

First American Financial Corp
Form 10-Q
April 26, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number 001-34580

FIRST AMERICAN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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 23, 2013, there were 108,180,740 shares of common stock outstanding.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

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Items 2 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

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CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING BUT NOT LIMITED TO THOSE RELATING TO:

THE HOLDING OF AND EXPECTED CASH FLOWS FROM DEBT SECURITIES AND ASSUMPTIONS RELATING THERETO;

EXPECTED PENSION PLAN AND SUPPLEMENTAL BENEFIT PLAN CONTRIBUTIONS AND RETURNS;

THE EFFECT OF LAWSUITS, REGULATORY EXAMINATIONS AND INVESTIGATIONS AND OTHER LEGAL PROCEEDINGS ON THE COMPANY'S FINANCIAL CONDITION, RESULTS OF OPERATIONS OR CASH FLOWS;

FUTURE ACTIONS TO BE TAKEN IN CONNECTION WITH THE COMPANY'S REVIEW OF ITS AGENCY RELATIONSHIPS;

THE REALIZATION OF TAX BENEFITS ASSOCIATED WITH CERTAIN LOSSES AND UNRECOGNIZED TAX BENEFIT ESTIMATES;

FUTURE PAYMENT OF DIVIDENDS;

THE SUFFICIENCY OF THE COMPANY'S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS; AND

THE LIKELIHOOD OF CHANGES IN EXPECTED ULTIMATE LOSSES AND CORRESPONDING LOSS RATES AND CLAIM RESERVES,

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

RISKS AND UNCERTAINTIES EXIST THAT MAY CAUSE RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE THE ANTICIPATED RESULTS TO DIFFER FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS INCLUDE:

INTEREST RATE FLUCTUATIONS;

CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;

VOLATILITY IN THE CAPITAL MARKETS;

UNFAVORABLE ECONOMIC CONDITIONS;

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IMPAIRMENTS IN THE COMPANY'S GOODWILL OR OTHER INTANGIBLE ASSETS;

FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;

CHANGES IN APPLICABLE GOVERNMENT REGULATIONS;

HEIGHTENED SCRUTINY BY LEGISLATORS AND REGULATORS OF THE COMPANY'S TITLE INSURANCE AND SERVICES SEGMENT AND CERTAIN OTHER OF THE COMPANY'S BUSINESSES;

REGULATION OF TITLE INSURANCE RATES;

REFORM OF GOVERNMENT-SPONSORED MORTGAGE ENTERPRISES;

LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;

PRODUCT MIGRATION;

CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS;

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;

EXPENSES OF AND FUNDING OBLIGATIONS TO THE PENSION PLAN;

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;

SYSTEMS INTERRUPTIONS AND INTRUSIONS, WIRE TRANSFER ERRORS OR UNAUTHORIZED DATA DISCLOSURES;

INABILITY TO REALIZE THE BENEFITS OF THE COMPANY'S OFFSHORE STRATEGY;

INABILITY OF THE COMPANY'S SUBSIDIARIES TO PAY DIVIDENDS OR REPAY FUNDS; AND

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*OTHER FACTORS DESCRIBED IN PART II, ITEM 1A OF THIS QUARTERLY REPORT ON FORM 10-Q.
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.*

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Balance Sheets

(in thousands, except par values)

(unaudited)

	March 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$ 814,514	\$ 627,208
Accounts and accrued income receivable, net	248,728	259,779
Income taxes receivable	4,897	14,093
Investments:		
Deposits with savings and loan associations and banks	66,508	71,196
Debt securities, includes pledged securities of \$119,606 and \$105,849	2,599,038	2,651,881
Equity securities	236,899	197,920
Other long-term investments	191,313	192,563
	3,093,758	3,113,560
Loans receivable, net	91,766	107,352
Property and equipment, net	344,763	343,450
Title plants and other indexes	521,733	521,741
Goodwill	843,983	845,857
Other intangible assets, net	54,098	57,095
Other assets	163,669	160,712
	\$ 6,181,909	\$ 6,050,847
Liabilities and Equity		
Deposits	\$ 1,559,689	\$ 1,411,193
Accounts payable and accrued liabilities	691,405	820,503
Due to CoreLogic, Inc. (CoreLogic), net	53,284	53,510
Deferred revenue	162,347	170,663
Reserve for known and incurred but not reported claims	977,254	976,462
Deferred income taxes	36,987	36,987
Notes and contracts payable	317,378	229,760
	3,798,344	3,699,078
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value, Authorized-500 shares; Outstanding-none		
Common stock, \$0.00001 par value:		

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Authorized-300,000 shares; Outstanding-108,142 shares and 107,239 shares as of March 31, 2013 and December 31, 2012, respectively	1	1
Additional paid-in capital	2,122,805	2,111,605
Retained earnings	409,917	387,015
Accumulated other comprehensive loss	(152,856)	(150,556)
Total stockholders' equity	2,379,867	2,348,065
Noncontrolling interests	3,698	3,704
Total equity	2,383,565	2,351,769
	\$ 6,181,909	\$ 6,050,847

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statements of Income

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Revenues		
Direct premiums and escrow fees	\$ 477,851	\$ 413,786
Agent premiums	484,465	376,986
Information and other	152,133	155,760
Investment income	23,058	21,134
Net realized investment gains	9,256	1,699
Net other-than-temporary impairment (OTTI) losses recognized in earnings:		
Total OTTI losses on debt securities		(240)
Portion of OTTI losses on debt securities recognized in other comprehensive loss		(2,362)
		(2,602)
	1,146,763	966,763
Expenses		
Personnel costs	344,500	305,279
Premiums retained by agents	387,543	302,164
Other operating expenses	205,346	189,150
Provision for policy losses and other claims	116,026	86,678
Depreciation and amortization	18,395	18,059
Premium taxes	12,117	10,848
Interest	3,244	3,035
	1,087,171	915,213
Income before income taxes	59,592	51,550
Income taxes	23,360	20,441
Net income	36,232	31,109
Less: Net income (loss) attributable to noncontrolling interests	54	(184)
Net income attributable to the Company	\$ 36,178	\$ 31,293
Net income per share attributable to the Company's stockholders (Note 10):		
Basic	\$ 0.34	\$ 0.30
Diluted	\$ 0.33	\$ 0.29
Cash dividends declared per share	\$ 0.12	\$ 0.08

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Weighted-average common shares outstanding (Note 10):

Basic	107,552	105,621
Diluted	109,993	107,480

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Net income	\$ 36,232	\$ 31,109
Other comprehensive income, net of tax:		
Unrealized (loss) gain on securities	(253)	20,374
Unrealized gain on securities for which credit-related portion was recognized in earnings	632	2,903
Foreign currency translation adjustment	(6,822)	5,865
Pension benefit adjustment	4,144	1,257
Total other comprehensive (loss) income, net of tax	(2,299)	30,399
Comprehensive income	33,933	61,508
Less: Comprehensive income (loss) attributable to noncontrolling interests	55	(181)
Comprehensive income attributable to the Company	\$ 33,878	\$ 61,689

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 36,232	\$ 31,109
Adjustments to reconcile net income to cash used for operating activities:		
Provision for policy losses and other claims	116,026	86,678
Depreciation and amortization	18,395	18,059
Excess tax benefits from share-based compensation	(4,148)	(508)
Share-based compensation	9,887	6,148
Net realized investment gains	(9,256)	(1,699)
Net OTTI losses recognized in earnings		2,602
Equity in earnings of affiliates, net	(2,650)	(596)
Dividends from equity method investments	2,214	2,324
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(111,193)	(116,085)
Net change in income tax accounts	10,178	28,237
Decrease (increase) in accounts and accrued income receivable	11,631	(8,383)
Decrease in accounts payable and accrued liabilities	(122,827)	(54,916)
Net change in due to CoreLogic, net	(535)	(48)
Decrease in deferred revenue	(8,029)	(7,758)
Other, net	3,204	7,040
Cash used for operating activities	(50,871)	(7,796)
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions		(14,000)
Net decrease (increase) in deposits with banks	4,505	(9,660)
Net decrease in loans receivable	15,586	8,760
Purchases of debt and equity securities	(284,003)	(182,648)
Proceeds from sales of debt and equity securities	152,210	101,310
Proceeds from maturities of debt securities	140,890	111,736
Net decrease (increase) in other long-term investments	875	(692)
Capital expenditures	(18,657)	(18,172)
Proceeds from sale of property and equipment	4,742	685
Cash provided by (used for) investing activities	16,148	(2,681)
Cash flows from financing activities:		
Net change in deposits	148,496	293,423
Proceeds from issuance of debt	249,095	53
Repayment of debt	(161,326)	(23,569)
Net payments in connection with share-based compensation plans	(3,184)	(1,150)
Net activity related to noncontrolling interests	(52)	(506)

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Excess tax benefits from share-based compensation	4,148	508
Cash dividends	(12,927)	(6,328)
Cash provided by financing activities	224,250	262,431
Effect of exchange rate changes on cash	(2,221)	2,276
Net increase in cash and cash equivalents	187,306	254,230
Cash and cash equivalents Beginning of period	627,208	418,299
Cash and cash equivalents End of period	\$ 814,514	\$ 672,529

Supplemental information:

Cash paid (received) during the period for:

Interest	\$ 1,409	\$ 3,060
Premium taxes	\$ 21,961	\$ 16,095
Income taxes, net	\$ 13,193	\$ (11,989)

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIESCondensed Consolidated Statement of Stockholders Equity

(in thousands)

(unaudited)

	First American Financial Corporation Stockholders Accumulated							
	Shares	Common stock	Additional paid-in capital	Retained earnings	other comprehensive loss	Total stockholders equity	Noncontrolling interests	Total
Balance at December 31, 2012	107,239	\$ 1	\$ 2,111,605	\$ 387,015	\$ (150,556)	\$ 2,348,065	\$ 3,704	\$ 2,351,769
Net income for three months ended March 31, 2013				36,178		36,178	54	36,232
Dividends on common shares				(12,927)		(12,927)		(12,927)
Shares issued in connection with share-based compensation plans	903		1,313	(349)		964		964
Share-based compensation			9,887			9,887		9,887
Net activity related to noncontrolling interests							(61)	(61)
Other comprehensive loss (Note 14)					(2,300)	(2,300)	1	(2,299)
Balance at March 31, 2013	108,142	\$ 1	\$ 2,122,805	\$ 409,917	\$ (152,856)	\$ 2,379,867	\$ 3,698	\$ 2,383,565

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 Basis of Condensed Consolidated Financial Statements

Spin off

First American Financial Corporation (the Company) became a publicly traded company following its spin-off from its prior parent, The First American Corporation (TFAC), on June 1, 2010 (the Separation). On that date, TFAC distributed all of the Company's outstanding shares to the record date shareholders of TFAC on a one-for-one basis (the Distribution). After the Distribution, the Company owned TFAC's financial services businesses and TFAC, which reincorporated and assumed the name CoreLogic, Inc. (CoreLogic), continued to own its information solutions businesses.

Basis of Presentation

The condensed consolidated financial information included in this report has been prepared in accordance with accounting principles generally accepted in the United States 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 generally accepted accounting principles 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, 2012. 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. Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

Recently Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued updated guidance requiring entities to present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If the component is not required to be reclassified to net income in its entirety, entities should instead cross reference to the related footnote for additional information. The updated guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2012, with early adoption permitted. Except for the disclosure requirements, the adoption of the guidance had no impact on the Company's condensed consolidated financial statements.

In July 2012, the FASB issued updated guidance that is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets, other than goodwill, by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The updated guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with current guidance. The updated guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of the guidance had no impact on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued updated guidance requiring entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013. The adoption of the guidance had no impact on the Company's condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

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 \$4.0 billion and \$4.2 billion at March 31, 2013 and December 31, 2012, respectively, of which \$1.4 billion and \$1.2 billion, respectively, were held at the Company's federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB, are included in the accompanying condensed consolidated balance sheets, in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits. The remaining escrow deposits were held at third-party financial institutions.

Trust assets totaled \$2.9 billion and \$2.8 billion at March 31, 2013 and December 31, 2012, respectively, and were held or managed by First American Trust, FSB. 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. As a result of holding these customers' assets in escrow, the Company has ongoing programs for realizing economic benefits, including investment programs, borrowing agreements, and vendor services arrangements with various financial institutions. The effects of these programs are included in the condensed consolidated financial statements as income or a reduction in expense, 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 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 \$1.2 billion and \$1.4 billion at March 31, 2013 and December 31, 2012, respectively. The like-kind exchange deposits were 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 return on the proceeds.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

Note 3 Debt and Equity Securities

The amortized cost and estimated fair value of investments in debt securities, all of which are classified as available-for-sale, are as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Other-than- temporary impairments in AOCI
March 31, 2013					
U.S. Treasury bonds	\$ 74,672	\$ 1,338	\$ (73)	\$ 75,937	\$
Municipal bonds	381,658	11,828	(1,115)	392,371	
Foreign bonds	234,925	2,955	(83)	237,797	
Governmental agency bonds	285,825	1,163	(196)	286,792	
Governmental agency mortgage-backed securities	1,234,357	8,491	(1,891)	1,240,957	
Non-agency mortgage-backed securities (1)	26,319		(3,699)	22,620	20,743
Corporate debt securities	328,501	14,350	(287)	342,564	
	\$ 2,566,257	\$ 40,125	\$ (7,344)	\$ 2,599,038	\$ 20,743
December 31, 2012					
U.S. Treasury bonds	\$ 80,651	\$ 1,574	\$ (50)	\$ 82,175	\$
Municipal bonds	361,912	14,516	(606)	375,822	
Foreign bonds	236,630	2,312	(197)	238,745	
Governmental agency bonds	324,323	1,445	(318)	325,450	
Governmental agency mortgage-backed securities	1,271,408	11,259	(1,135)	1,281,532	
Non-agency mortgage-backed securities (1)	26,656		(4,810)	21,846	20,743
Corporate debt securities	311,695	14,941	(325)	326,311	
	\$ 2,613,275	\$ 46,047	\$ (7,441)	\$ 2,651,881	\$ 20,743

- (1) At December 31, 2012, the \$26.7 million amortized cost is net of \$3.6 million in other-than-temporary impairments determined to be credit related which have been recognized in earnings for the year ended December 31, 2012. At March 31, 2013, the \$3.7 million gross unrealized losses include \$3.4 million of unrealized losses for securities determined to be other-than-temporarily impaired and \$0.3 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. At December 31, 2012, the \$4.8 million gross unrealized losses include \$4.4 million of unrealized losses for securities determined to be other-than-temporarily impaired and \$0.4 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. The \$20.7 million other-than-temporary impairments recorded in accumulated other comprehensive income (AOCI) through March 31, 2013 and December 31, 2012, represent the amount of other-than-temporary impairment losses recognized in AOCI which were not included in earnings due to the fact that the losses were not considered to be credit related. Other-than-temporary impairments were recognized in AOCI for non-agency mortgage-backed securities only.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

The cost and estimated fair value of investments in equity securities, all of which are classified as available-for-sale, are as follows:

(in thousands)	Cost	Gross unrealized gains	losses	Estimated fair value
March 31, 2013				
Preferred stocks	\$ 14,663	\$ 1,031	\$ (34)	\$ 15,660
Common stocks	209,030	12,944	(735)	221,239
	\$ 223,693	\$ 13,975	\$ (769)	\$ 236,899
December 31, 2012				
Preferred stocks	\$ 13,326	\$ 752	\$ (41)	\$ 14,037
Common stocks	177,844	6,447	(408)	183,883
	\$ 191,170	\$ 7,199	\$ (449)	\$ 197,920

The Company had the following net unrealized gains (losses) as of March 31, 2013 and December 31, 2012:

(in thousands)	As of March 31, 2013	As of December 31, 2012
Debt securities for which an other-than-temporary impairment has been recognized	\$ (3,382)	\$ (4,435)
Debt securities all other	36,163	43,041
Equity securities	13,206	6,750
	\$ 45,987	\$ 45,356

Sales of debt and equity securities resulted in realized gains of \$6.6 million and \$2.0 million and realized losses of \$0.6 million and \$0.1 million for the three months ended March 31, 2013 and 2012, respectively.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

The Company had the following gross unrealized losses as of March 31, 2013 and December 31, 2012:

(in thousands)	Less than 12 months		12 months or longer		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
March 31, 2013						
Debt securities:						
U.S. Treasury bonds	\$ 22,338	\$ (73)	\$	\$	\$ 22,338	\$ (73)
Municipal bonds	86,988	(1,010)	2,069	(105)	89,057	(1,115)
Foreign bonds	8,443	(83)			8,443	(83)
Governmental agency bonds	65,129	(196)			65,129	(196)
Governmental agency mortgage-backed securities	322,513	(1,724)	18,658	(167)	341,171	(1,891)
Non-agency mortgage-backed securities	7,077	(888)	15,543	(2,811)	22,620	(3,699)
Corporate debt securities	40,363	(240)	1,046	(47)	41,409	(287)
Total debt securities	552,851	(4,214)	37,316	(3,130)	590,167	(7,344)
Equity securities	36,146	(766)	97	(3)	36,243	(769)
Total	\$ 588,997	\$ (4,980)	\$ 37,413	\$ (3,133)	\$ 626,410	\$ (8,113)
December 31, 2012						
Debt securities:						
U.S. Treasury bonds	\$ 27,219	\$ (50)	\$	\$	\$ 27,219	\$ (50)
Municipal bonds	60,229	(557)	451	(49)	60,680	(606)
Foreign bonds	58,262	(183)	1,031	(14)	59,293	(197)
Governmental agency bonds	60,882	(318)			60,882	(318)
Governmental agency mortgage-backed securities	135,354	(889)	22,112	(246)	157,466	(1,135)
Non-agency mortgage-backed securities	6,544	(1,498)	15,302	(3,312)	21,846	(4,810)
Corporate debt securities	35,537	(227)	996	(98)	36,533	(325)
Total debt securities	384,027	(3,722)	39,892	(3,719)	423,919	(7,441)
Equity securities	34,258	(447)	98	(2)	34,356	(449)
Total	\$ 418,285	\$ (4,169)	\$ 39,990	\$ (3,721)	\$ 458,275	\$ (7,890)

Substantially all securities in the Company's non-agency mortgage-backed portfolio are senior tranches and all were investment grade at the time of purchase, however all have been downgraded below investment grade since purchase. The table below summarizes the composition of the Company's non-agency mortgage-backed securities by collateral type, year of issuance and current credit ratings. Percentages are based on the amortized cost basis of the securities and credit ratings are based on Standard & Poor's Ratings Services (S&P) and Moody's Investor Service, Inc. (Moody's) published ratings. If a security was rated differently by either rating agency, the lower of the two ratings was selected. All amounts and ratings are as of March 31, 2013.

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(in thousands, except percentages and number of securities)	Number of Securities	Amortized Cost	Estimated Fair Value	Non-Investment Grade/ Not Rated
Non-agency mortgage-backed securities:				
Prime single family residential:				
2007	1	\$ 4,431	\$ 3,420	100.0%
2006	3	11,021	9,537	100.0%
2005	1	2,902	2,586	100.0%
Alt-A single family residential:				
2007	1	7,965	7,077	100.0%
	6	\$ 26,319	\$ 22,620	100.0%

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

The amortized cost and estimated fair value of debt securities at March 31, 2013, 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	3,751	41,870	27,613	1,438	74,672
Estimated fair value	3,810	42,810	27,854	1,463	75,937
Municipal bonds					
Amortized cost	2,161	101,825	134,416	143,256	381,658
Estimated fair value	2,178	103,572	139,993	146,628	392,371
Foreign bonds					
Amortized cost	42,405	177,010	14,477	1,033	234,925
Estimated fair value	42,611	179,400	14,725	1,061	237,797
Governmental agency bonds					
Amortized cost	5,741	108,819	170,679	586	