Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.00001 par value; Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value; Authorized—300,000 shares; Outstanding—112,072 shares and 111,496 shares	1	1
Additional paid-in capital	2,265,143	2,258,290
Retained earnings	1,707,140	1,644,165
Accumulated other comprehensive loss	(94,257)	(160,575)
Total stockholders' equity	3,878,027	3,741,881
Noncontrolling interests	2,509	3,507
Total equity	3,880,536	3,745,388
	$11,160,268	$10,630,635

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31, 2019	2018
Revenues		
Direct premiums and escrow fees	$514,202	$543,878
Agent premiums	501,537	527,714
Information and other	172,892	188,658
Net investment income	82,268	42,792
Net realized investment gains (losses)	32,682	(5,654)
	1,303,581	1,297,388
Expenses		
Personnel costs	411,612	413,642
Premiums retained by agents	396,607	416,637
Other operating expenses	196,447	218,480
Provision for policy losses and other claims	97,712	100,580
Depreciation and amortization	32,934	29,747
Premium taxes	14,663	16,014
Interest	11,936	9,223
	1,161,911	1,204,323
Income before income taxes	141,670	93,065
Income taxes	31,866	16,893
Net income	109,804	76,172
Less: Net income (loss) attributable to noncontrolling interests	229	(55)
Net income attributable to the Company	$109,575	$76,227
Net income per share attributable to the Company’s stockholders (Note 9):		
Basic	$0.97	$0.68
Diluted	$0.97	$0.67
Cash dividends declared per share	$0.42	$0.38
Weighted-average common shares outstanding (Note 9):		
Basic	112,703	112,232
Diluted	113,224	113,035

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$109,804	$76,172
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on debt securities	59,505	(46,796)
Foreign currency translation adjustment	6,888	(3,752)
Pension benefit adjustment	(76)	120
Total other comprehensive income (loss), net of tax	66,317	(50,428)
Comprehensive income	176,121	25,744
Less: Comprehensive income (loss) attributable to noncontrolling interests	228	(74)
Comprehensive income attributable to the Company	$175,893	$25,818

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Stockholders' Equity

(in thousands)

(unaudited)

	First American Financial Corporation Stockholders							
	Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests	Total
Balance at December 31, 2018	111,496	$1	$2,258,290	$1,644,165	$(160,575)	$3,741,881	$3,507	$3,745,388
Cumulative-effect adjustment (Note 1)	—	—	—	1,283	—	1,283	—	1,283
Net income for three months ended March 31, 2019	—	—	—	109,575	—	109,575	229	109,804
Dividends on common shares	—	—	—	(47,021)	—	(47,021)	—	(47,021)
Purchase of Company shares	(47)	—	(2,066)	—	—	(2,066)	—	(2,066)
Shares issued in connection with share-based compensation	623	—	(10,618)	(862)	—	(11,480)	—	(11,480)
Share-based compensation	—	—	19,597	—	—	19,597	—	19,597
Net activity related to noncontrolling interests	—	—	(60)	—	—	(60)	(1,226)	(1,286)
Other comprehensive income (loss)	—	—	—	—	66,318	66,318	(1)	66,317
Balance at March 31, 2019	112,072	$1	$2,265,143	$1,707,140	$(94,257)	$3,878,027	$2,509	$3,880,536

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Stockholders' Equity – (Continued)

(in thousands)

(unaudited)

	First American Financial Corporation Stockholders							
	Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Noncontrolling interests	Total
Balance at December 31, 2017	110,925	$1	$2,236,351	$1,311,112	$(67,509)	$3,479,955	$3,070	$3,483,025
Cumulative-effect adjustment	—	—	—	40,550	(40,550)	—	—	—
Net income (loss) for three months ended March 31, 2018	—	—	—	76,227	—	76,227	(55)	76,172
Dividends on common shares	—	—	—	(42,330)	—	(42,330)	—	(42,330)
Shares issued in connection with share-based compensation	620	—	(11,759)	(847)	—	(12,606)	—	(12,606)
Share-based compensation	—	—	19,509	—	—	19,509	—	19,509
Net activity related to noncontrolling interests	—	—	189	—	—	189	(1,090)	(901)
Other comprehensive loss	—	—	—	—	(50,409)	(50,409)	(19)	(50,428)
Balance at March 31, 2018	111,545	$1	$2,244,290	$1,384,712	$(158,468)	$3,470,535	$1,906	$3,472,441

See notes to condensed consolidated financial statements.

9

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended	
	March 31, 2019	2018
Cash flows from operating activities:		
Net income	$109,804	$76,172
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	97,712	100,580
Depreciation and amortization	32,934	29,747
Amortization of premiums and accretion of discounts on debt securities, net	5,464	6,743
Net realized investment (gains) losses	(32,682)	5,654
Share-based compensation	19,597	19,509
Equity in earnings of equity method investments, net	180	296
Dividends from equity method investments	545	805
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(99,992)	(104,614)
Net change in income tax accounts	29,186	12,320
Decrease in accounts and accrued income receivable	2,543	5,493
Decrease in accounts payable and accrued liabilities	(118,318)	(95,978)
Decrease in deferred revenue	(13,447)	(14,378)
Other, net	945	818
Cash provided by operating activities	34,471	43,167
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(225)	(24,484)
Net (increase) decrease in deposits with banks	(8,824)	2,292
Purchases of debt and equity securities	(727,001)	(586,150)
Proceeds from sales of debt and equity securities	461,447	213,432
Proceeds from maturities of debt securities	136,670	126,920
Net (increase) decrease in other investments	(73,964)	640
Advances under secured financing agreements	(985,478)	—
Collections of secured financings receivable	934,149	—
Capital expenditures	(27,386)	(22,344)
Proceeds from sales of property and equipment	12	1,015
Cash used for investing activities	(290,600)	(288,679)
Cash flows from financing activities:		
Net change in deposits	135,720	91,140
Borrowings under secured financing agreements	985,878	—

Repayments of secured financings payable	(934,544)	—
Repayments of notes and contracts payable	(1,411)	(1,422)
Net activity related to noncontrolling interests	(1,065)	(895)
Net payments in connection with share-based compensation	(11,480)	(12,606)
Purchase of Company shares	(2,066)	—
Payments of cash dividends	(47,021)	(42,330)
Cash provided by financing activities	124,011	33,887
Effect of exchange rate changes on cash	2,041	1,017
Net decrease in cash and cash equivalents	(130,077)	(210,608)
Cash and cash equivalents—Beginning of period	1,467,129	1,387,226
Cash and cash equivalents—End of period	$1,337,052	$1,176,618
Supplemental information:		
Cash paid during the period for:		
Interest	$10,353	$8,318
Premium taxes	$24,353	$28,877
Income taxes, less refunds of $548 and $18	$2,559	$4,187

See notes to condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Basis of Condensed Consolidated Financial Statements

Basis of Presentation

The condensed consolidated financial information included in this report has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018. The condensed consolidated financial statements included herein are unaudited; however, in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the consolidated results for the interim periods. All material intercompany transactions and balances have been eliminated upon consolidation.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance that requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet in order to increase transparency and comparability among organizations. Under the updated guidance, lessees will be required to recognize a right-of-use asset and a liability to make lease payments and disclose key information about leasing arrangements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The updated guidance may either be adopted using a modified retrospective transition approach or may be initially applied on the adoption date with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted and initially applied the updated guidance on January 1, 2019. Upon adoption, the Company recognized deferred gains of $1.3 million on previous sale and operating leaseback transactions as a cumulative-effect adjustment to retained earnings. The Company elected to adopt the package of practical expedients allowed under the guidance, which was applied to all leases as of the adoption date. The package of practical expedients includes (1) entities can choose not to reassess whether any expired or existing contracts are or contain leases, (2) entities can choose not to reassess the lease classification for any expired or existing leases, and (3) entities can choose not to reassess initial direct costs for any existing leases. See Note 4 Leases for further information on the Company's leasing arrangements.

Pending Accounting Pronouncements

In August 2018, the FASB issued updated guidance that is intended to reduce potential diversity in practice in accounting for the costs of implementing cloud computing arrangements (i.e., hosting arrangements) that are service contracts. The updated guidance aligns the requirements for capitalizing implementation costs for these arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

In August 2018, the FASB issued updated guidance as part of its disclosure framework project intended to improve the effectiveness of disclosures in the notes to the financial statements. The updated guidance eliminates, adds and modifies certain disclosure requirements related to fair value measurements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. Except for the disclosure requirements, the Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued updated guidance intended to simplify how an entity tests goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the updated guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

In June 2016, the FASB issued updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

Note 2 – Escrow Deposits, Like-kind Exchange Deposits and Trust Assets

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled \$7.7 billion and \$7.6 billion at March 31, 2019 and December 31, 2018, respectively, of which \$3.8 billion and \$3.6 billion, respectively, were held at First American Trust, FSB. The escrow deposits held at First American Trust, FSB are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled \$4.0 billion and \$3.6 billion at March 31, 2019 and December 31, 2018, respectively. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

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

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of each such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled \$2.2 billion and \$2.7 billion at March 31, 2019 and December 31, 2018, respectively. The like-kind exchange deposits are held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance

Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the returns on such proceeds.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 3 – Debt and Equity Securities

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

(in thousands)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Estimated fair value
March 31, 2019				
U.S. Treasury bonds	$148,860	$1,278	$(324)	$149,814
Municipal bonds	1,058,106	22,510	(2,197)	1,078,419
Foreign government bonds	152,539	1,285	(472)	153,352
Governmental agency bonds	352,350	2,577	(2,372)	352,555
Governmental agency mortgage-backed securities	3,331,671	24,421	(20,810)	3,335,282
U.S. corporate debt securities	596,614	7,677	(4,456)	599,835
Foreign corporate debt securities	288,738	2,987	(1,637)	290,088
	$5,928,878	$62,735	$(32,268)	$5,959,345
December 31, 2018				
U.S. Treasury bonds	$162,904	$741	$(1,139)	$162,506
Municipal bonds	1,050,134	7,210	(12,309)	1,045,035
Foreign government bonds	158,885	571	(2,159)	157,297
Governmental agency bonds	319,115	1,145	(4,093)	316,167
Governmental agency mortgage-backed securities	3,219,585	12,030	(29,016)	3,202,599
U.S. corporate debt securities	575,646	1,113	(15,499)	561,260
Foreign corporate debt securities	274,881	551	(6,485)	268,947
	$5,761,150	$23,361	$(70,700)	$5,713,811

Sales of debt securities resulted in realized gains of $3.1 million and $0.7 million, realized losses of $3.0 million and $1.2 million, and proceeds of $391.4 million and $155.7 million for the three months ended March 31, 2019 and 2018, respectively.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Gross unrealized losses on investments in debt securities are as follows:

	Less than 12 months		12 months or longer		Total	
(in thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
March 31, 2019						
U.S. Treasury bonds	$2,243	$(5)	$39,855	$(319)	$42,098	$(324)
Municipal bonds	8,130	(10)	258,588	(2,187)	266,718	(2,197)
Foreign government bonds	18,842	(85)	30,536	(387)	49,378	(472)
Governmental agency bonds	37,180	(188)	107,168	(2,184)	144,348	(2,372)
Governmental agency mortgage-backed securities	789,483	(4,251)	1,115,558	(16,559)	1,905,041	(20,810)
U.S. corporate debt securities	147,143	(2,324)	149,021	(2,132)	296,164	(4,456)
Foreign corporate debt securities	52,285	(469)	79,731	(1,168)	132,016	(1,637)
	$1,055,306	$(7,332)	$1,780,457	$(24,936)	$2,835,763	$(32,268)
December 31, 2018						
U.S. Treasury bonds	$19,749	$(85)	$55,615	$(1,054)	$75,364	$(1,139)
Municipal bonds	172,387	(1,772)	369,139	(10,537)	541,526	(12,309)
Foreign government bonds	23,654	(1,037)	42,119	(1,122)	65,773	(2,159)
Governmental agency bonds	56,270	(748)	90,631	(3,345)	146,901	(4,093)
Governmental agency mortgage-backed securities	850,459	(6,955)	982,610	(22,061)	1,833,069	(29,016)
U.S. corporate debt securities	374,473	(10,537)	109,844	(4,962)	484,317	(15,499)
Foreign corporate debt securities	175,762	(4,575)	50,802	(1,910)	226,564	(6,485)
	$1,672,754	$(25,709)	$1,700,760	$(44,991)	$3,373,514	$(70,700)

Based on the Company’s review of its debt securities in an unrealized loss position at March 31, 2019, it determined that the losses were primarily the result of changes in interest rates, which were considered to be temporary, rather than a deterioration in credit quality. The Company does not intend to sell and it is not more likely than not that the Company will be required to sell these securities prior to recovering their amortized cost. As such, the Company does not consider these securities to be other-than-temporarily impaired at March 31, 2019.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Investments in debt securities at March 31, 2019, by contractual maturities, are as follows:

(in thousands)	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
U.S. Treasury bonds					
Amortized cost	$ 77,616	$ 59,440	$ 109	$ 11,695	$ 148,860
Estimated fair value	$ 77,629	$ 59,405	$ 135	$ 12,645	$ 149,814
Municipal bonds					
Amortized cost	$ 70,623	$ 172,540	$ 250,240	$ 564,703	$ 1,058,106
Estimated fair value	$ 70,741	$ 173,669	$ 255,697	$ 578,312	$ 1,078,419
Foreign government bonds					
Amortized cost	$ 12,427	$ 110,708	$ 21,071	$ 8,333	$ 152,539
Estimated fair value	$ 12,419	$ 111,507	$ 21,321	$ 8,105	$ 153,352
Governmental agency bonds					
Amortized cost	$ 24,404	$ 123,819	$ 151,773	$ 52,354	$ 352,350
Estimated fair value	$ 24,297	$ 123,194	$ 153,607	$ 51,457	$ 352,555
U.S. corporate debt securities					
Amortized cost	$ 40,749	$ 284,110	$ 246,706	$ 25,049	$ 596,614
Estimated fair value	$ 40,671	$ 285,483	$ 247,694	$ 25,987	$ 599,835
Foreign corporate debt securities					
Amortized cost	$ 26,900	$ 170,011	$ 80,814	$ 11,013	$ 288,738
Estimated fair value	$ 26,880	$ 170,424	$ 81,624	$ 11,160	$ 290,088
Total debt securities excluding mortgage-backed securities					
Amortized cost	$ 252,719	$ 920,628	$ 750,713	$ 673,147	$ 2,597,207
Estimated fair value	$ 252,637	$ 923,682	$ 760,078	$ 687,666	$ 2,624,063
Total mortgage-backed securities					
Amortized cost					$ 3,331,671
Estimated fair value					$ 3,335,282
Total debt securities					
Amortized cost					$ 5,928,878
Estimated fair value					$ 5,959,345

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

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Investments in equity securities are as follows:

(in thousands)	Cost	Estimated fair value
March 31, 2019		
Preferred stocks	$17,082	$13,888
Common stocks	305,857	330,902
	$322,939	$344,790
December 31, 2018		
Preferred stocks	$16,892	$14,162
Common stocks	341,460	339,373
	$358,352	$353,535

Net gains (realized and unrealized) of $32.5 million and net losses (realized and unrealized) of $5.9 million were recognized for the three months ended March 31, 2019 and 2018, respectively, as a result of changes in the fair values of equity securities. Included in net gains during the three months ended March 31, 2019 were net unrealized gains of $29.0 million related to equity securities still held at March 31, 2019, and included in net losses during the three months ended March 31, 2018 were net unrealized losses of $6.5 million related to equity securities still held at March 31, 2018.

The composition of the investment portfolio at March 31, 2019, by credit rating, is as follows:

(in thousands, except percentages)	A- or higher Estimated fair value	Percentage	BBB+ to BBB- Estimated fair value	Percentage	Non-Investment Grade Estimated fair value	Percentage	Total Estimated fair value	Percentage
Debt securities:								
U.S. Treasury bonds	$149,814	100.0	$—	—	$—	—	$149,814	100.0
Municipal bonds	1,028,992	95.4	43,349	4.0	6,078	0.6	1,078,419	100.0
Foreign government bonds	132,570	86.5	17,369	11.3	3,413	2.2	153,352	100.0
Governmental agency bonds	352,555	100.0	—	—	—	—	352,555	100.0
			—	—	—	—	3,335,282	100.0

Governmental agency mortgage-backed securities	3,335,282	100.0						
U.S. corporate debt securities	249,623	41.6	196,564	32.8	153,648	25.6	599,835	100.0
Foreign corporate debt securities	121,150	41.7	140,931	48.6	28,007	9.7	290,088	100.0
Total debt securities	5,369,986	90.1	398,213	6.7	191,146	3.2	5,959,345	100.0
Preferred stocks	49	0.4	12,629	90.9	1,210	8.7	13,888	100.0
Total	$5,370,035	89.9	$410,842	6.9	$192,356	3.2	$5,973,233	100.0

Included in debt securities at March 31, 2019, were bank loans totaling $148.9 million, of which $136.4 million were non-investment grade; high yield corporate debt securities totaling $38.7 million, all of which were non-investment grade; and emerging market debt securities totaling $69.8 million, of which $10.0 million were non-investment grade.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

The composition of the debt securities portfolio in an unrealized loss position at March 31, 2019, by credit rating, is as follows:

(in thousands, except percentages)	A- or higher Estimated fair value	Percentage	BBB+ to BBB- Estimated fair value	Percentage	Non-Investment Grade Estimated fair value	Percentage	Total Estimated fair value	Percentage
U.S. Treasury bonds	$42,098	100.0	$—	—	$—	—	$42,098	100.0
Municipal bonds	261,506	98.1	2,970	1.1	2,242	0.8	266,718	100.0
Foreign government bonds	33,358	67.5	14,643	29.7	1,377	2.8	49,378	100.0
Governmental agency bonds	144,348	100.0	—	—	—	—	144,348	100.0
Governmental agency mortgage-backed securities	1,905,041	100.0	—	—	—	—	1,905,041	100.0
U.S. corporate debt securities	104,171	35.1	72,752	24.6	119,241	40.3	296,164	100.0
Foreign corporate debt securities	47,648	36.1	64,909	49.2	19,459	14.7	132,016	100.0
Total	$2,538,170	89.5	$155,274	5.5	$142,319	5.0	$2,835,763	100.0

Debt securities in an unrealized loss position at March 31, 2019, included bank loans totaling $134.9 million, of which $124.8 million were non-investment grade; high yield corporate debt securities totaling $11.2 million, all of which were non-investment grade; and emerging market debt securities totaling $29.5 million, of which $4.1 million were non-investment grade.

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

Note 4 – Leases

On January 1, 2019, the Company adopted updated accounting guidance which requires lessees in leasing arrangements to recognize a right-of-use asset and a liability to make lease payments on the balance sheet.

The Company leases commercial real estate, including office buildings and office space, and also leases certain equipment. The Company has elected the practical expedient for its leases of commercial real estate whereby it does not separately account for nonlease components (e.g., common-area maintenance costs) from the associated lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) and instead accounts for both components as a single lease component. Variable lease costs, which include any variable lease and nonlease components and rents that vary based on changes to an index or rate, are expensed as incurred.

Most of the Company's leases of commercial real estate include one or more options to renew, with renewal terms that can extend the lease term from one to five years, and some leases include options to terminate the lease within the first year.

The Company has elected the practical expedient which allows for leases with an initial term of 12 months or less to be excluded from recognition on the balance sheet and for which lease expense is recognized on a straight-line basis over the lease term.

As most of the Company's leases do not provide an implicit discount rate, the Company applies its incremental borrowing rate, which is based on the information available as of the commencement date, in determining the present value of lease payments.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Lease assets and liabilities are summarized as follows:

(in thousands)	Classification	March 31, 2019
Assets		
Operating lease assets	Operating lease assets	$309,880
Finance lease assets	Other assets	4,838
Total lease assets		$314,718
Liabilities		
Operating lease liabilities	Operating lease liabilities	$333,964
Finance lease liabilities	Notes and contracts payable	5,078
Total lease liabilities		$339,042

The components of lease expense are as follows:

(in thousands)	Classification	Three Months Ended March 31, 2019
Operating lease cost	Other operating expenses	$22,093
Finance lease cost:		
Amortization of lease assets	Depreciation and amortization	573
Interest of lease liabilities	Interest	56
Variable lease cost	Other operating expenses	6,989
Short-term lease cost	Other operating expenses	461
Sublease income	Information and other	(477)
Net lease cost		$29,695

Future minimum lease payments under operating and finance leases with noncancelable lease terms, as of March 31, 2019, are as follows:

(in thousands)	Operating Leases	Finance Leases	Total
Remainder of 2019	$65,448	$1,415	$66,863
2020	78,098	1,432	79,530
2021	63,304	1,130	64,434
2022	51,791	1,036	52,827
2023	37,740	434	38,174
2024	26,021	—	26,021
Thereafter	57,068	—	57,068
Total lease payments	379,470	5,447	384,917
Interest	(45,506)	(369)	(45,875)
Present value of lease liabilities	$333,964	$5,078	$339,042

Information related to lease terms and discount rates is as follows:

	March 31, 2019
Weighted-average remaining lease terms (years):	
Operating leases	5.7
Finance leases	3.6
Weighted-average discount rates:	
Operating leases	4.32 %
Finance leases	4.25 %

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Cash flow information related to lease liabilities is as follows:

(in thousands)	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$21,879
Operating cash flows from finance leases	$56
Financing cash flows from finance leases	$474
Operating lease assets obtained in exchange for new operating lease liabilities	$10,376

Future minimum lease payments under operating leases with noncancelable lease terms, as of December 31, 2018, are as follows:

Year	in thousands
2019	$ 76,375
2020	68,026
2021	54,853
2022	41,859
2023	28,948
Thereafter	64,732
Total lease payments	$ 334,793

Total rental expense for all operating leases was $22.2 million for the three months ended March 31, 2018.

Note 5 – Goodwill

A summary of the changes in the carrying amount of goodwill, by reportable segment, for the three months ended March 31, 2019, is as follows:

(in thousands)	Title Insurance and Services	Specialty Insurance	Total
Balance at December 31, 2018	$1,097,401	$46,765	$1,144,166
Foreign currency translation	1,119	—	1,119
Balance at March 31, 2019	$1,098,520	$46,765	$1,145,285

The Company's four reporting units for purposes of assessing goodwill for impairment are title insurance, home warranty, property and casualty insurance and trust and other services. During the three months ended March 31, 2019, there were no triggering events that would more likely than not reduce the fair value of any reporting unit below its carrying amount.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 6 – Other Intangible Assets

Other intangible assets consist of the following:

(in thousands)	March 31, 2019	December 31, 2018
Finite-lived intangible assets:		
Customer relationships	$ 114,885	$ 114,603
Noncompete agreements	14,474	14,402
Trademarks	10,764	10,753
Internal-use software licenses	24,510	29,394
Patents	2,840	2,840
	167,473	171,992
Accumulated amortization	(81,829)	(79,535)
	85,644	92,457
Indefinite-lived intangible assets:		
Licenses	16,915	16,915
	$ 102,559	$ 109,372

Amortization expense for finite-lived intangible assets was $8.0 million and $7.0 million for the three months ended March 31, 2019 and 2018, respectively.

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

Year	(in thousands)
Remainder of 2019	$ 18,515
2020	$ 14,473
2021	$ 11,080
2022	$ 10,339
2023	$ 9,851
2024	$ 7,197

20

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 7 – Reserve for Known and Incurred But Not Reported Claims

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

	Three Months Ended March 31,	
(in thousands)	2019	2018
Balance at beginning of period	$1,042,679	$1,028,933
Provision related to:		
Current year	88,603	90,970
Prior years	9,109	9,610
	97,712	100,580
Payments, net of recoveries, related to:		
Current year	30,446	32,285
Prior years	69,546	72,329
	99,992	104,614
Other	(6,765)	(3,553)
Balance at end of period	$1,033,634	$1,021,346

The provision for title insurance losses, expressed as a percentage of title insurance premiums and escrow fees, was 4.0% for the three months ended March 31, 2019 and 2018. The current quarter rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years. The 4.0% rate for the first quarter of 2018 reflected the ultimate loss rate for the 2018 policy year and no change in the loss reserve estimates for prior policy years.

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

(in thousands, except percentages)	March 31, 2019		December 31, 2018	
Known title claims	$79,102	7.7 %	$80,306	7.7 %
Incurred but not reported claims	876,991	84.8 %	877,134	84.1 %
Total title claims	956,093	92.5 %	957,440	91.8 %
Non-title claims	77,541	7.5 %	85,239	8.2 %
Total loss reserves	$1,033,634	100.0 %	$1,042,679	100.0 %

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 8 – Income Taxes

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 22.5% and 18.2% for the three months ended March 31, 2019 and 2018, respectively. The Company's effective tax rates differ from the statutory federal rate of 21% due to state and foreign income taxes incurred, as well as permanent differences between amounts reported for financial statement purposes and amounts reported for income tax purposes, including the recognition of excess tax benefits or tax deficiencies associated with share-based payment transactions through income tax expense.

In connection with the Company's June 2010 spin-off from its prior parent, the Company entered into a tax sharing agreement which governs the Company's and its prior parent's respective rights, responsibilities and obligations for certain tax related matters. At March 31, 2019 and December 31, 2018, the Company had a net payable to its prior parent of $15.8 million and $15.6 million, respectively, related to tax matters prior to the spin-off. This amount is included in the Company's condensed consolidated balance sheets in accounts payable and accrued liabilities. The increase during the current year was primarily the result of an additional accrual for tax matters prior to the spin-off.

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

As of March 31, 2019 and December 31, 2018, the liability for income taxes associated with uncertain tax positions was $13.4 million and $13.3 million, respectively. As of March 31, 2019 and December 31, 2018, the liability could be reduced by $3.7 million due to offsetting tax benefits associated with the correlative effects of potential adjustments, including timing adjustments and state income taxes. The net amounts of $9.7 million and $9.6 million as of March 31, 2019 and December 31, 2018, respectively, if recognized, would favorably affect the Company's effective tax rate.

The Company's continuing practice is to recognize interest and penalties, if any, related to uncertain tax positions in income tax expense. As of March 31, 2019 and December 31, 2018, the Company had accrued $6.0 million and $5.8 million, respectively, of interest and penalties (net of tax benefits of $1.7 million and $1.6 million, respectively) related to uncertain tax positions.

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

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various state jurisdictions and various non-U.S. jurisdictions. The primary non-federal jurisdictions are California, Canada, India and the United Kingdom. As of March 31, 2019, the Company had concluded U.S. federal income tax examinations through 2015 and is generally no longer subject to state and non-U.S. income tax examinations for years prior to 2005.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 9 – Earnings Per Share

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

(in thousands, except per share amounts)	Three Months Ended March 31, 2019	2018
Numerator		
Net income attributable to the Company	$109,575	$76,227
Denominator		
Basic weighted-average shares	112,703	112,232
Effect of dilutive employee stock options and restricted stock units (“RSUs”)	521	803
Diluted weighted-average shares	113,224	113,035
Net income per share attributable to the Company’s stockholders		
Basic	$0.97	$0.68
Diluted	$0.97	$0.67

For the three months ended March 31, 2019, 301 thousand RSUs were excluded from the weighted-average diluted common shares outstanding due to their antidilutive effect. For the three months ended March 31, 2018, no RSUs were excluded due to their antidilutive effect on weighted-average diluted common shares outstanding. No stock options had an antidilutive effect on weighted-average diluted common shares outstanding in the current or prior year.

Note 10 – Employee Benefit Plans

Net periodic cost related to the Company’s unfunded supplemental benefit plans includes the following components:

(in thousands)	Three Months Ended March 31, 2019	2018
Expense:		
Service costs	$ 70	$ 130
Interest costs	2,279	2,018
Amortization of net actuarial loss	915	1,205

Amortization of prior service credit	(1,018)	(1,045)
	$ 2,246	$ 2,308

The Company contributed $3.6 million to its unfunded supplemental benefit plans during the three months ended March 31, 2019, and expects to contribute an additional $11.0 million during the remainder of 2019.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 11 – Fair Value Measurements

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

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

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

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

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

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

Assets measured at fair value on a recurring basis

The valuation techniques and inputs used by the Company to estimate the fair value of assets measured on a recurring basis are summarized as follows:

Debt securities

The fair values of debt securities were based on the market values obtained from independent pricing services that were evaluated using pricing models that vary by asset class and incorporate available trade, bid and other market information and price quotes from well-established, independent broker-dealers. The independent pricing services monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants. The pricing services utilize the market approach in determining the fair values of the debt securities held by the Company. The Company obtains an understanding of the valuation models and assumptions utilized by the services and has controls in place to determine that the values provided represent fair values. The Company's validation procedures include comparing prices received from the pricing services to quotes received from other third party sources for certain securities with market prices that are readily verifiable. If the price comparison results in differences over a predefined threshold, the Company will assess the reasonableness of the changes relative to prior periods given the prevailing market conditions and assess changes in the issuers' credit worthiness, performance of any underlying collateral and prices of the instrument relative to similar issuances. To date, the Company has not made any material adjustments to the fair value measurements provided by the pricing services.

Typical inputs and assumptions to pricing models used to value the Company's debt securities include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, credit spreads, credit ratings, bond insurance (if applicable), benchmark securities, bids, offers, reference data and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include the structure of issuance, characteristics of the issuer, collateral attributes and prepayment speeds.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Equity securities

The fair values of equity securities, including preferred and common stocks, were based on quoted market prices for identical assets that are readily and regularly available in an active market.

The following tables present the fair values of the Company's assets, measured on a recurring basis, as of March 31, 2019 and December 31, 2018:

(in thousands)	Total	Level 1	Level 2	Level 3
March 31, 2019				
Debt securities:				
U.S. Treasury bonds	$149,814	$—	$149,814	$ —
Municipal bonds	1,078,419	—	1,078,419	—
Foreign government bonds	153,352	—	153,352	—
Governmental agency bonds	352,555	—	352,555	—
Governmental agency mortgage-backed securities	3,335,282	—	3,335,282	—
U.S. corporate debt securities	599,835	—	599,835	—
Foreign corporate debt securities	290,088	—	290,088	—
	5,959,345	—	5,959,345	—
Equity securities:				
Preferred stocks	13,888	13,888	—	—
Common stocks	330,902	330,902	—	—
	344,790	344,790	—	—
Total assets	$6,304,135	$344,790	$5,959,345	$ —

(in thousands)	Total	Level 1	Level 2	Level 3
December 31, 2018				
Debt securities:				
U.S. Treasury bonds	$162,506	$—	$162,506	$ —
Municipal bonds	1,045,035	—	1,045,035	—
Foreign government bonds	157,297	—	157,297	—
Governmental agency bonds	316,167	—	316,167	—
Governmental agency mortgage-backed securities	3,202,599	—	3,202,599	—
U.S. corporate debt securities	561,260	—	561,260	—
Foreign corporate debt securities	268,947	—	268,947	—

	5,713,811	—	5,713,811	—
Equity securities:				
Preferred stocks	14,162	14,162	—	—
Common stocks	339,373	339,373	—	—
	353,535	353,535	—	—
Total assets	$6,067,346	$353,535	$5,713,811	$ —

There were no transfers between Levels 1 and 2 during the three months ended March 31, 2019 and 2018. Transfers into or out of the Level 3 category occur when unobservable inputs become more or less significant to the fair value measurement. The Company's policy is to recognize transfers between levels in the fair value hierarchy at the end of the reporting period.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Financial instruments not measured at fair value

In estimating the fair values of its financial instruments not measured at fair value, the Company used the following methods and assumptions:

Cash and cash equivalents

The carrying amount for cash and cash equivalents approximates fair value due to the short-term maturity of these investments.

Deposits with banks

The fair value of deposits with banks is estimated based on rates currently offered for deposits of similar remaining maturities, where applicable.

Notes receivable, net

The fair value of notes receivable, net is estimated based on current market rates being offered for notes with similar maturities and credit quality.

Secured financings receivable

The carrying amount of secured financings receivable approximates fair value due to the short-term nature of these assets.

Secured financings payable

The carrying amount of secured financings payable approximates fair value due to the short-term nature of these liabilities.

Notes and contracts payable

The fair value of notes and contracts payable is estimated based on current rates offered to the Company for debt of similar remaining maturities.

The following table presents the carrying amounts and estimated fair values of the Company’s financial instruments not measured at fair value as of March 31, 2019 and December 31, 2018:

(in thousands)	Carrying Amount	Estimated fair value Total	Level 1	Level 2	Level 3
March 31, 2019					
Assets:					
Cash and cash equivalents	$1,337,052	$1,337,052	$1,337,052	$—	$—
Deposits with banks	$45,062	$44,886	$9,422	$35,464	$—
Notes receivable, net	$13,123	$13,007	$—	$—	$13,007
Secured financings receivable	$127,640	$127,640	$—	$127,640	$—
Liabilities:					
Secured financings payable	$127,647	$127,647	$—	$127,647	$—
Notes and contracts payable	$730,953	$750,436	$—	$745,001	$5,435

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

(in thousands)	Carrying Amount	Estimated fair value Total	Level 1	Level 2	Level 3
December 31, 2018					
Assets:					
Cash and cash equivalents	$1,467,129	$1,467,129	$1,467,129	$—	$—
Deposits with banks	$36,209	$35,979	$4,307	$31,672	$—
Notes receivable, net	$13,237	$12,805	$—	$—	$12,805
Secured financings receivable	$76,311	$76,311	$—	$76,311	$—
Liabilities:					
Secured financings payable	$76,313	$76,313	$—	$76,313	$—
Notes and contracts payable	$732,019	$741,839	$—	$736,048	$5,791

Note 12 – Share-Based Compensation

The following table presents costs associated with the Company’s share-based compensation plans:

(in thousands)	Three Months Ended March 31, 2019	2018
Expense:		
RSUs	$18,348	$18,526
Employee stock purchase plan	1,249	983
	$19,597	$19,509

The following table summarizes RSU activity for the three months ended March 31, 2019:

(in thousands, except weighted-average grant-date fair value)	Shares	Weighted-average grant-date

		fair value
Unvested at December 31, 2018	1,248	$ 44.53
Granted during 2019	702	$ 51.42
Vested during 2019	(753)	$ 44.54
Forfeited during 2019	(6)	$ 45.70
Unvested at March 31, 2019	1,191	$ 48.58

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Note 13 – Accumulated Other Comprehensive Income (Loss) (“AOCI”)

The following table presents a summary of the changes in each component of AOCI for the three months ended March 31, 2019:

(in thousands)	Unrealized gains (losses) on debt securities	Foreign currency translation adjustment	Pension benefit adjustment	Accumulated other comprehensive income (loss)
Balance at December 31, 2018	$ (42,165)	$ (65,628)	$ (52,780)	$ (160,573)
Change in unrealized gains (losses) on debt securities	77,806	—	—	77,806
Change in foreign currency translation adjustment	—	7,166	—	7,166
Amortization of net actuarial loss	—	—	915	915
Amortization of prior service credit	—	—	(1,018)	(1,018)
Tax effect	(18,301)	(278)	27	(18,552)
Balance at March 31, 2019	$ 17,340	$ (58,740)	$ (52,856)	$ (94,256)
Allocated to the Company	$ 17,339	$ (58,740)	$ (52,856)	$ (94,257)
Allocated to noncontrolling interests	1	—	—	1
Balance at March 31, 2019	$ 17,340	$ (58,740)	$ (52,856)	$ (94,256)

The following table presents the other comprehensive income (loss) reclassification adjustments for the three months ended March 31, 2019 and 2018:

(in thousands)	Unrealized gains (losses) on debt securities	Foreign currency translation adjustment	Pension benefit adjustment	Total other comprehensive income (loss)
Three Months Ended March 31, 2019				
Pretax change before reclassifications	$ 77,765	$ 7,166	$ —	$ 84,931

Reclassifications out of AOCI	41	—	(103)	(62)
Tax effect	(18,301)	(278)	27	(18,552)
Total other comprehensive income (loss), net of tax	$ 59,505	$ 6,888	$ (76)	$ 66,317
Three Months Ended March 31, 2018				
Pretax change before reclassifications	$ (61,483)	$ (3,752)	$ —	$ (65,235)
Reclassifications out of AOCI	569	—	160	729
Tax effect	14,118	—	(40)	14,078
Total other comprehensive income (loss), net of tax	$ (46,796)	$ (3,752)	$ 120	$ (50,428)

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

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

(in thousands)	Amounts reclassified from AOCI Three Months Ended March 31, 2019	2018	Affected line items in the condensed consolidated statements of income
Unrealized gains (losses) on debt securities:			
Net realized losses on sales of debt securities	$ (41)	$ (569)	Net realized investment gains (losses)
Pretax total	$ (41)	$ (569)	
Tax effect	$ 10	$ 132	
Pension benefit adjustment (1):			
Amortization of net actuarial loss	$ (915)	$ (1,205)	Other operating expenses
Amortization of prior service credit	1,018	1,045	Other operating expenses
Pretax total	$ 103	$ (160)	
Tax effect	$ (27)	$ 40	

(1) These components of AOCI are components of net periodic cost. See Note 10 Employee Benefit Plans for additional details.

Note 14 – Litigation and Regulatory Contingencies

The Company and its subsidiaries are parties to a number of non-ordinary course lawsuits. These lawsuits frequently are similar in nature to other lawsuits pending against the Company's competitors.

For those non-ordinary course lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded. Actual losses may materially differ from the amounts recorded.

It is, however, often not possible to assess the probability of loss. Lawsuits that are putative class actions require a plaintiff to satisfy a number of procedural requirements before proceeding to trial. These requirements include, among others, demonstration to a court that the law proscribes in some manner the Company's activities, the making of factual allegations sufficient to suggest that the Company's activities exceeded the limits of the law and a determination by the court—known as class certification—that the law permits a group of individuals to pursue the case together as a class. In certain instances the Company may also be able to compel the plaintiff to arbitrate its claim on an individual basis. If these procedural requirements are not met, either the lawsuit cannot proceed or, as is the case with class certification or compelled arbitration, the plaintiffs lose the financial incentive to proceed with the case (or the amount at issue effectively becomes de minimis). Frequently, a court's determination as to these procedural requirements is subject to appeal to a higher court. As a result of, among other factors, ambiguities and inconsistencies in the myriad laws applicable to the Company's business and the uniqueness of the factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss until a court has finally determined that a plaintiff has satisfied applicable procedural requirements.

Furthermore, for putative class actions, it is often impossible to estimate the possible loss or a range of loss amounts, even where the Company has determined that a loss is reasonably possible. Generally class actions involve a large number of people and the effort to determine which people satisfy the requirements to become plaintiffs—or class members—is often time consuming and burdensome. Moreover, these lawsuits raise complex factual issues which result in uncertainty as to their outcome and, ultimately, make it difficult for the Company to estimate the amount of damages which a plaintiff might successfully prove. In addition, many of the Company's businesses are regulated by various federal, state, local and foreign governmental agencies and are subject to numerous statutory guidelines. These regulations and statutory guidelines often are complex, inconsistent or ambiguous, which results in additional uncertainty as to the outcome of a given lawsuit—including the amount of damages a plaintiff might be afforded—or makes it difficult to analogize experience in one case or jurisdiction to another case or jurisdiction.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company or one of its subsidiaries engaged in improper debt collection practices, improperly charged fees for products and services, participated in the conveyance of illusory property interests, improperly handled property and casualty claims and gave items of value to builders as inducements to refer business in violation of certain laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including:

- Bartine v. First American Title Insurance Company, et al., filed on August 17, 2018 and pending in the United States District Court for the Middle District of Florida,
- Lennen v. First American Financial Corporation, et al., filed on May 19, 2016 and pending in the United States District Court for the Middle District of Florida,
- Simons v. First American Title Insurance Company, filed on December 14, 2018 and pending in the United States District Court for the Middle District of Florida,
- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017 and pending in the Superior Court of the State of California, County of Sacramento, and
- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles.

All of these lawsuits are putative class actions for which a class has not been certified. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss.

While some of the lawsuits described above may be material to the Company's operating results in any particular period if an unfavorable outcome results, the Company does not believe that any of these lawsuits will have a material adverse effect on the Company's overall financial condition or liquidity.

The Company also is a party to non-ordinary course lawsuits other than those described above. With respect to these lawsuits, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and wealth management businesses are regulated by various federal, state and local governmental agencies. Many of the Company's other businesses operate within statutory guidelines. Consequently, the Company may from time to time be subject to examination or investigation by such governmental agencies. Currently, governmental agencies are examining or investigating certain of the Company's operations. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company has recorded a liability representing its best estimate of the financial exposure based on known facts. While the ultimate disposition of each such exam or investigation is not yet determinable, the Company does not believe that individually or in the aggregate they will have a material adverse effect on the Company's financial condition, results of operations or cash flows. These exams or investigations could, however, result in changes to the Company's business practices which could ultimately have a material adverse impact on the Company’s financial condition, results of operations or cash flows.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

The Company's Canadian operations provide certain services to lenders which it believes to be exempt from excise tax under applicable Canadian tax laws. However, in October 2014, the Canadian taxing authority provided internal guidance that the services in question should be subject to the excise tax. The Company believes it will receive an assessment related to this matter in the first half of 2019. While the amount of such assessment is not currently known, based on preliminary discussions with the taxing authority, the Company expects the assessment to be in the range of $12.0 million to $12.8 million, plus interest charges. As the Company does not believe that the services in question are subject to excise tax, it intends to avail itself of avenues of appeal after the assessment is received, and it believes it is reasonably likely that the Company will prevail on the merits. Based on the current facts and circumstances, the Company does not believe a loss is probable, therefore no liability has been recorded.

The Company and its subsidiaries also are involved in numerous ongoing routine legal and regulatory proceedings related to their operations. With respect to each of these proceedings, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

Note 15 – Segment Information

The Company consists of the following reportable segments and a corporate function:

- The Company's title insurance and services segment issues title insurance policies on residential and commercial property in the United States and offers similar or related products and services internationally. This segment also provides closing and/or escrow services; accommodates tax-deferred exchanges of real estate; provides products, services and solutions designed to mitigate risk or otherwise facilitate real estate transactions, many of which products, services and solutions involve the use of real property-related data; maintains, manages and provides access to title plant records and images; and provides appraisals and other valuation-related products and services, lien release and document custodial services, warehouse lending services, default-related products and services, evidence of title, and banking, trust and wealth management services. The Company, through its principal title insurance subsidiary and such subsidiary's affiliates, transacts its title insurance business through a network of direct operations and agents. Through this network, the Company issues policies in the 49 states that permit the issuance of title insurance policies, the District of Columbia and certain United States territories. The Company also offers title insurance, closing services and similar or related products and services, either directly or through third parties in other countries, including Canada, the United Kingdom, Australia, South Korea and various other established and emerging markets.
- The Company's specialty insurance segment issues property and casualty insurance policies and sells home warranty products. The property and casualty insurance business provides insurance coverage to residential homeowners and renters for liability losses and typical hazards such as fire, theft, vandalism and other types of property damage. This

business is licensed to issue policies in all 50 states and the District of Columbia and actively issues policies in 46 states. The majority of policy liability is in the western United States, including approximately 62% in California. In certain markets it also offers preferred risk auto insurance to better compete with other carriers offering bundled home and auto insurance. The home warranty business provides residential service contracts that cover residential systems, such as heating and air conditioning systems, and certain appliances against failures that occur as the result of normal usage during the coverage period. This business currently operates in 36 states and the District of Columbia.

The corporate function consists primarily of certain financing facilities as well as the corporate services that support the Company's business operations.

FIRST AMERICAN FINANCIAL CORPORATION
AND SUBSIDIARY COMPANIES
Notes to Condensed Consolidated Financial Statements – (Continued)
(unaudited)

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

For the three months ended March 31, 2019:

(in thousands)	Revenues	Income (loss) before income taxes	Depreciation and amortization	Capital expenditures
Title Insurance and Services	$1,172,180	$142,007	$ 31,162	$ 25,479
Specialty Insurance	122,182	17,785	1,734	2,497
Corporate	9,559	(18,122)	38	—
Eliminations	(340)	—	—	—
	$1,303,581	$141,670	$ 32,934	$ 27,976

(in thousands)	Direct premiums and escrow fees	Agent premiums	Information and other	Net investment income	Net realized investment gains (losses)	Total Revenues
Title Insurance and Services	$ 402,756	$ 501,537	$ 170,089	$ 70,053	$ 27,745	$1,172,180
Specialty Insurance	111,446	—	3,067	2,732	4,937	122,182
	$ 514,202	$ 501,537	$ 173,156	$ 72,785	$ 32,682	$1,294,362

For the three months ended March 31, 2018:

(in thousands)	Revenues	Income (loss) before	Depreciation and	Capital expenditures

		income taxes	amortization	
Title Insurance and Services	$1,185,467	$102,384	$ 28,117	$ 21,070
Specialty Insurance	113,384	9,898	1,592	2,531
Corporate	(1,182)	(19,217)	38	—
Eliminations	(281)	—	—	—
	$1,297,388	$93,065	$ 29,747	$ 23,601

(in thousands)	Direct premiums and escrow fees	Agent premiums	Information and other	Net investment income	Net realized investment gains (losses)	Total Revenues
Title Insurance and Services	$ 434,152	$527,714	$ 186,023	$ 41,401	$ (3,823)	$1,185,467
Specialty Insurance	109,726	—	2,901	2,588	(1,831)	113,384
	$ 543,878	$527,714	$ 188,924	$ 43,989	$ (5,654)	$1,298,851

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE FACT THAT THEY DO NOT RELATE STRICTLY TO HISTORICAL OR CURRENT FACTS AND MAY CONTAIN THE WORDS "BELIEVE," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "PREDICT," "ESTIMATE," "PROJECT," "WILL BE," "WILL CONTINUE," "WILL LIKELY RESU OTHER SIMILAR WORDS AND PHRASES OR FUTURE OR CONDITIONAL VERBS SUCH AS "WILL," "MAY," "MIGHT," "SHOULD," "WOULD," OR "COULD." THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS REGARDING FUTURE OPERATIONS, PERFORMANCE, FINANCIAL CONDITION, PROSPECTS, PLANS AND STRATEGIES. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ASSUMPTIONS THAT MAY PROVE TO BE INCORRECT.

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE THE FACTORS SET FORTH ON PAGES 3-4 OF THIS QUARTERLY REPORT. THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE THEY ARE MADE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE FORWARD-LOOKING STATEMENTS TO REFLECT CIRCUMSTANCES OR EVENTS THAT OCCUR AFTER THE DATE THE FORWARD-LOOKING STATEMENTS ARE MADE.

CRITICAL ACCOUNTING ESTIMATES

A summary of the Company's significant accounting policies that it considers to be the most dependent on the application of estimates and assumptions can be found in the Management's Discussion and Analysis section of the Company's Annual Report on Form 10-K for the year ended December 31, 2018. Changes in 2019 to the Company's significant accounting policies, which are dependent upon estimates and assumptions, include the adoption of new lease accounting guidance. For discussion of the new guidance and the related changes to the Company's accounting policy, see Recently Adopted Accounting Pronouncements and Note 4 Leases to the condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance that requires the rights and obligations associated with leasing arrangements be reflected on the balance sheet in order to increase transparency and comparability among organizations. Under the updated guidance, lessees will be required to recognize a right-of-use asset and a liability to make lease payments and disclose key information about leasing arrangements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018. The updated guidance may either be adopted using a modified retrospective transition approach or may be initially applied on the adoption date with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted and initially applied the updated guidance on January 1, 2019. Upon adoption, the Company recognized deferred gains of $1.3 million on previous sale and operating leaseback transactions as a cumulative-effect adjustment to retained earnings. The Company elected to adopt the package of practical expedients allowed under the guidance, which was applied to all leases as of the adoption date. The package of practical expedients includes (1) entities can choose not to reassess whether any expired or existing contracts are or contain leases, (2) entities can choose not to reassess the lease classification for any expired or existing leases, and (3) entities can choose not to reassess initial direct costs for any existing leases. See Note 4 Leases to the condensed consolidated financial statements for further information on the Company’s leasing arrangements.

Pending Accounting Pronouncements

In August 2018, the FASB issued updated guidance that is intended to reduce potential diversity in practice in accounting for the costs of implementing cloud computing arrangements (i.e., hosting arrangements) that are service contracts. The updated guidance aligns the requirements for capitalizing implementation costs for these arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

In August 2018, the FASB issued updated guidance as part of its disclosure framework project intended to improve the effectiveness of disclosures in the notes to the financial statements. The updated guidance eliminates, adds and modifies certain disclosure requirements related to fair value measurements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. Except for the disclosure requirements, the Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued updated guidance intended to simplify how an entity tests goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the updated guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the loss recognized limited to the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

In June 2016, the FASB issued updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

Results of Operations

Summary of First Quarter

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

The Company's total revenues increased $6.2 million, or 0.5%, in the first quarter of 2019 when compared with the first quarter of 2018. This increase was attributable to increases in net investment income of $39.5 million, or 92.3%, and net realized investment gains of $38.3 million, mostly offset by decreases in direct premiums and escrow fees of $29.7 million, or 5.5%, agent premiums of $26.2 million, or 5.0%, and information and other revenues of $15.8 million, or 8.4%. Direct premiums and escrow fees in the title insurance and services segment from domestic residential purchase, commercial and residential refinance transactions decreased $13.1 million, $4.8 million and $8.0 million, or 6.8%, 3.1% and 16.3%, respectively.

According to the Mortgage Bankers Association's April 18, 2019 Mortgage Finance Forecast (the "MBA Forecast"), residential mortgage originations in the United States (based on the total dollar value of the transactions) decreased 5.0% in the first quarter of 2019 when compared with the first quarter of 2018. According to the MBA Forecast, the dollar amount of purchase originations increased 6.5% and refinance originations decreased 24.2%. Other recognized industry sources indicate, however, that first quarter 2019 purchase originations decreased when compared to first quarter 2018, rather than increased. These other sources are in line with the decrease in direct premiums and escrow fees for the Company's direct title operations of 6.8% from domestic residential purchase transactions. Direct premiums and escrow fees for the Company's direct title operations decreased 16.3% from domestic refinance transactions, which is consistent with refinance activity in the MBA Forecast.

During the first quarter of 2019, the level of domestic title orders opened per day by the Company's direct title operations decreased 8.7% when compared with the first quarter of 2018. Residential purchase, commercial and residential refinance opened orders per day decreased 5.9%, 3.4% and 14.6%, respectively, when compared to the first quarter of 2018.

The Company's title insurance and services segment has benefited from rising net investment income over the past several quarters. This positive trend in net investment income is due to increases in short-term interest rates and higher average balances. The increase in short-term interest rates was driven by the actions taken by the Federal Reserve to increase the federal funds rate. The higher average balances were largely driven by strength in the Company's commercial business. Any future decreases in short-term interest rates or average balances will have a negative impact on future net investment income.

The Company is increasingly utilizing decision science, artificial intelligence and other innovative technologies, processes and techniques to speed the delivery of its products, increase efficiency and otherwise improve the customer experience. These efforts include streamlining the closing process by converting certain manual processes into digital ones, which improves the customer experience by simplifying and reducing the time it takes to close a transaction, reducing the risk of fraud and improving communication. These efforts also include the automation of many of the tasks required to build and update title plants and to search and examine title records, among others. While many of these initiatives are also designed to decrease risk, they present risks of their own. The degree to which these innovative efforts will be successful, and their ultimate impact on the Company's results of operations, is not currently known.

In addition to the Company's innovative activities, other participants in the real estate and mortgage industries are seeking to innovate in ways that could impact the Company's businesses. These participants include certain of the Company's sources of business, competitors and ultimate customers. Innovations of these participants may change the demand for the Company's products and services, the manner in which the Company's products and services are ordered or fulfilled and the revenue or profitability derived from the products and services. The Company's efforts to anticipate and participate in these transformations could require significant additional investment and may not succeed, resulting in a reduction in market share or profitability. The ultimate degree to which these and other innovations in the real estate industry will impact the Company's business and results of operations is not currently known.

Additionally, the Company continues to monitor developments in its regulatory environment. Currently, federal officials are discussing various potential changes to laws and regulations that could impact the Company's businesses, including the reform of government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and data privacy regulations, among others. In addition, comprehensive tax reform legislation known as the Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law on December 22, 2017 and included changes that could affect the real estate and mortgage markets, including changes to the mortgage interest deduction, the increase in the standard deduction (which limits the benefit of itemizing and deducting mortgage interest separately) and the limitation of state and local tax deductions, among others. The full extent of the impact of the Tax Reform Act on volumes of real estate transactions and mortgage originations is not currently known. Other changes in these areas, and more generally in the regulatory environment in which the Company and its customers operate, could similarly impact the volume of mortgage originations in the United States and the Company's competitive position and results of operations.

Title Insurance and Services

	Three Months Ended March 31,			
(in thousands, except percentages)	2019	2018	$ Change	% Change
Revenues				
Direct premiums and escrow fees	$402,756	$434,152	$(31,396)	(7.2)%
Agent premiums	501,537	527,714	(26,177)	(5.0)
Information and other	170,089	186,023	(15,934)	(8.6)
Net investment income	70,053	41,401	28,652	69.2
Net realized investment gains (losses)	27,745	(3,823)	31,568	NM [1]
	1,172,180	1,185,467	(13,287)	(1.1)
Expenses				
Personnel costs	381,131	393,626	(12,495)	(3.2)
Premiums retained by agents	396,607	416,637	(20,030)	(4.8)
Other operating expenses	168,640	190,849	(22,209)	(11.6)
Provision for policy losses and other claims	36,172	38,480	(2,308)	(6.0)
Depreciation and amortization	31,162	28,117	3,045	10.8
Premium taxes	12,978	14,389	(1,411)	(9.8)
Interest	3,483	985	2,498	253.6
	1,030,173	1,083,083	(52,910)	(4.9)
Income before income taxes	$142,007	$102,384	$39,623	38.7%
Margins	12.1%	8.6%	3.5%	40.7%

(1) Not meaningful

Direct premiums and escrow fees were $402.8 million for the three months ended March 31, 2019, a decrease of $31.4 million, or 7.2%, when compared with the same period of the prior year. The decrease was primarily due to a decrease in the domestic title orders closed by the Company's direct title operations, partially offset by an increase in domestic average revenues per order closed. The domestic average revenues per order closed was $2,475 for the three months ended March 31, 2019, an increase of 7.5% when compared with $2,303 for the three months ended March 31, 2018. The increase in average revenues per order closed was primarily due to higher average revenues per order from commercial transactions, higher residential real estate values, and premium and fee increases related to residential transactions. The Company's direct title operations closed 150,900 domestic title orders during the three months ended March 31, 2019, a decrease of 13.1% when compared with 173,600 domestic title orders closed during the same period of the prior year.

Agent premiums were $501.5 million for the three months ended March 31, 2019, a decrease of $26.2 million, or 5.0%, when compared with the same period of the prior year. Agent premiums are recorded when notice of issuance is received from the agent, which is generally when cash payment is received by the Company. As a result, there is generally a delay between the agent's issuance of a title policy and the Company's recognition of agent premiums. Therefore, current quarter agent premiums typically reflect prior quarter mortgage origination activity. The decrease in agent premiums for the three months ended March 31, 2019 is generally consistent with the 1.4% increase in the Company's direct premiums and escrow fees in the fourth quarter of 2018 as compared with the fourth quarter of 2017.

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

Information and other revenues were $170.1 million for the three months ended March 31, 2019, a decrease of $15.9 million, or 8.6%, when compared with the same period of the prior year. The decline was primarily attributable to lower revenues from the Company's centralized lender businesses and its international operations. The decline was also attributable to changes in certain contractual arrangements that require the netting of production related costs against related revenues.

Net investment income totaled $70.1 million for the three months ended March 31, 2019, an increase of $28.7 million, or 69.2%, when compared with the same period of the prior year. The increase was mainly attributable to higher average balances and rising short-term interest rates, which drove higher income from the Company's cash and investment portfolio, tax-deferred property exchange business and escrow balances.

Net realized investment gains totaled $27.7 million for the three months ended March 31, 2019 and were primarily from the increase in the fair values of equity securities. Net realized investment losses totaled $3.8 million for the three months ended March 31, 2018 and were primarily from the decrease in the fair values of equity securities, partially offset by a gain from the sale of real estate.

The title insurance and services segment (primarily direct operations) is labor intensive; accordingly, a major expense component is personnel costs. This expense component is affected by two primary factors: the need to monitor personnel changes to match the level of corresponding or anticipated new orders and the need to provide quality service.

Personnel costs were $381.1 million for the three months ended March 31, 2019, a decrease of $12.5 million, or 3.2%, when compared with the same period of the prior year. The decrease was primarily attributable to lower salary, payroll tax and incentive compensation expenses, partially offset by higher employee benefit costs. The decrease in salary and payroll tax expenses was driven by lower average headcount and one less payroll day.

Agents retained $396.6 million of title premiums generated by agency operations for the three months ended March 31, 2019, which compares with $416.6 million for the same period of the prior year. The percentage of title premiums retained by agents was 79.1% and 79.0% for the three months ended March 31, 2019 and 2018, respectively.

Other operating expenses for the title insurance and services segment were $168.6 million for the three months ended March 31, 2019, a decrease of $22.2 million, or 11.6%, when compared with the same period of the prior year. The decrease was primarily attributable to lower production related costs driven by lower order volumes, lower professional services expense, lower foreign currency exchange losses and other small decreases across several expense categories, partially offset by higher software related expenses. The decline was also attributable to changes in certain contractual arrangements that require the netting of production related costs against related revenues.

The provision for policy losses and other claims, expressed as a percentage of title premiums and escrow fees, was 4.0% for the three months ended March 31, 2019 and 2018. The current quarter rate of 4.0% reflects the ultimate loss rate for the current policy year and no change in the loss reserve estimates for prior policy years. The 4.0% rate for the first quarter of 2018 reflected the ultimate loss rate for the 2018 policy year and no change in the loss reserve estimates for prior policy years.

Depreciation and amortization expense was $31.2 million for the three months ended March 31, 2019, an increase of $3.0 million, or 10.8%, when compared with the same period of the prior year. The increase was primarily attributable to higher amortization expense associated with internally developed technology.

Premium taxes were $13.0 million and $14.4 million for the three months ended March 31, 2019 and 2018, respectively. Premium taxes as a percentage of title insurance premiums and escrow fees were 1.4% and 1.5% for the three months ended March 31, 2019 and 2018, respectively.

Interest expense was $3.5 million for the three months ended March 31, 2019, an increase of $2.5 million, or 253.6%, when compared with the same period of the prior year. The increase was primarily attributable to higher interest paid related to customer deposits at the Company's banking subsidiary, First American Trust, FSB, and secured financings payable. The increase in interest paid on customer deposits is due to an increase in average balances and higher interest rates paid. The secured financings payable relate to a specialized warehouse lender that the Company acquired in the second quarter of 2018.

The profit margins for the title insurance business reflect the high cost of performing the essential services required before insuring title, whereas the corresponding revenues are subject to regulatory and competitive pricing restraints. Due to the relatively high proportion of fixed costs, title insurance profit margins generally improve as closed order volumes increase. Title insurance profit margins are also impacted by the segment's net investment income and net realized investment gains or losses, which may not move in the same direction as closed order volumes. Title insurance profit margins are affected by the composition (residential or commercial) and type (resale, refinancing or new construction) of real estate activity. Title insurance profit margins are also affected by the percentage of title insurance premiums generated by agency operations. Profit margins from direct operations are generally higher than from agency operations due primarily to the large portion of the premium that is retained by the agent. The pre-tax margins for the three months ended March 31, 2019 and 2018 were 12.1% and 8.6%, respectively.

Specialty Insurance

	Three Months Ended March 31,			
(in thousands, except percentages)	2019	2018	$ Change	% Change
Revenues				
Direct premiums	$111,446	$109,726	$ 1,720	1.6 %
Information and other	3,067	2,901	166	5.7
Net investment income	2,732	2,588	144	5.6
Net realized investment gains (losses)	4,937	(1,831)	6,768	NM [1]
	122,182	113,384	8,798	7.8
Expenses				
Personnel costs	19,620	18,752	868	4.6
Other operating expenses	19,818	19,417	401	2.1
Provision for policy losses and other claims	61,540	62,100	(560)	(0.9)
Depreciation and amortization	1,734	1,592	142	8.9
Premium taxes	1,685	1,625	60	3.7
	104,397	103,486	911	0.9
Income before income taxes	$17,785	$9,898	$ 7,887	79.7 %
Margins	14.6 %	8.7 %	5.9 %	67.8 %

(1) Not meaningful

Direct premiums were $111.4 million for the three months ended March 31, 2019, an increase of $1.7 million, or 1.6%, when compared with the same period of the prior year. The increase was attributable to higher premiums earned in the home warranty business driven by an increase in the number of home warranty residential service contracts issued and an increase in the average price charged per contract.

Net realized investment gains for the specialty insurance segment totaled $4.9 million for the three months ended March 31, 2019 and were primarily from the increase in the fair values of equity securities. Net realized investment losses totaled $1.8 million for the three months ended March 31, 2018 and were primarily from the decrease in the fair values of equity securities.

Personnel costs and other operating expenses were $39.4 million and $38.2 million for the three months ended March 31, 2019 and 2018, respectively, an increase of $1.3 million, or 3.3%. The increase was primarily attributable to higher salary expense due to higher average salaries and higher professional services expense.

The provision for home warranty claims, expressed as a percentage of home warranty premiums, was 43.8% and 48.1% for the three months ended March 31, 2019 and 2018, respectively. The decrease in the claims rate was primarily attributable to a decrease in the frequency and severity of claims. The frequency of home warranty claims benefited from milder weather conditions when compared to the same period of the prior year. The decrease in the severity of claims was primarily due to more efficient claims management, which was mainly driven by improved rates with contractors and more efficient allocation of claims to contractors. The provision for property and casualty claims, expressed as a percentage of property and casualty insurance premiums, was 88.7% and 79.4% for the three months ended March 31, 2019 and 2018, respectively. The increase in the claims rate was primarily attributable to an increase in the frequency of claims and higher weather-related loss events, partly offset by a decrease in the severity of claims.

Premium taxes were $1.7 million and $1.6 million for the three months ended March 31, 2019 and 2018, respectively. Premium taxes as a percentage of specialty insurance segment premiums were 1.5% for the three months ended March 31, 2019 and 2018.

A large part of the revenues for the specialty insurance businesses are generated by renewals and are not dependent on the level of real estate activity in the year of renewal. With the exception of loss expense, the majority of the expenses for this segment are variable in nature and therefore generally fluctuate consistent with revenue fluctuations. Accordingly, profit margins for this segment (before loss expense) are relatively constant, although as a result of some fixed expenses, profit margins (before loss expense) should nominally improve as premium revenues increase. Specialty insurance profit margins are also impacted by the segment's net investment income and net realized investment gains or losses, which may not move in the same direction as premium revenues. The pre-tax margins for the three months ended March 31, 2019 and 2018 were 14.6% and 8.7%, respectively.

Corporate

	Three Months Ended March 31,			
(in thousands, except percentages)	2019	2018	$ Change	% Change
Revenues				
Net investment income (expense)	$9,559	$(1,182)	$10,741	NM[1]%
	9,559	(1,182)	10,741	NM[1]
Expenses				
Personnel costs	10,861	1,264	9,597	NM[1]
Other operating expenses	8,253	8,480	(227)	(2.7)
Depreciation and amortization	38	38	—	—
Interest	8,529	8,253	276	3.3
	27,681	18,035	9,646	53.5
Loss before income taxes	$(18,122)	$(19,217)	$1,095	5.7%

(1) Not meaningful

Net investment income totaled $9.6 million and net investment losses totaled $1.2 million for the three months ended March 31, 2019 and 2018, respectively. The increase in net investment income for the three months ended March 31, 2019 was primarily attributable to higher earnings on investments associated with the Company's deferred compensation plan and higher interest income on cash balances when compared to the same period of 2018.

Corporate personnel costs and other operating expenses were $19.1 million and $9.7 million for the three months ended March 31, 2019 and 2018, respectively. The increase was primarily attributable to higher expense related to the Company's deferred compensation plan.

Eliminations

The Company's inter-segment eliminations were not material for the three months ended March 31, 2019 and 2018.

INCOME TAXES

The Company's effective income tax rates (income tax expense as a percentage of income before income taxes) were 22.5% and 18.2% for the three months ended March 31, 2019 and 2018, respectively. The difference in the effective tax rates is primarily due to state and foreign income taxes incurred, as well as permanent differences between amounts reported for financial statement purposes and amounts reported for income tax purposes, including the recognition of excess tax benefits or tax deficiencies associated with share-based payment transactions through income tax expense.

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

NET INCOME AND NET INCOME ATTRIBUTABLE TO THE COMPANY

Net income for the three months ended March 31, 2019 and 2018 was $109.8 million and $76.2 million, respectively. Net income attributable to the Company for the three months ended March 31, 2019 and 2018 was $109.6 million and $76.2 million, or $0.97 and $0.67 per diluted share, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Cash provided by operating activities totaled $34.5 million and $43.2 million for the three months ended March 31, 2019 and 2018, respectively, after claim payments, net of recoveries, of $100.0 million and $104.6 million, respectively. The principal nonoperating uses of cash and cash equivalents for the three months ended March 31, 2019 were advances under secured financing agreements, repayments of secured financings payable, purchases of debt and equity securities, purchases of other investments, dividends to common stockholders, and capital expenditures. The principal nonoperating uses of cash and cash equivalents for the three months ended March 31, 2018 were purchases of debt and equity securities, dividends to common stockholders, business acquisitions, and capital expenditures. The principal nonoperating sources of cash and cash equivalents for the three months ended March 31, 2019 and 2018 were proceeds from the sales and maturities of debt and equity securities, increases in the deposit balances at the Company's banking operations and, for the three months ended March 31, 2019, borrowings under secured financing agreements and collections of secured financings receivable. The net effect of all activities on cash and cash equivalents were decreases of $130.1 million and $210.6 million for the three months ended March 31, 2019 and 2018, respectively.

The Company continually assesses its capital allocation strategy, including decisions relating to dividends, stock repurchases, capital expenditures, acquisitions and investments. In March 2019, the Company paid a first quarter cash dividend of 42 cents per common share. Management expects that the Company will continue to pay quarterly cash dividends at or above the current level. The timing, declaration and payment of future dividends, however, falls within the discretion of the Company’s board of directors and will depend upon many factors, including the Company’s financial condition and earnings, the capital requirements of the Company’s businesses, restrictions imposed by applicable law and any other factors the board of directors deems relevant from time to time.

The Company maintains a stock repurchase plan with authorization up to $250.0 million, of which $161.6 million remained as of March 31, 2019. Purchases may be made from time to time by the Company in the open market at prevailing market prices or in privately negotiated transactions. During the three months ended March 31, 2019, the Company repurchased and retired 47 thousand shares of its common stock for a total purchase price of $2.1 million and, as of March 31, 2019, had repurchased and retired 3.6 million shares of its common stock under the current authorization for a total purchase price of $88.4 million.

Holding Company. First American Financial Corporation is a holding company that conducts all of its operations through its subsidiaries. The holding company's current cash requirements include payments of principal and interest on its debt, taxes, payments in connection with employee benefit plans, dividends on its common stock and other expenses. The holding company is dependent upon dividends and other payments from its operating subsidiaries to meet its cash requirements. The Company's target is to maintain a cash balance at the holding company equal to at least twelve months of estimated cash requirements. At certain points in time, the actual cash balance at the holding company may vary from this target due to, among other factors, the timing and amount of cash payments made and dividend payments received. Pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available to the holding company is limited, principally for the protection of policyholders. As of March 31, 2019, under such regulations, the maximum amount available to the holding company from its insurance subsidiaries for the remainder of 2019, without prior approval from applicable regulators, was dividends of $287.9 million and loans and advances of $98.5 million. However, the timing and amount of dividends paid by the Company's insurance subsidiaries to the holding company falls within the discretion of each insurance subsidiary's board of directors and will depend upon many factors, including the level of total statutory capital and surplus required to support minimum financial strength ratings by certain rating agencies. Such restrictions have not had, nor are they expected to have, an impact on the holding company's ability to meet its cash obligations.

As of March 31, 2019, the holding company's sources of liquidity included $187.1 million of cash and cash equivalents and $540.0 million available on the Company's revolving credit facility. Management believes that liquidity at the holding company is sufficient to satisfy anticipated cash requirements and obligations for at least the next twelve months.

Financing. The Company maintains a credit agreement with JPMorgan Chase Bank, N.A. in its capacity as administrative agent and the lenders party thereto. The credit agreement is comprised of a $700.0 million revolving credit facility. Unless terminated earlier, the revolving loan commitments under the credit agreement will terminate and outstanding borrowings will become due and payable on May 14, 2019. The obligations of the Company under the credit agreement are neither secured nor guaranteed. Proceeds under the credit agreement may be used for general corporate purposes. At March 31, 2019, outstanding borrowings under the facility totaled $160.0 million at an interest rate of 4.12%.

The credit agreement includes representations and warranties, reporting covenants, affirmative covenants, negative covenants, financial covenants and events of default customary for financings of this type. Upon the occurrence of an event of default the lenders may accelerate the loans. Upon the occurrence of certain insolvency and bankruptcy events of default the loans will automatically accelerate. As of March 31, 2019, the Company was in compliance with the financial covenants under the credit agreement.

The Company anticipates that it will enter into a successor credit agreement prior to the current agreement's termination on May 14, 2019. If necessary, the Company has sufficient liquidity available at its holding company to repay the outstanding balance of $160.0 million without causing significant liquidity issues.

In addition to amounts available under its credit facility, certain subsidiaries of the Company are parties to master repurchase agreements which are used as part of the Company's liquidity management activities and to support its risk management activities. In particular, securities loaned or sold under repurchase agreements may be used as short-term funding sources. During the three months ended March 31, 2019, the Company financed securities for funds received totaling $5.0 million under these agreements. As of March 31, 2019, no amounts remained outstanding under these agreements.

In addition to being a party to master repurchase agreements, the Company's federal savings bank subsidiary, First American Trust, FSB, maintains a secured line of credit with the Federal Home Loan Bank and federal funds lines of credit with certain correspondent institutions. As of March 31, 2019, no amounts were outstanding under any of these facilities.

The Company's debt to capitalization ratios were 18.1% and 17.8% at March 31, 2019 and December 31, 2018, respectively.

Investment Portfolio. The Company maintains a high quality, liquid investment portfolio that is primarily held at its insurance and banking subsidiaries. As of March 31, 2019, 95% of the Company's investment portfolio consisted of debt securities, of which 69% were either United States government-backed or rated AAA and 97% were either rated or classified as investment grade. Percentages are based on the estimated fair values of the securities. Credit ratings reflect published ratings obtained from globally recognized securities rating agencies. If a security was rated differently among the rating agencies, the lowest rating was selected. For further information on the credit quality of the Company's investment portfolio at March 31, 2019, see Note 3 Debt and Equity Securities to the condensed consolidated financial statements.

In addition to its debt and equity securities portfolio, the Company maintains certain money-market and other short-term investments.

Off-balance sheet arrangements. The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $7.7 billion and $7.6 billion at March 31, 2019 and December 31, 2018, respectively, of which $3.8 billion and $3.6 billion, respectively, were held at First American Trust, FSB. The escrow deposits held at First American Trust, FSB are temporarily invested in cash and cash equivalents and debt securities, with offsetting liabilities included in deposits in the accompanying condensed consolidated balance sheets. The remaining escrow deposits were held at third-party financial institutions.

Trust assets held or managed by First American Trust, FSB totaled $4.0 billion and $3.6 billion at March 31, 2019 and December 31, 2018, respectively. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

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

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of each such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled $2.2 billion and $2.7 billion at March 31, 2019 and December 31, 2018, respectively. The like-kind exchange deposits are held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the returns on such proceeds.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

There have been no material changes in the Company’s market risks since the filing of its Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company’s chief executive officer and chief financial officer have concluded that, as of March 31, 2019, the end of the quarterly period covered by this Quarterly Report on Form 10-Q, the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, were effective, based on the evaluation of these controls and procedures required by Rule 13a-15(b) thereunder.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and its subsidiaries are parties to a number of non-ordinary course lawsuits. These lawsuits frequently are similar in nature to other lawsuits pending against the Company's competitors.

For those non-ordinary course lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded. Actual losses may materially differ from the amounts recorded.

It is, however, often not possible to assess the probability of loss. Lawsuits that are putative class actions require a plaintiff to satisfy a number of procedural requirements before proceeding to trial. These requirements include, among others, demonstration to a court that the law proscribes in some manner the Company's activities, the making of factual allegations sufficient to suggest that the Company's activities exceeded the limits of the law and a determination by the court—known as class certification—that the law permits a group of individuals to pursue the case together as a class. In certain instances the Company may also be able to compel the plaintiff to arbitrate its claim on an individual basis. If these procedural requirements are not met, either the lawsuit cannot proceed or, as is the case with class certification or compelled arbitration, the plaintiffs lose the financial incentive to proceed with the case (or the amount at issue effectively becomes de minimis). Frequently, a court's determination as to these procedural requirements is subject to appeal to a higher court. As a result of, among other factors, ambiguities and inconsistencies in the myriad laws applicable to the Company's business and the uniqueness of the factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss until a court has finally determined that a plaintiff has satisfied applicable procedural requirements.

Furthermore, for putative class actions, it is often impossible to estimate the possible loss or a range of loss amounts, even where the Company has determined that a loss is reasonably possible. Generally class actions involve a large number of people and the effort to determine which people satisfy the requirements to become plaintiffs—or class members—is often time consuming and burdensome. Moreover, these lawsuits raise complex factual issues which result in uncertainty as to their outcome and, ultimately, make it difficult for the Company to estimate the amount of damages which a plaintiff might successfully prove. In addition, many of the Company's businesses are regulated by various federal, state, local and foreign governmental agencies and are subject to numerous statutory guidelines. These regulations and statutory guidelines often are complex, inconsistent or ambiguous, which results in additional uncertainty as to the outcome of a given lawsuit—including the amount of damages a plaintiff might be afforded—or makes it difficult to analogize experience in one case or jurisdiction to another case or jurisdiction.

Most of the non-ordinary course lawsuits to which the Company and its subsidiaries are parties challenge practices in the Company's title insurance business, though a limited number of cases also pertain to the Company's other businesses. These lawsuits include, among others, cases alleging, among other assertions, that the Company or one of its subsidiaries engaged in improper debt collection practices, improperly charged fees for products and services, participated in the conveyance of illusory property interests, improperly handled property and casualty claims and gave items of value to builders as inducements to refer business in violation of certain laws, such as consumer protection laws and laws generally prohibiting unfair business practices, and certain obligations, including:

- Bartine v. First American Title Insurance Company, et al., filed on August 17, 2018 and pending in the United States District Court for the Middle District of Florida,
- Lennen v. First American Financial Corporation, et al., filed on May 19, 2016 and pending in the United States District Court for the Middle District of Florida,
- Simons v. First American Title Insurance Company, filed on December 14, 2018 and pending in the United States District Court for the Middle District of Florida,

- Tenefufu vs. First American Specialty Insurance Company, filed on June 1, 2017 and pending in the Superior Court of the State of California, County of Sacramento, and
- Wilmot v. First American Financial Corporation, et al., filed on April 20, 2007 and pending in the Superior Court of the State of California, County of Los Angeles.

All of these lawsuits are putative class actions for which a class has not been certified. For the reasons described above, the Company has not yet been able to assess the probability of loss or estimate the possible loss or the range of loss.

While some of the lawsuits described above may be material to the Company's operating results in any particular period if an unfavorable outcome results, the Company does not believe that any of these lawsuits will have a material adverse effect on the Company's overall financial condition or liquidity.

The Company also is a party to non-ordinary course lawsuits other than those described above. With respect to these lawsuits, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

The Company's title insurance, property and casualty insurance, home warranty, banking, thrift, trust and wealth management businesses are regulated by various federal, state and local governmental agencies. Many of the Company's other businesses operate within statutory guidelines. Consequently, the Company may from time to time be subject to examination or investigation by such governmental agencies. Currently, governmental agencies are examining or investigating certain of the Company's operations. With respect to matters where the Company has determined that a loss is both probable and reasonably estimable, the Company has recorded a liability representing its best estimate of the financial exposure based on known facts. While the ultimate disposition of each such exam or investigation is not yet determinable, the Company does not believe that individually or in the aggregate they will have a material adverse effect on the Company's financial condition, results of operations or cash flows. These exams or investigations could, however, result in changes to the Company's business practices which could ultimately have a material adverse impact on the Company's financial condition, results of operations or cash flows.

The Company's Canadian operations provide certain services to lenders which it believes to be exempt from excise tax under applicable Canadian tax laws. However, in October 2014, the Canadian taxing authority provided internal guidance that the services in question should be subject to the excise tax. The Company believes it will receive an assessment related to this matter in the first half of 2019. While the amount of such assessment is not currently known, based on preliminary discussions with the taxing authority, the Company expects the assessment to be in the range of $12.0 million to $12.8 million, plus interest charges. As the Company does not believe that the services in question are subject to excise tax, it intends to avail itself of avenues of appeal after the assessment is received, and it believes it is reasonably likely that the Company will prevail on the merits. Based on the current facts and circumstances, the Company does not believe a loss is probable, therefore no liability has been recorded.

The Company and its subsidiaries also are involved in numerous ongoing routine legal and regulatory proceedings related to their operations. With respect to each of these proceedings, the Company has determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, is not material to the condensed consolidated financial statements as a whole.

Item 1A. Risk Factors.

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

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

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

- when mortgage interest rates are high or rising;
- when the availability of credit, including commercial and residential mortgage funding, is limited; and
- when real estate affordability is declining.

These circumstances, particularly when combined with declining real estate values and the increase in foreclosures that often results therefrom, also tend to adversely impact the Company's title claims experience.

2. Unfavorable economic conditions could adversely affect the Company

Historically, uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets and a general decline in the value of real property, have created a difficult operating environment for the Company's core title and settlement businesses. These conditions also tend to negatively impact the amount of funds the Company receives from third parties to be held in trust pending the closing of commercial and residential real estate transactions. The Company may deposit these funds, as well as its own funds, with the federal savings bank it owns. The Company's bank invests those funds and any realized losses incurred on those investments will be reflected in the Company's consolidated results. The likelihood of such losses, which generally would not occur if the Company were to deposit these funds in an unaffiliated entity, increases when economic conditions are unfavorable. Moreover, during periods of unfavorable economic conditions, the return on these funds deposited at the Company's bank, as well as funds the Company may deposit with third party financial institutions, tends to decline. In addition, the Company holds investments in entities, such as title agencies and settlement service providers, as well as other securities in its investment portfolio, which also may be negatively impacted by these conditions. Depending upon the ultimate severity and duration of any economic downturn, the resulting effects on the Company could be materially adverse, including a significant reduction in revenues, earnings and cash flows, challenges to the Company's ability to satisfy covenants or otherwise meet its obligations under debt facilities, difficulties in obtaining access to capital, challenges to the Company's ability to pay dividends at currently anticipated levels, deterioration in the value of or return on its investments and increased credit risk from customers and others with obligations to the Company.

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

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

4. Changes in government regulation could prohibit or limit the Company's operations, make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services

Many of the Company's businesses, including its title insurance, property and casualty insurance, home warranty, banking, trust and wealth management businesses, are regulated by various federal, state, local and foreign governmental agencies. These and other of the Company's businesses also operate within statutory guidelines. The industry in which the Company operates and the markets into which it sells its products are also regulated and subject to statutory guidelines. Changes in the applicable regulatory environment, statutory guidelines or interpretations of existing regulations or statutes, enhanced governmental oversight or efforts by governmental agencies to cause customers to refrain from using the Company's products or services could prohibit or limit its future operations or make it more burdensome to conduct such operations or result in decreased demand for the Company's products and services or a change in our competitive position. The impact of these changes would be more significant if they involve jurisdictions in which the Company generates a greater portion of its title premiums, such as the states of Arizona, California, Florida, Michigan, New York, Ohio, Pennsylvania and Texas. These changes may compel the

Company to reduce its prices, may restrict its ability to implement price increases or acquire assets or businesses, may limit the manner in which the Company conducts its business or otherwise may have a negative impact on its ability to generate revenues, earnings and cash flows.

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

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

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

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

6. The use of social media by the Company and other parties could result in damage to the Company’s reputation or otherwise adversely affect the Company

The Company increasingly utilizes social media to communicate with current and potential customers and employees, as well as other individuals interested in the Company. Information delivered by the Company, or by third parties about the Company, via social media can be easily accessed and rapidly disseminated, and could result in reputational harm, decreased customer loyalty or other issues that could diminish the value of the Company’s brand or result in significant liability.

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

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

8. Changes in certain laws and regulations, and in the regulatory environment in which the Company operates, could adversely affect the Company

Federal and state officials are currently discussing various potential changes to laws and regulations that could impact the Company’s businesses, including the reform of government-sponsored enterprises such as the Federal National

Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and data privacy regulations, among others. Changes in these areas, and more generally in the regulatory environment in which the Company and its customers operate, could adversely impact the volume of mortgage originations in the United States and the Company's competitive position and results of operations.

9. Recent and pending data privacy laws and regulations could adversely affect the Company

An increasing number of federal, state, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data, including the California Consumer Privacy Act and the European Union General Data Protection Regulation. We believe that other jurisdictions are considering similar laws. The effects of these privacy laws, including the cost of compliance, are not fully known and are potentially significant, and the failure to comply could adversely affect the Company.

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

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

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

The mortgage market in the United States is concentrated. Due to the consolidated nature of the industry, the Company derives a significant percentage of its revenues from a relatively small base of lenders, and their borrowers, which enhances the negotiating power of these lenders with respect to the pricing and the terms on which they purchase the Company's products and other matters. Similarly, government-sponsored enterprises, because of their significant role in the mortgage process, have significant influence over the Company and other service providers. These circumstances could adversely affect the Company's revenues and profitability. Changes in the Company's relationship with any of these lenders or government-sponsored enterprises, the loss of all or a portion of the business the Company derives from these parties, any refusal of these parties to accept the Company's products and services, the modification of the government-sponsored enterprises' requirement for title insurance in connection with mortgages they purchase or the use of alternatives to the Company's products and services, could have a material adverse effect on the Company.

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

Certain of the Company's customers use measurements of the financial strength of the Company's title insurance underwriters, including, among others, ratings provided by ratings agencies and levels of statutory capital and surplus maintained by those underwriters, in determining the amount of a policy they will accept and the amount of reinsurance required. Each of the major ratings agencies currently rates the Company's title insurance operations. The Company's principal title insurance underwriter's financial strength ratings are "A2" by Moody's Investor Services, Inc., "A" by Fitch Ratings, Inc., "A-" by Standard & Poor's Ratings Services and "A" by A.M. Best Company, Inc. These ratings provide the agencies' perspectives on the financial strength, operating performance and cash generating ability of those operations. These agencies continually review these ratings and the ratings are subject to change. Statutory capital and surplus, or the amount by which statutory assets exceed statutory liabilities, is also a measure of financial strength. The Company's principal title insurance underwriter maintained $1.2 billion of total statutory capital and surplus as of December 31, 2018. Accordingly, if the ratings or statutory capital and surplus of these title insurance underwriters are reduced from their current levels, or if there is a deterioration in other measures of financial strength, the Company's results of operations, competitive position and liquidity could be adversely affected.

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

The Company maintains a substantial investment portfolio, primarily consisting of fixed income debt securities. The investment portfolio also includes adjustable-rate debt securities, common and preferred stock, as well as money-market and other short-term investments. Securities in the Company's investment portfolio are subject to certain economic and financial market risks, such as credit risk, interest rate (including call, prepayment and extension) risk and/or liquidity risk. The risk of loss associated with the portfolio is increased during periods of instability in credit markets and economic conditions. Debt and equity securities are carried at fair value on the Company's balance sheet. Changes in the fair value of debt securities is recorded as a component of accumulated other comprehensive loss on the balance sheet. For debt securities in an unrealized loss position, where the loss is deemed to be other-than-temporary, the Company records the loss in earnings. Starting in 2018, changes in the fair value of equity securities are recognized in earnings. Changes in the fair value of securities in the Company's investment portfolio could have a material adverse effect on the Company's results of operations, statutory surplus, financial condition and cash flow.

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

The Company maintains a reserve for incurred but not reported ("IBNR") claims pertaining to its title, escrow and other insurance and guarantee products. The majority of this reserve pertains to title insurance policies, which are long-duration contracts with the majority of the claims reported within the first few years following the issuance of the policy. Generally, 70% to 80% of claim amounts become known in the first six years of the policy life, and the majority of IBNR reserves relate to the six most recent policy years. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the IBNR reserves. Based on historical experience, management believes a 50 basis point change to the loss rates for recent policy years, positive or negative, is reasonably likely given the long duration nature of a title insurance policy. For example, if the expected ultimate losses for each of the last six policy years increased or decreased by 50 basis points, the resulting impact on the Company's IBNR reserve would be an increase or decrease, as the case may be, of $122.5 million. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible, particularly for policy years with loss ratios exceeding historical norms. The estimates made by management in determining the appropriate level of IBNR reserves could ultimately prove to be materially different from actual claims experience.

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

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

16. The Company's risk management framework could prove inadequate, which could adversely affect the Company

The Company's risk management framework is designed to identify, monitor and mitigate risks that could have a negative impact on the Company's financial condition or reputation. This framework includes departments or groups dedicated to enterprise risk management, information security, disaster recovery and other information technology-related risks, business continuity, legal and compliance, compensation structures and other human resources matters, vendor management and internal audit, among others. While many of the processes overseen by these departments function at the enterprise level, many also function through, or rely to a certain degree upon, risk mitigation efforts in local operating groups. Similarly, with respect to the risks the Company assumes in the ordinary course of its business through the issuance of title insurance policies and the provision of related products and services, the Company employs localized as well as centralized risk mitigation efforts. These efforts include the implementation of underwriting policies and procedures and other mechanisms for assessing risk. Underwriting title insurance policies and making other risk-assumption decisions frequently involves a substantial degree of individual judgment and, accordingly, underwriters are maintained at the regional, divisional and corporate levels with varying degrees of underwriting authority. These individuals may be encouraged by customers or others to assume risks or to expeditiously make risk determinations. If the Company's risk mitigation efforts prove inadequate, the Company could be adversely affected.

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

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

These systems have been subject to, and are likely to continue to be the target of, computer viruses, cyber attacks, phishing attacks and other malicious activity. These attacks have increased in frequency and sophistication in recent years. Further, certain other potential causes of system damage or other negative system-related events are wholly or partially beyond the Company's control, such as natural disasters, vendor failures to satisfy service level requirements and power or telecommunications failures. These incidents, regardless of their underlying causes, could expose the Company to system-related damages, failures, interruptions, and other negative events or could otherwise disrupt the Company's business and could also result in the loss or unauthorized release, gathering, monitoring or destruction of confidential, proprietary and other information pertaining to the Company, its customers, employees, agents or suppliers.

Certain laws and contracts the Company has entered into require it to notify various parties, including consumers or customers, in the event of certain actual or potential data breaches or systems failures. These notifications can result, among other things, in the loss of customers, lawsuits, adverse publicity, diversion of management's time and energy, the attention of regulatory authorities, fines and disruptions in sales. Further, the Company's financial institution customers have obligations to safeguard their systems and sensitive information and the Company may be bound contractually and/or by regulation to comply with the same requirements. If the Company fails to comply with applicable regulations and contractual requirements, it could be exposed to lawsuits, governmental proceedings or the imposition of fines, among other consequences.

Accordingly, any inability to prevent or adequately respond to the issues described above could disrupt the Company's business, inhibit its ability to retain existing customers or attract new customers and/or result in financial losses, litigation, increased costs or other adverse consequences that could be material to the Company.

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

In an effort to speed the delivery of its products, increase efficiency, improve quality, improve the customer experience and decrease risk, the Company is increasingly utilizing decision science, artificial intelligence and other innovative technologies, processes and techniques. These efforts include streamlining the closing process by converting certain manual processes into digital ones, in an endeavor to improve the customer experience by simplifying and reducing the time it takes to close a transaction, reducing the risk of fraud and improving communication. The Company increasingly is employing advanced technologies to automate various processes, including various processes related to the building, maintaining and updating of title plants and other data assets, as well as the search and examination of information in connection with the issuance of title insurance policies. Risks from these and other innovative initiatives include those associated with potential defects in the design and development of the technologies used to automate processes, misapplication of technologies, the reliance on data that may prove inadequate, and failure to meet customer expectations, among others. As a result of these risks the Company could experience increased claims, reputational damage or other adverse effects, which could be material to the Company.

19. Potentially disruptive innovation in the real estate industry could adversely affect the Company

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

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

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

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

The Company utilizes lower cost labor in countries such as India and the Philippines, among others. These countries are subject to relatively high degrees of political and social instability and may lack the infrastructure to withstand natural disasters. Such disruptions could decrease efficiency and increase the Company's costs. Weakness of the United States dollar in relation to the currencies used in these countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in other countries is subject to heightened scrutiny in the United States and, as a result, the Company could face pressure to decrease its use of labor based outside the United States. Laws or regulations that require the Company to use labor based in the United States or effectively increase the cost of the Company's labor costs abroad also could be enacted. The Company may not be able to pass on these increased costs to its customers.

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

The Company is a holding company whose primary assets are investments in its operating subsidiaries. The Company's ability to pay dividends is dependent on the ability of its subsidiaries to pay dividends or repay funds. If the Company's operating subsidiaries are not able to pay dividends or repay funds, the Company may not be able to fulfill parent company obligations and/or declare and pay dividends to its stockholders. Moreover, pursuant to insurance and other regulations under which the Company's insurance subsidiaries operate, the amount of dividends, loans and advances available is limited. As of March 31, 2019, under such regulations, the maximum amount available for the remainder of 2019 from these insurance subsidiaries, without prior approval from applicable regulators, was dividends of $287.9 million and loans and advances of $98.5 million.

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

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

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

While the Company believes that they are appropriate, these provisions, which may only be amended by the affirmative vote of the holders of approximately 67% of the Company's issued voting shares, could have the effect of discouraging an unsolicited acquisition proposal or delaying, deferring or preventing a change of control transaction that might involve a premium price or otherwise be considered favorably by the Company's stockholders.

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

During the quarter ended March 31, 2019, the Company did not issue any unregistered common stock.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Pursuant to the share repurchase program initially announced by the Company on March 16, 2011 and expanded on March 11, 2014, which program has no expiration date, the Company may repurchase up to $250.0 million of the Company's issued and outstanding common stock. The following table describes purchases by the Company under the share repurchase program that settled during each period set forth in the table. Prices in column (b) include commissions. Cumulatively, as of March 31, 2019, the Company had repurchased $88.4 million (including commissions) of its shares and had the authority to repurchase an additional $161.6 million (including commissions) under the program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2019 to January 31, 2019	47,000	$ 43.97	47,000	$ 161,570,615
February 1, 2019 to February 28, 2019	—	—	—	—
March 1, 2019 to March 31, 2019	—	—	—	—
Total	47,000	$ 43.97	47,000	$ 161,570,615

Item 6. Exhibits.

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

Exhibit No.	Description	Location
3.1	Amended and Restated Certificate of Incorporation of First American Financial Corporation dated May 28, 2010.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed June 1, 2010.
3.2	Bylaws of First American Financial Corporation, effective as of August 16, 2017.	Incorporated by reference herein to Exhibit 3.1 to the Current Report on Form 8-K filed August 22, 2017.
31(a)	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
31(b)	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	Attached.
32(a)	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
32(b)	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	Attached.
101.INS	XBRL Instance Document.	Attached.
101.SCH	XBRL Taxonomy Extension Schema Document.	Attached.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Attached.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Attached.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Attached.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Attached.

52

SIGNATURES

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

	FIRST AMERICAN FINANCIAL CORPORATION	
	(Registrant)	
Date: April 25, 2019	By	/s/ Dennis J. Gilmore Dennis J. Gilmore Chief Executive Officer (Principal Executive Officer)
Date: April 25, 2019	By	/s/ Mark E. Seaton Mark E. Seaton Chief Financial Officer (Principal Financial Officer)