



## *The First American Corporation*

### The First American Corporation Conference Call Transcript Third Quarter 2008 | Oct. 30, 2008

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#### **Operator**

Good morning, and thank you, all, for holding. (OPERATOR INSTRUCTIONS) Also, today's call is being recorded. If you have any objections, you may disconnect at this time. Also, a copy of today's press release and the accompanying presentation are also available at the Company's website at [www.firstam.com/investor](http://www.firstam.com/investor). I would now like to turn the conference over to Jo Etta Bandy, Senior Vice President of Corporate Communications, to make an introductory statement. Thank you, ma'am. You may begin.

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#### **Jo Etta Bandy - *The First American Corporation - SVP of Corporate Communications***

Thank you, good morning everyone. We appreciate you joining us on this morning's third quarter conference call. At this time, we would like to remind listeners that management's commentary and responses to your questions may contain forward-looking statements, such as those described on page two of the company's slides, and other statements that do not relate strictly to historical or current facts. The forward-looking statements speak only as of the date they were made, and the Company does not undertake to update forward-looking statements to reflect circumstances or events that occurred after the date the forward-looking statements are made.

Risks and uncertainties exist that may cause results to differ materially from those set forth in these forward-looking statements. Factors that could cause the anticipated results to differ from those described in the forward-looking statements are described on slide two. As indicated on slide three, management's commentary in responses to your questions also contain certain financial measures that are not presented in accordance with general accepted accounting principles.

The Company does not intend for these nonGAAP financial measures to be a substitute for any GAAP financial information. In the slide presentation, these nonGAAP financial measures have been presented with, and reconciled to, the most directly comparable GAAP financial measures. Investors should use these nonGAAP financial measures only in conjunction with the comparable GAAP financial measures.

Joining us on today's call will be our Chairman and Chief Executive Officer, Parker Kennedy, Dennis Gilmore, First American's Chief Operating Officer, Frank McMahon, our Vice Chairman, and Max Valdez, Chief Financial Officer. During the call, we will be referring to a slide presentation, which is currently available on First American's website at [firstam.com/investor](http://firstam.com/investor).

At this time, it is my pleasure to turn the call over to Park Kennedy.

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#### **Park Kennedy - *The First American Corporation - CEO***

Thank you Jo, and thank you to everyone on the call. Please direct your attentions to slides four, five and six of our presentation.

During the third quarter of 2008, we posted adjusted earnings per share of \$0.19. This result includes, on an after-tax basis, net realized investment losses of \$29.6 million, employee separation and other restructuring costs of \$12.3 million, a reduction in employee benefit costs of \$6 million, and a reduction in a reserve for estimated tax exposure of \$10 million. Including these items, our GAAP loss per share was \$0.09.

In light of market conditions, our Title Insurance business achieved strong operating results with an adjusted pre-tax margin of 3.2%. Our loss provision increased slightly from 6.2% last quarter to 7.1% this quarter, primarily due to an adjustment to the ultimate loss ratio for policy year 2008. We experienced minor adjustments for policy years prior to 2008. Generally speaking, our loss reserves remain stable during the quarter. During 2006 and 2007, we booked a total of \$520.9 million in reserve strengthening adjustments, and based on our claims experience to date, we are comfortable with the level of our claims reserves.

Dennis and his team continue to react quickly and assertively with expense controls. The information solutions Company posted adjusted EBITDA of \$102 million during the third quarter. Our mortgage risk analytics and default related businesses continue to post solid growth. Our cash flow and liquidity at the holding Company remain strong.

In the third quarter of 2008, cash flow from operations totaled \$115 million. We have \$160 million available on our credit facility, which is due in 2012. We have \$150 million of senior debentures due in 2014, and an additional \$100 million of senior debentures due in 2028. Our debt to capital ratio is 22.4%, a conservative level, given the current mix of our businesses. As previously announced, we wrote off \$34.8 million, due to the impairment of investments in Fannie and Freddie preferred securities. Although this impairment was disappointing, our investment portfolio remains sound.

73% of our portfolio is held in assets guaranteed by the US government. We have \$150.2 million of non-agency mortgage backed securities, over 90% of which are rated AAA today. We have no sub-prime exposure, no asset backed commercial paper, and just \$5 million of auction rate securities.

We continue to operate in a difficult real estate market. The Mortgage Banker's Association recently revised its forecast for Q4 of 2008 and for 2009. The MBA predicts that mortgage originations in dollar terms will decline 21% in Q4 of 2008 when compared to Q3. The MBA anticipates a further decline of 7% from Q4 of 2008 to Q1 of 2009. There after, the MBA anticipates an increase of over 40% for Q2 and Q3. This could provide relief from the steady declines we have experienced over the last year.

In sum, the next two quarters are predicted to be slow, and we continue to reduce expenses as quickly as we can.

At this point, I will turn the call over to Dennis Gilmore, who oversees our financial services group.

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**Dennis Gilmore - *The First American Corporation* - COO**

Thank you, Park.

Our Title Insurance segment continues to make progress towards our goal, becoming the most profitable Company in the title insurance industry throughout the cycle. During the third quarter, our Title Insurance segment posted a GAAP pre-tax loss of \$27 million. However, this does not reflect the significant operating improvements the Company has made during the quarter.

The current quarter's results include a net realized investment loss of \$44.6 million, lease termination costs of \$5.5 million, and severance costs of \$8.6 million. Excluding these charges, our pre-tax income for the Title Insurance segment was \$31.7 million, representing a pre-tax margin of 3.2%. These operating results, in the face of an extremely challenging market condition, are evidence of a meaningful progress the Company has made to rationalize its cost-structure in 2008. Structural changes we have made, and will continue to make throughout the organization will position us well when the market rebounds.

Please direct your attention to page nine of the earning presentation for information on the Title Insurance segment. The Company closed 323,000 title orders during the third quarter, a decline of 22% relative to the third quarter of 2007. Direct revenue declined 23% over the prior year, due to decreases in the number of title orders closed and the average revenue per order. Our average revenue per order declined 1% relative to the prior year, primarily as a result of declines in the average resale value and mortgage amounts. This was off set by improvements in our mix, versus refinance.

Our agency revenue declined 37% over the prior year. This decline was a result of the same factors affecting our direct operations, as well as termination of certain agency relationships. Our salaries and personnel costs decreased 25.5% over the prior year. During the third quarter, the Title Insurance segment reduced its number of employees by approximately 1,250, producing an annualized cost savings of \$65.9 million. There are \$8.6 million of severance costs associated with the third quarter employee reductions, and we continue to manage our labor costs aggressively, and expect continued reductions during the fourth quarter.

Other operating expenses declined 20% over the prior year. The primary driver of decline in other operating expenses, or decreases in our occupancy costs, our production costs and our other cost containment programs. The Company closed 68 offices during the third quarter, yielding an annualized savings of \$6.3 million. These savings represent lease expenses only, and do not include property taxes, utilities, and other expenses associated with occupying office space. The Company has identified an additional 30 offices that will be closed by the end of the year, and continues to seek office consolidation opportunities where appropriate.

By the end of 2008, the Company will have closed 365 offices. Our loss provision per claims was 7.1% of our operating revenue for the third quarter of 2008, versus 6.2% during the second quarter. The current quarter rate reflects expected claims experience for policy year 2008, with minor reserve adjustments per prior policy year. The increase in loss provision was driven by a modification to our ultimate loss ratio for policy year 2008, which increased from 6.2% to 6.5% during the quarter. As of September 30th, we booked our IBNR to our actuary best estimate.

Turning to page 10, our total revenue and our National Commercial segment declined 34%, relative to the third quarter of 2007. Our commercial transactions have declined due to the lack of available credit and the wide valuation gaps between buyers and sellers. After several years of continued growth, we expect the commercial market to remain challenging for the first half of 2009.

Our international Title Insurance business generated revenues of \$102.9 million, representing a 16.9% decrease over the prior year. The global financial turmoil has adversely impacted our international division. Our Canadian operations remain relatively strong due to the health the the Canadian marketplace, however, our UK and Australian operations have experienced volumes due to their economic environment. Despite the challenging economic conditions, our international division continues to generate meaningful earnings, and remains quo to our long term growth strategy.

Our total revenues for our Special Insurance segment were \$72.8 million, a 12% decrease over the prior year. The decrease is primarily due to the decline in business volumes impacting our property and casualty insurance division, and our home warranty division. The combined ratios for home warranty and property casual insurance businesses were 106% and 83% respectively.

Our pre-tax income for the segment was \$316,000. Included in the Special Insurance segment was \$3.1 million of net realized investment losses. Excluding these losses, our pre tax income for the segment was \$3.4 million.

To summarize, we are managing through the current market with a keen focus on expense control. The outlook for the next six months remains challenging. Thus far in October, our open orders per business day are down 19% lower than September, indicating a weak inventory of orders entering the fourth quarter. We will continue to adjust our expenses accordingly, and have made several cost containment programs underway. We believe the Company's leading market and financial strength positions us well to navigate the current economic environment.

I would now like to turn the call over to Frank McMahon, who will comment on Information Solutions' Company.

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**Frank McMahon - *The First American Corporation - Vice Chairman***

Thank you, Dennis.

Our third quarter results were impacted by meaningful decline in revenues of our mortgage origination related products, such as appraisal, flood and electronic title plan information. However, many of our products, in particular our default-related and mortgage risk analytic solutions, experienced excellent growth relative to the third quarter of 2007. In spite of the challenging external environment, we continue to make considerable progress toward our financial and operational objectives.

We have begun to realign our organizational structure and streamline our operations to centralize more functions. This effort will allow us to optimize resource allocation, promote best practices, and eliminate redundancy. In the third quarter, we announced our plans to consolidate a number of our product companies into two new verticals. Our evaluation solution vertical, offering appraisal of EPOs and field services, and our out-sourcing and technology solutions vertical, offering default, asset management loss mitigation, and offshore out-sourcing services. We believe this realignment will enhance our ability to offer our clients a holistic solution, and improve our operational efficiency. We will begin to see the benefits of these changes in the fourth quarter to some degree, with improvements more visible in the first quarter of 2009.

Other operational initiatives are focused on data center, centralization, product development centralization, and facility consolidation. The changes we are making to our organization resulted in a number of non-recurring costs in the quarter. Therefore, we have identified these items to give the investment community a clearer picture of the true earnings power of our division.

From a financial standpoint, our goals are to increase revenue, improve EBITDA margins and improve free cash flow. Our compensation bonus programs are driven by our success in meeting these goals. Obviously, the external market has made growing our top line difficult in 2008. Although we have benefited from the fact that we have strong relationships with the country's top lenders, we have seen a number of our clients

disappear, one way or another, over the last year. The introduction of new products, adding new clients, and market share gains have softened the blow from low origination revenues and two-year mortgage clients.

We remain very encouraged by the momentum we are seeing in our mortgage risk analytics area. We have added 60 new investor clients this year, and now have close to 200 clients in that area. Sales efforts in September and October have been strong, in particular our true loan to value HBI and portfolio analysis products. Our front end fraud tool, Loan Safe 2.0, has been adopted by many of the largest lenders this year. Client feedback has been overwhelmingly positive, and we believe Loan Safe 2.0 has set a new standard in terms of fraud and risk analytic products.

As you may imagine, we believe the recently announced TARP program offers opportunities for our business. We have had direct meetings with the Treasury, FDIC and Fed over the last six weeks to discuss how our products can enhance the ability of the government to analyze in value both securities and whole loans. In addition, we believe the TARP program may increase the demand for our loss mitigation products and services. And finally, we believe we're well positioned to serve as subcontractors to the asset managers selected to manage the security in whole loan programs established by the Treasury.

Let me briefly summarize our third quarter results. Operating revenues declined 11.5% relative to Q3 2007. Adjusting for severance, our controllable costs, which we defined as personal costs and operating costs, declined over 9% relative to the third quarter of last year. That resulted in adjusted EBITDA margins of 22.2% in the third quarter, which is down 200 basis points from the third quarter of 2007. So despite our effort to reduce expenses, we did not accomplish our goal of expanding our EBITDA margins.

Our profitability this quarter was adversely impacted by the results of our second lien Title Company called ELS. Excluding the results of this business, this would have resulted in EBITDA expanding year over year, and I only note this because there are business modeled product changes expected at ELS, as we discussed in the second quarter call, and I'll talk about those in more detail later.

I do want to be clear, however, that we recognize that we failed to accomplish our goal of expanding our EBITDA margins. However, we do believe the steps we have taken this year, as well as additional steps we plan to take over the next few quarters, will position us to expand our margins going forward.

Pages 14 and 15 reflect the pro forma results of the Information Solutions Company for the third quarter, and these results include an allocation of corporate expenses, including interest expense, associated with approximately \$560 million of corporate debt.

As we enter the fourth quarter, our emphasis will remain on controlling costs and maintaining our focused approach to product development. To date, we have initiated actions that are anticipated to generate approximately \$80 million in annual savings. These actions have primarily centered on employee reductions, business line reorganizations, facilities consolidations and the consolidation of smaller data centers into our two primary data centers.

Year-to-date, we have reduced domestic count by 800 positions, and we have exited 44 facilities, with current plans to exit an additional 17 by the end of the year. As market conditions continue to change, we will continue to adjust our cost structure to the extent possible. Turning to the information and outsourcing segment, revenues declined both on a sequential and year-over-year basis. Although the flood and appraisal businesses experienced a drop in volumes, the business lines focused on the default and loan servicing verticals continue to experience strong volumes, with our REO business, and our BPO business, Broker Price Opinion business, showing good year-over-year and sequential quarter growth. In addition, our tax service business, which already has the leading market share in the industry, received mandates from two large lenders to convert from other providers for our Company.

Add count reductions, as well as other cost-saving initiatives, are expected to result in annualized savings of \$19 million. Our data and analytic solution segment posted mixed results. CoreLogic, our mortgage risk analytics Company, had a strong quarter. However, other businesses tied to mortgage originations were impacted by the slow down in lending activity.

I have already commented on the success we are having with our investor clients and large banks. Other product development highlights include the introduction of a new default-related AVM. This product enhances our existing market leading analytics, and allows our clients to estimate market values based on -- or market values on distressed properties.

On the cost side, we have taken steps to reduce expenses with domestic head count down 10%, and we have implemented initiatives expected to produce \$20 million in annualized savings. Our adjusted EBITDA margins were 23.7% for the quarter, down from 27% last year. And when we announced our restructure earlier this year, our plan was to convert ELS, our second lien Company, to an agent.

This year, we have experienced higher claim costs. This year, we have also redesigned the product, and these costs are expected to decline over time as the product is modified, and the combination of the product change and the agency status is expected to reduce claim costs to the underwriter, and improve margins to the information solutions Company.

First Advantage reported results earlier this week, with pre-tax earnings declining relative to the third quarter of 2007. The primary driver of the reduced earnings was softness in revenue, particularly in the lender and employer segments. There were pockets of strength, however. The data continues to show improvement relative to the prior year. And the multi-family segment continues to perform well, in spite of market conditions.

Finally, market contraction is providing opportunities to gain market share with our lender services segment, now commanding over 50% market share. As in all of our businesses, FADV is focused on cost containment and cost savings, with total 2008 savings initiatives of \$30.8 million on an annualized basis. Adjusting for nonrecurring items, the EBITDA margins at FADV were 20% in the third quarter.

That concludes our remarks, and we would now like to open it up for questions.

## QUESTION AND ANSWER

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### **Operator**

Thank you. We will now again the question and answer session. (OPERATOR INSTRUCTIONS) One moment please for the first question.

Our first question comes from Nick Fiskens with Stevens Inc. Please go ahead.

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### **Nick Fiskens - Stevens Inc - Analyst**

Good morning, everybody.

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### **Frank McMahon - The First American Corporation - Vice Chairman**

Good morning.

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### **Park Kennedy - The First American Corporation - CEO**

Hi Nick.

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### **Nick Fiskens - Stevens Inc - Analyst**

Can you walk us through with what you're thinking in where you're going to spend the \$200 million in cash -- that you referenced in the press release?

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### **Park Kennedy - The First American Corporation - CEO**

Well, Nick, this is Park -- we look at our capital every quarter, and actually, we look at it every day and determine what the best use of the capital is.

It's hard to say what we're going to do with it. It is probably not a bad time to hold onto a little bit of it, and just make sure we're in good shape from a financial standpoint, no matter where the market goes. But we'll keep an eye on it. And we'll do what is best for the shareholders, and what is best for the Company.

That is not a very interesting answer, I'm sorry.

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**Nick Fiskien - Stevens Inc - Analyst**

That's all right. Well -- and you guys have done a great job of cutting heads and consolidating facilities, and I applaud you for it.

Can you kind of walk us through what inning you think we are in, and what is left to do.

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**Dennis Gilmore - The First American Corporation - COO**

Yes, Nick, this is Dennis. Let me start with the Title Company.

We have been very focused on our operating metrics all year long, we will continue to be very focused on our operating metrics going through the next two quarters. Clearly it will get tough over the next two quarters with what the MBA is predicting. I am not going to give you an exact inning because it is a long game, let's put it that way.

But we're going to continue to do what we have done throughout the year into the fourth quarter. We still have room and we still have opportunities, and we're focused on those right now. We're also very focused on our productivity, Nick. What we look at -- a couple things -- first our open orders for employ, which is an internal statistic, we have productivity gains every quarter on a sequential basis year-over-year, and we're looking to match that in the fourth quarter. That will be difficult, but we're looking to match that.

Also we looked very closely, Nick, at our operating ratios on labor and OpEx. I think we are at a position now where we may be industry leading on those ratios, so we'll be very focused on those also going through the fourth quarter. And so again, hunker down through the fourth quarter, and prepare for the first and second of 2009.

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**Frank McMahon - The First American Corporation - Vice Chairman**

On the information solution side, the way we look at next year, we're not expecting recovery. So, those businesses that will benefit from the type of environment we're in today, which would be our risk analytics, and our default and loss mitigation businesses, we continue to invest in those. And the businesses that will be hampered by an environment of lower originations will continue to adjust our cost structure in those businesses.

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**Nick Fiskien - Stevens Inc - Analyst**

And Dennis, on the Title side, do you think we have collapsed the regional state in middle management Title team you had set up there?

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**Dennis Gilmore - The First American Corporation - COO**

Well, we have done a pretty good job through the year. We have a very, very focused management team, and what we have done is work to simplify our organizational structure throughout the year. We're down now to our core operating groups. Those core operating groups have responsibility for large parts of the country, or specialized products.

So, there is still a little more to go there, and we're always going to be focused on optimizing our organizational structure. But we have made pretty significant changes through the past year.

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**Nick Fiskien - Stevens Inc - Analyst**

Frank, can you give us some detail on the second lien product?

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**Frank McMahon - The First American Corporation - Vice Chairman**

Sure. Dennis has commented earlier in the year that the Title Company has changed their second lien products. We wanted to make sure that we had -- gave our clients ample notice there. So that was announced mid-year.

So, there is a product redesign that has occurred, and that has been introduced to our client base. We expect that redesigned product to have much better under writing results going forward. And the plan was for ELS to become an agent and be at the information Company, and for the Title Company to be the underwriter, but the expectation is that the underwriting results will be much better with this new product that will be introduced January 1, 2009.

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**Nick Fiskien - Stevens Inc - Analyst**

So that kind of loss should be expected for 4Q?

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**Frank McMahon - The First American Corporation - Vice Chairman**

We would hope that it would be better than the third quarter, but we won't see a complete change until 2009.

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**Nick Fiskien - Stevens Inc - Analyst**

Last thing I have got, can you give us some specifics, somewhere I read you had some market share gains on the tax side?

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**Frank McMahon - The First American Corporation - Vice Chairman**

Yes, we already have a pretty commanding number one position in that business. But two very, very large lenders have decided to convert from other tax service providers to our Company, and those conversions are in process, and will happen in the fourth quarter of this year, and first quarter of next year.

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**Nick Fiskien - Stevens Inc - Analyst**

Great. Thank you.

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**Dennis Gilmore - The First American Corporation - COO**

Thank you.

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**Operator**

Thank you. Our next question comes from Matt Otis with KBW. Please go ahead.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

Good morning, gentlemen.

First question, one of your competitors already out there is talking about the possibility for increasing title premiums on a national go-forward basis. I just wanted to see if you had any commentary on premium increases across the board.

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**Dennis Gilmore - The First American Corporation - COO**

Sure, Matt. First of all, we have an obligation to make sure that our premiums are adequate, that they're not excessive and they're not discriminatory. And, Matt, we go through and we do that process every quarter. We've done that for years, and will continue to do that.

If we think that there is a situation where our premiums may be low, we'll deal with the individual insurance agency or department on a one off basis, and that will be more of a private discussion, not a public discussion. We're comfortable where we are, we're going to continue to look at our rates overall across the country.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

Okay, then maybe any color with your thoughts on where rates could go in some of the promulgated states that might be reviewing where premiums could go in the next your or two?

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**Dennis Gilmore - The First American Corporation - COO**

I really don't want to comment on that. Again, it is a state by state evaluation, and we'll look at them state by state, and we will work with the insurance commissioners where appropriate.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

Alright, fair enough.

Just a quick commentary on the commercial business, you talked about it weakening right now and into the first half of 2009. Any commentary -- fourth quarter usually is a quarter that you can actually see a little bit of uptake if people try to close transactions before the end of the year. Any chance of seeing that type of seasonality this year, or is it just kind of wait and see what goes on in the fourth quarter?

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**Dennis Gilmore - The First American Corporation - COO**

Yes, I don't want to answer and look too optimistic. I think we'll have some commercial closings like we normally do in the fourth quarter, but it is a tough environment right now with what happened in the credit crisis.

Again, like all of our business, we're just watching our expenses, and be prepared for a tough two quarters ahead of us.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

All right. And then just on the specialty business, you talked about revenues being down, and it looked like the expense base was relatively stationary. Any thoughts on ways you might be able to cut the expense base there if revenues continue to fall?

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**Dennis Gilmore - The First American Corporation - COO**

Yes, thanks, we're working on that right now, and we're really focused on our home warranty Company. But we've done some employee reductions in that Company over the last quarter. We're looking at the overall business mix in that right now, and the states we are operating in, and we're pretty focused on our average claim costs there too.

So, a lot of focus going on in home warranty. And I do think there are opportunities to improve that business on a go forward basis, even in this difficult environment.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

Ok, great. And a clean up question, that tax exposure reserve reduction, where did that come out of? I didn't see it in the presentation where it would have come out of -- the 10 million?

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**Park Kennedy - The First American Corporation - CEO**

Yes, what that was, it is really a reduction in a reserve for certain tax positions. And it deals with our business in India. And what it represents is -- the Indian taxing authorities have proposed a higher transfer price than what we have been using. So, we have been accruing for that potential exposure. And what happened during the period -- that exposure includes tax and penalties -- and during the quarter we got some new facts that companies with similar issues have worked their differences through the administrative process in India. And they have reached favorable outcomes, so we reduced that tax exposure.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

So that would have been in your Title segment, the tax benefit?

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**Park Kennedy - The First American Corporation - CEO**

It is really in informations. If you're trying to apply it to either information solutions or Title, it would be in information solutions.

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**Nat Otis - Keefe, Bruyette & Woods, Inc. - Analyst**

Okay, great. Thank you.

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**Operator**

Thank you. (OPERATOR INSTRUCTIONS) One moment.

Our next question comes from Jason Deleeuw with Piper Jaffray.

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**Jason Deleeuw - Piper Jaffray & Co. - Analyst**

Thank you, and good morning.

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**Dennis Gilmore - The First American Corporation - COO**

Good morning, Jason.

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**Jason Deleeuw - Piper Jaffray & Co. - Analyst**

I just want to dig into the Fintec businesses a little bit more. On the default services business, what is the revenue growth outlook for that? It has already grown nicely. I'm trying to get a sense for how much more growth runway you think is left.

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**Frank McMahon - The First American Corporation - Vice Chairman**

Jason, it's Frank. We think there is quite a bit of growth left.

It is important to note that both of our Companies, both the titles Company as well as the information Companies had meaningful default-related revenue. And in total, between the two Companies, we had \$144 million of default-related revenue. And that was up 41%, year-over-year.

Given the level of foreclosures that are expected in 2009, going into 2010, given the amount of loss mitigation work that we think services are going to go through, we do not see that business slowing down over the next four quarters, probably.

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**Jason Deleeuw - Piper Jaffray & Co. - Analyst**

Okay. Thanks, that is helpful.

And then, in that data and analytic -- I mean in the tax and flood, and the default services businesses, what is the margin decline sequentially, the adjusted margin down do 17.7%? There is a lot going on in that with the volumes declining on a tax and flood, so you have mixed issues in the revenue, you have got restructuring. Where do you think the margin can go from here, given what we saw in the third quarter?

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**Frank McMahon - *The First American Corporation - Vice Chairman***

Well, we don't give guidance, but you're right. There are some mix issues there.

Tax and flood are some of our most profitable businesses, from a margin perspective. So, as you see those businesses decline, and you see some of the collateral valuation, and even some of the default businesses, not all of them, but some of them, have lower margins. So, as you see that mix change, then that will put some margin pressures on us.

We still have our goal -- our goal is to have all of our businesses try to get in total to 20% of EBITDA margins. So, those are our goals. Those are our long term goals, we're not going to hit that every quarter. We're going to have to deal with fluctuations quarter to quarter, but we'll continue to take steps so that, over the long term, we think we can hit those goals.

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**Jason Deleeuw - *Piper Jaffray & Co. - Analyst***

On the tax and flood business, you are getting some market share -- do you have some pricing power there to? And then, is there any way you can give us some sense for the dollar revenue you think the conversions could bring?

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**Frank McMahon - *The First American Corporation - Vice Chairman***

Yes, I would say the reality is, given what is going on with our clients, they're looking to reduce costs everywhere they can. So we don't feel like we have, in the short term, meaningful pricing power. So, we're going to continue to try to capture share on the market.

I would say that, on the tax side -- both of those are multi-million dollar relationships. But I don't think we'll provide anymore information than to say they're significant.

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**Jason Deleeuw - *Piper Jaffray & Co. - Analyst***

Thanks. And then on the TARP work, when do you expect to hear from that? Can you give us any sense -- it is obviously very early, but this could be a sizeable opportunity for you? Can you give us a sense then on what you guys expect from this?

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**Frank McMahon - *The First American Corporation - Vice Chairman***

As I am sure you know, the Treasury has shifted course a little bit, and they have dedicated most of their time and energy over the last few weeks to the process of infusing capital into financial institutions of all types, and have slowed down the RFP process to select managers for both the whole loan and securities program.

To be a manager of those programs, you have to be a financial institution. We have had direct conversations with Treasury. We have also had conversations with all of our good clients that we think are pretty well positioned to be those managers, but there has not been a date set to select those managers. I think that is the next step in the process.

We continue to have discussions, and make sure that we're well positioned when that process accelerates. But right now it seems to be a little bit on the back burner, and the government seems to be more focused on the capital infusion program.

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**Jason Deleeuw - *Piper Jaffray & Co. - Analyst***

Thanks, and then just lastly on the provision rate, you had 6.2% last quarter, 7.1% this quarter, because of 2008. What can we expect going forward? What is a more appropriate rate?

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**Dennis Gilmore - *The First American Corporation - COO***

Yes, this is Dennis. You should model out at 6.5% on a go-forward basis for policy year 2008.

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**Jason Deleeuw - *Piper Jaffray & Co. - Analyst***

Thank you very much.

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**Park Kennedy - *The First American Corporation - CEO***

Thank you, Jason.

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**Operator**

Thank you. That is all the time we have for questions today. That concludes this morning's call.

We would like to remind to listeners that today's call is available for replay by dialing 203-369-0172. -- copies of the press release announcing First American's second quarter results on the slide presentation are available on First American's website at [www.firstam.com/investor](http://www.firstam.com/investor).

The Company would like to thank you for your participation.

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**Operator**

That concludes today's conference call. You may now disconnect.