



## *The First American Corporation*

### The First American Corporation Conference Call Transcript Fourth Quarter 2008 | Feb. 26, 2009

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

Thank you and good morning, everyone. We appreciate you joining us on this morning's 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 accompanying slides and other statements that do not relate strictly to historical or current fact. The forward-looking statements speak only as of the date they are made, and the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

Risks and uncertainties exist that may cause results to differ materially from those set forth in these forward-looking statements. Factors that could cause 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 and responses to your questions also contain certain financial measures that are not presented in accordance with generally accepted accounting principles. The Company does not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. In the slide presentation, these non-GAAP financial measures have been presented with and reconciled to the most directly comparable GAAP financial measures. Investors should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures. Joining us today on our call is our Chairman and Chief Executive Officer, Parker Kennedy; Buddy Pizsel, First American's newly appointed Chief Financial Officer; Dennis Gilmore, Chief Executive Officer of First American Financial Services Group and Frank

McMahon, Chief Executive Officer of our Information Solutions Group. During the call, we will be referring to a slide presentation, which is currently available on First American's website, at Corporation website at [www.firstam.com/investor](http://www.firstam.com/investor). At this time, it is my pleasure to turn the call over to Park Kennedy.

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

Thank you, Jo. 2008 was a challenging year for our Company and our industry. The dislocation in the credit markets and the deteriorating economic environment contributed to a 22% decline in our operating revenue relative to 2007. We reacted aggressively and decisively, reducing our expenses 24% during the same period. Many of our expense reductions were structural in nature, and are not expected to return when market conditions improve.

For example, in 2008, we reduced our employees by over 5700, or 20% of our work force. Additionally, we closed 500 offices or 26% of our total footprint. But underneath these numbers, we drove a fundamental reorganization of the business by centralizing, streamlining and standardizing our processes. The result of this reorganization is enhanced operating leverage as volumes recover. Despite the significant changes we made to the Company, the relationships with our customers remain strong and our service level has not deteriorated. Our employees have performed extremely well during this difficult time. In the fourth quarter of 2008, First American reported a loss per diluted share of \$0.82. Our results were adversely affected by three items. First, the Title Insurance segment strengthened loss reserves by \$78 million. Dennis Gilmore will comment on the operating initiatives the Company is taking to mitigate claim losses. Second, the Company recorded \$29.6 million of intangible asset impairments, primarily related to a business within First Advantage. Frank will comment on these impairments in his remarks. Finally, the Company recorded \$19 million of employee separation and lease termination costs, as we continue to reduce operating expenses. After excluding these items, our adjusted pretax earnings were \$40 million, about equal to the fourth quarter of 2007, with much lower revenue.

As we enter 2009, we should benefit from a few things. First, our cost basis aligned with current revenues as volumes grow, and we would expect substantial margin growth in the future. The substantial changes we've made to the organization, coupled with our industry-leading technology systems and offshore capabilities uniquely position us to capitalize on improving market conditions. Second, transaction volumes have increased dramatically across all of our origination businesses. The increase began at the end of the fourth quarter, and accelerated into the first quarter. Our title, settlement, appraisal, flood, tax, and credit products are benefiting from higher refinance and resale volumes due to favorable mortgage rates and improved affordability. Third, we are encouraged by many of the steps Washington has taken to stabilize the economy, including the homeowner, affordability and stability plan. This plan creates opportunities for First American Corporation to sell our products to lenders and homeowners, who would not otherwise qualify for refinancing. Our unique product mix positions us extremely well to capitalize on the needs of our clients as they respond to these government programs.

Finally, we will benefit in 2009 due to the hiring of Buddy Pizsel, our new Chief Financial Officer and Treasurer. Buddy comes to First American following a year and a half as Executive Vice President and Chief Financial Officer for Freddie Mac. His background also includes two years as CFO for Health Net and more than a decade in senior financial positions at Prudential

Financial. I've asked Buddy to focus on a number of key priorities, including capital management, assisting the businesses with continuing to improve operating performance, and enhancing communications with the investor community. Now, I'll turn it over to Buddy, our new CFO.

**Buddy Pizsel** - *The First American Corporation - CFO and Treasurer*

Thanks, Park. Since this is only my fifth week at the Company, I'll just make a couple of points. First, I'm thrilled to be here and I'm quickly coming up the curve on our financial and business prospects. As Park said, I'll be intently focused on operating performance and capital management, as any CFO would be in these difficult market conditions. I'll be taking a fresh look at how we communicate and engage with our shareholder base. I'll be on the road in March and I'm eager to hear your feedback on the Company, how we present ourselves and what would be more helpful to you. I look forward to meeting you all and with that, I'll hand it over to Dennis Gilmore, who will cover our Financial Services Company.

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

Thanks, Buddy. Welcome aboard. We are proud of the dramatic progress we've made in improving the operating efficiencies of our businesses despite a very challenging environment. 2008, our direct revenue, our title insurance company declined 23%, while our salary and other operating expenses declined 22%. A notable achievement given the fixed cost nature of our businesses. Throughout last year, we reduced our employee counts by 4250, for an annualized savings of \$234 million. We've reduced our employee count by 25% during 2008, and 42% during our peak of June of 2006. A portion of our employer reductions are structural in nature as we've reduced management, we've consolidated divisions and decreased staff positions.

In 2008, we closed 435 offices with an expected annualized savings of \$27 million. These office closures represent 26% of our total footprint. A vast majority of these office closures are structural in nature and not expected to return when market conditions improve. As part of our overall strategic plan, we have centralized our key administrative functions, including technology, human resource, treasury and accounting. The centralization strategy will enhance our operating leverage and reduces our risk profile.

This is a fundamental change from how we managed the business in the past. The significant changes we've made in 2008 have positioned us well, as we enter 2009. I'd like to comment on the fourth quarter results. During the fourth quarter, the Title Insurance segment posted a GAAP pretax loss of \$94 million. Results include a reserve strengthening adjustment of \$78 million. Severance cost of \$9 million, lease termination costs of \$6 million, and net realized investment loss of \$1 million. Excluding these charges, our pretax loss for the Title Insurance segment was \$1 million.

The Company opened 395,000 orders during the fourth quarter, including 5400 orders open per day in October, 5600 orders open per day in November, and 7800 orders open per day in December. In January, the trend continued as we opened an average of 10,000 orders per day, a 28% increase relative to December. For the first three weeks in February, we've opened an average of 8800 orders per day. The sharp increase in open orders was due to increase in refinance activity, which comprised 40% of our open orders in the fourth quarter, and 58% of our open orders in January. We expect that the refinance orders we are opening today will have closing ratios in line with our historical experience. For example, through January 31, we have closed 51% of our refinance orders that we've opened in December. This is in line with our historical average for refinance orders that have been open for two months. However, throughout the first quarter, we do anticipate closings taking longer due to backlogs and the lending industry.

Our direct revenues declined 32% over the prior year, due to decreases in the number of title orders closed, and the average revenue per order. Our average revenue declined 19% relative to the prior year. This is driven primarily by a shift in the order mix, as well as decline in home values. The Company is in the process of examining rate adequacy in certain states. In California, we filed a rate increase which we expect to become effective April 1. We also expect to file similar increases in other states where appropriate. Our agency revenue declined 39% over the prior year. The decline was a result of the same factors affecting our direct operations as well as the termination of certain agency relationships.

In 2008, we've made significant progress towards optimizing our agency operations. During the last year, we've established standards for minimum remittances and splits by state. We've created a universal underwriting agreement, and have continued to terminate underperforming agents. One of our key objectives for 2009 will be to centralize our agency administration. This initiative will consist of centralizing our agency remittances processing, our policy distribution and our background screening of new agents.

Our salary and other personnel costs decreased 35% over the prior year. During the fourth quarter, the Title segment reduced its employee count by 1210, producing an annualized cost savings of \$61 million. There were \$8 million of severance costs associated with the fourth quarter in employee reductions. The Title segment finished the year with approximately 13,000 employees, including 1600 employees in the international division. Despite increased [oraccount], we expect to make modest employee reductions in the first quarter.

Other operating expenses declined 34% over the prior year. The primary drivers of the decline in other operating expenses were decreases in occupancy costs, production costs, and other costs containment programs. The Company closed 70 offices during the quarter, yielding an annualized cost savings of \$6 million. There were also \$6 million of lease termination costs associated with

the fourth quarter office closures. The loss provision for claims was 17% of operating revenues for the fourth quarter of 2008. The current quarter reflects an ultimate loss ratio of policy of 2008 of 6.6%. This claim pattern is consistent with our expectations. We took a \$78 million charge for adverse policy development, primarily for policy years 2006 and 2007. And the ultimate loss ratio for policy year 2006 and 2007 is 7.5% and 7.7% respectively. The Company has taken significant steps to centralize our claims administration process, which has historically been managed in a decentralized manner. First, we've appointed a new Director of Claims. Second, we've implemented strict review and approval practices for our claims handlers and we've established specific financial authority levels for all claim handling. Third, we are in the process of consolidating our claims administration from over 100 field locations into five central hubs. We anticipate these continuing steps will improve our controls, standardize our processes, reduce our claim handling expense and increase our claims recovery efforts. We expect to complete this initiative by the third quarter of 2009.

Our total revenues in our Commercial segment declined 48%, relative to the fourth quarter of 2007. Revenues in our International division declined 45% during the same period. After several years of steady growth, we expect the commercial and international markets to remain challenged in 2009. Our total revenues for Specialty Insurance segment, \$72 million, a 7% decrease over the prior year. The decrease was due to declines in business volumes and packed into property, casualty and homeowner divisions and combined ratios were 98% and 110%.

To summarize, we are encouraged by the recent increase in orders and by the opportunities created by the homeowners affordability and stability plan and many of the structural changes we've made in 2008 and will continue to make in 2009 position us well for the future. We will continue to centralize key strategic functions including claims administration and our agency administration, and we will continue to have a keen focus on expense control. I'd now like to introduce Frank McMahon who will comment on the Information Solutions Company.

**Frank McMahon - The First American Corporation - EVP and CEO of First American's Information Solutions Group**

Thanks, Dennis. I'll talk very briefly about our results in the fourth quarter and the full year, but then discuss the trends thus far this year and our expectations for 2009. 2008 was a year of transformation and transition for the Information Solutions Group.

Our division experienced a significant amount of change in 2008. New leadership, new operating styles and philosophies and new challenges. Many of our markets contracted, some of our clients disappeared, and virtually all of our clients were impacted by the global recession and the uncertainty of government actions.

Although our GAAP financial results were clearly disappointing, we took many actions that position us very well for 2009. We took aggressive actions to, number one, right size our work force with gross head count reductions of over 1000. Number two, we reduced our physical footprint closing 64 offices. Number three, we modified our compensation programs with our personnel costs as a percentage of revenue down over 10% in the fourth quarter. Number four, we centralized many of our administration functions. And finally, we consolidated and integrated many of our product companies. In addition, we dedicated significant resources to new product development, product enhancement and talent acquisition.

The IFC is a leading provider of data, analytics and processing services for a wide range of companies. Total revenues in 2008 were \$2 billion, with approximately 28% of the revenues -- 28% of the revenues from activities tied to mortgage origination, 35% from activities tied to servicing a default activities, and 37% for non-real estate related activities. Obviously, mortgage originations were off dramatically last year down 24%, so we were impacted by the weak origination market and our operating revenues declined by 8.4% year-over-year. However, we feel we have an attractive business mix for most environments and expect revenue growth to be positive in 2009.

In addition, we're looking at ways to migrate a few of our business lines from transaction based revenue models to subscription or licensing based models, which should reduce the cyclicity of our revenue streams. In the fourth quarter, our operating revenues declined by 6.3% relative to the fourth quarter of '07 and by 3.5% on a sequential quarter basis. Offsetting the revenue impact from the soft mortgage origination market were market share gains and revenue from new or enhanced products. Our controllable expenses declined \$87.9 million or 6.9% for the year and 13% in the fourth quarter, compared to the fourth quarter of '07, as a higher percentage of our cost reductions were in place later in the year. Our fourth quarter results were impacted by several non-recurring items, including asset writedowns of \$6.2 million, severance of \$3.6 million, restructuring costs of \$1.9 million and goodwill impairment of \$19.7 million. Adjusting for these items, our EBITDA was down 2.9% on a sequential quarter basis.

However, there were a number of positive developments in the fourth quarter and many of the resulting trends have continued into 2009. From a revenue perspective, we are seeing growth come from three areas. Number one, increases in refinance activity, number two, market share gains, and number three, revenue from new products. Overall, origination activity over the past several months has increased and many of our origination related products have demonstrated strong year-to-date growth relative to the fourth quarter of '08. Our credit orders are up 31%, flood certifications are up 40%, [BPU] activity has risen by 16% and our electronic title plan information sales are up over 25%.

In addition, we had a strong quarter from a new sales perspective, adding over 25 significant new clients in the fourth quarter. We've gained market share in tax, appraisal, BPO, fraud analytics and ABMs. We introduce many new products or enhancements in 2008 that are gaining traction in the marketplace. A few examples would be our true LTV product, which gives servicers and investors a complete view of loan positions and the current value of collateral, our VP4 Default product, which is an AD specifically designed for properties in default or foreclosure and enhancement to LoanSafe 2.0, which is the leading fraud analytic tool in the marketplace. Additionally, we continue to see growth in the investor vertical, where we serve over 200 clients and estimate that revenues from this vertical will double to over \$100 million in the next three years.

Finally, on the default side, we have been mandated or are in advance discussions with seven of the top 10 servicers regarding our loan modification and loss mitigation solutions. We feel we are uniquely qualified to offer a holistic solution to servicers for loss mitigation and loan mods. We offer best in class front end analytics, best in class valuation capabilities, income verification, [MPD] testing capabilities, document preparation, call center and case management. As the details regarding a national loan modification program become finalized, we expect to see significant revenue growth in this area. While we were encouraged by the improving market conditions, we remain focused on expense management and believe incremental revenue will be creative to our margins. Cost savings initiatives completed in 2008 are anticipated to save an incremental \$45 million in 2009.

To provide investors a sense of the earnings power of the Information Solutions Group, we have provided EBITDA and pretax numbers adjusted to exclude the non-recurring items and realized gains or losses. For the full year 2008, adjusted EBITDA was \$438.9 million, a decrease of 3.9% relative to 2007. Because of our cost cutting initiatives, however, we were able to increase our EBITDA margin in 2008 from 20.9% in 2007 to 21.7% in 2008. Adjusted pretax earnings were \$251.5 million, a 6.1% decline relative to '07.

Now I'd like to talk about our outlook for 2009. As we mentioned earlier, there was positive momentum in our businesses in the fourth quarter in 2008. Operating earnings increased each month in the quarter and the increase in refinance activity, market share gains and new product sales contributed to accelerating results during the quarter. We also view the current environment as a great opportunity to attract talented individuals to our team and we've added quite a few in the last few months and expect to add a quite few more in the coming months. Although we don't give guidance, I would like to share with you our internal long-term financial goals for the IFC, which are revenue growth of 7%, EBITDA growth of 10% and EBITDA margin improvement of 5%. Based on our assumptions of new mortgage originations of \$1.9 trillion and lost -- low modifications of \$4 million transactions, our expectations for 2009 are that our revenue growth will be positive but will fall short of that 7% long term goal. That we will meet or exceed our EBITDA margin improvement goal of 5% and that our EBITDA growth will be positive as well and we will make considerable progress in getting to our 10% goal. All of these growth expectations are based off the adjusted 2008 results we've provided.

So to summarize, we believe we've made a lot of progress in 2008 transforming the business to respond to changing market conditions and expectations. We are disappointed in the GAAP financial results in 2008. But are optimistic we can deliver year-over-year revenue and EBITDA growth and expanding EBITDA margins in 2009. I would now like to open it up for questions.

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## QUESTIONS AND ANSWERS

### **Operator**

Thank you. (Operator Instructions). Bob Napoli of Piper Jaffray, you may ask your question.

### **Bob Napoli** - Piper Jaffray & Company - Analyst

Thank you, good morning.

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

Hi, Bob.

### **Bob Napoli** - Piper Jaffray & Company - Analyst

Welcome, Buddy.

### **Buddy Pizsel** - The First American Corporation - CFO and Treasurer

Hey, how are you doing?

### **Bob Napoli** - Piper Jaffray & Company - Analyst

Good, how are you?

### **Buddy Pizsel** - The First American Corporation - CFO and Treasurer

Good.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Few questions. Just on the -- Frank, the last thing you said, get that out of the way first. You talked about \$4 million loan mods in your Information Solutions Group outlook for 2009? What is, how -- which segment is that in and how do you get paid for that -- how are you generating revenue off those loan mods?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

Well, the low modification market has developed slowly, a number of large lenders have adopted large programs. We've been in very advanced discussions with virtually all the large lenders. We've been mandated by a few, and we haven't lost any opportunities, we've been successful 100%. And we offer a full range of services. We can provide front end analytics to determine what the value is of the property. We had income verification information, and importantly, we also have the ability to do the processing work to prepare the documentation necessary for the loan modification to contact the borrower, to do the case management. So there's a lack of capacity in the market to serve this growing need and we feel we're very well positioned to pursue those opportunities.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Okay. Your claims this quarter were, jumping back to the title disappointing obviously for you guys as well. It sounds like you've made some changes. First, Fidelity National on their conference call, went through some pretty good details of how they're seeing sequential improvements in claims. And you're not seeing, you're seeing the opposite, I mean you're not seeing the improvements that they are. I wondered why, what do you think the difference is?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

This is Dennis, Bob. I can't really comment on what's happening in their business but I'll tell you in our business, we had an adverse development in the fourth quarter and we took the appropriate actions. And our adverse development was primarily contained to years '06 and '07 with a majority in '07. To me that's encouraging that the adverse development is continuing to contain down to a certain amount of years. And what we're doing about it is a real heavy focus in the organization, to centralize and control the administration of claims processing. Claims processing has been typically a decentralized effort for us and what we are in the process of doing and we're going to roll it out and complete it by the third quarter, is centralize that activity. We are looking for real tight controls on authority limits, on pay limits and how we're doing recovery efforts and how we're using outside council. So I'm encouraged by what we're doing as we move into 2009 and how we process our claims.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Is it too early to say what you're seeing for -- for your policy year 2008?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

Yes, Bob, let me comment on 2008. As Dennis said, most of the development that we've seen was related to policy year 2007. If you look at our reserves in total, the '07, '06 years, about 45% of it, that had taken some negative development but the rest of the book was in pretty good shape, actually a little bit of a release. In '08, you can see we're accruing as 6.6% ultimate expected loss rate. And out of the block it's performing better than '07, it came in for its first calendar year a little bit better than expected. And if you think about, tighter underwriting that just took place in the real estate market, as well as the agency culling efforts that we've done, we would expect '08 to come in better than '07 and so far, it is.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Okay. The Lending America having been acquired or out of bankruptcy by FNF and they had 15% market share, and I think it's -- what do you guys, what does First American think, how do you think you'll benefit. Your market share was about 30%. Prior to that, do you expect to gain a decent slug of that market share, or are you seeing it already?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

There are a couple comments, Bob. This is Dennis, first we gained market share in the third quarter. Fourth quarter results aren't released yet from ALTA, but I will tell you we are being very opportunistic, gaining revenue producers and people in the control business. So we're not adding any admin folks, we're not adding any overhead, any management. We're simply going after people that can deliver business to us or appropriate agency relationships. So I think over the next year, it will be one of our key focuses to continue to grow appropriate profitable market share.

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

Bob, this is Frank. Also related to LandAmerica, obviously, they were in the tax, the appraisal business, the credit business in a very small way and so we're actually pursuing very aggressively and have been very successful thus far in converting LandAmerica clients over to some of our products.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Great. And just one more quick question. The revenue per order, down I think you said 19%, we calculated 23%. What is your outlook for 2009? I would imagine we go another step down or two.

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

Really, it will ultimately depend on the mix and how the mix plays out. It was down primarily driven by reductions in commercial revenue and the mix, which switching to refinance primarily, and lower property values across the country. As we enter 2009, clearly we are in a refinance phase right now, but we've also seen an uptick in resales over the last months, which is encouraging to us. At the end of the day, it will just depend ultimately on what the mix is and we'll manage towards it.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Just remind me, the gap between a new purchase and a refi, the revenue end margin?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

Just really a high level, it will depend on the state and the dynamics involved, but you can typically look for a refinance to be at half the price of resale.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

And the margin?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

We don't comment and break out the margin from that perspective, but we run a very efficient refinance operation.

**Bob Napoli** - *Piper Jaffray & Company - Analyst*

Thank you.

**Operator**

Next, Nik Fiskén of Stevens Inc, you may ask a question.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

Good morning, everybody. Can you give us an update on the potential spin or split of the Company?

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

Yes, Nik, this is Park. We are still committed to the separation of the businesses as much as ever. And I might point out we operate the two businesses very independently. However, as we navigate the difficult environment that we're in, it's good to be together but once the market stabilizes and has more clarity, we will definitely be prepared to separate the businesses.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

And what's your definition of stabilizing?

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

I'm not so sure. It's hard to say. It's not quite there yet.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

I'm just looking at your stock price versus the beginning of December versus the other two title guys, and you guys are flat and they're up. I thought it would have motivated you more to do the split in light of what orders have been doing since Thanksgiving.

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

Orders are good, I think we'll need to have some stability over several months or a quarter or two before we really get comfortable with splitting the companies but we are very focused on it, and where's ready to go. It's just a little bit of a waiting game.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

Okay. Fair enough. Dennis, on the price increase in California, are you guys going to tell us what that number is?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

It's approximately 10%. On the price increasing overall to give you color on that, we consistently look at our rate structure to make sure it's adequate, make sure it's not discriminatory and as an ongoing effort, we will continue to adjust our prices accordingly. When you look at the overall top 20 states that generate 80% of our revenue, you take up the promulgated and the rate in file states, we look for price increases in 11 of the 13 remaining states.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

And then, can you talk to your efforts to recapture some agency commissions?

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

Yes, sure. It's definitely been one of our key focuses for '08. It will be one of our key focuses for '09. We actually, I think, across all the companies in the space, we are the one that made an improvement in overall agency commission split. We look for that to continue to improve in '09 and we really like the agency channel, but it needs to be a profitable channel for us with the right risks profiles. So again, it will be a key focus for us going through '09.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

You talked a little bit saving more money on the title side, but if I add up all the '08 savings, it's roughly \$250 million. Do you have a goal to take out in '09?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

When you look at our overall savings for '08, when you pull out all of our reductions from structural, from employees, from facilities, et cetera, our cost containment programs, they are well north of that number you quoted. But moving into '09, what we really do is run this business on a really tight metric approach. So the volumes are volatile right now and they will stay volatile until this market settles down. But irrespective of the volatility of the market, we stay very focused on our operating metrics.

And what we do look for and we achieved in '08 and we're going to have one of our key objectives in '09 is to improve our orders per employee, one of our operating metrics every quarter on a sequential basis over the prior year. Even in a highly declining market last year, we were pretty encouraged by the facts that we actually increased our productivity per quarter throughout '08 versus '07. We're going to look to try to do the same thing going into '09.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

I think I read or heard earlier you guys have stopped firing or you haven't stopped firing?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

Well, again, I personally look at that process as an ongoing effort. I mean we're never done, we're always going to be looking for increased efficiencies in our business and looking to improve on whatever our operating performance was in one quarter to improve the next quarter. So going into the first quarter, to give you a little color, while orders are up significantly and that's obviously a good development, we do not anticipate hiring staff in the first quarter. In fact, we anticipate a slight decline in our head counts going into the first quarter.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

Last one I've got is for Frank. Are you, in light of the economy, are you starting to -- or are you going to continue to take some costs out of info?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

We have different businesses that have different growth factors. So last year in 2008, we were cutting in some businesses and we were adding in other businesses. And I would expect 2009 is going to be the same. That we'll be cutting some businesses and adding in other businesses, and just allocating our resources appropriately. As I said, we do have a goal of expanding our EBITDA margins by 5% and we feel that we'll be able to do that. So that, that growth will be the result of revenue growth but also continued focus on expense management. And things that we've already accomplished in 2008, because of the timing of when we took the actions will provide an incremental \$45 million of savings in '09. As we sit here today, I don't expect us to take as many actions from the head count reduction or from a lease termination perspective in '09 as '08. Just based on what we're seeing right now in terms of activity levels.

**Nik Fiskén** - *Stephens, Inc. - Analyst*

Okay. Thank you. And congratulations on the progress.

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

Thank you.

**Operator**

(Operator Instructions). Jordan Hymowitz of Philadelphia Financial, you may ask your question.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

Hey guys, quick question for you. It looks like your default revenues went down quarter over quarter from \$48 million to \$41 million. What's causing that? And is it because of the foreclosure modifications? And I have a followup afterwards.

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

A couple of things, Jordan. This is Frank. Number one, it's important to note that that doesn't represent all of our default revenues. Our default title operations are within the title company, and those continue to experience very strong growth. On the information side, we have a very balanced mix between foreclosure-related activities and loss mitigation-related activities. And I would characterize what happened in the fourth quarter as, because of the moratoriums, the foreclosure related activity slowed

down a little bit, and people began to, to think about how they were going to expand their loss mitigation programs and set up the loan modification programs. As I said earlier, seven out of the top 10 servicers, we feel like we're going to be doing business with them, but they really haven't kicked off their programs yet. So we're looking for pretty strong revenue growth in '09 in that line item, but I think in the fourth quarter, there was a little pause going on as people were trying to understand what was coming out of Washington in terms of national programs, and obviously, the moratoriums that were put in place.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

So to follow up then, with those questions. First of all, you said something is in the title line item? What is in the title line item?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

This is -- Jordan, this is Dennis Gilmore. In the title line item would be our foreclosure title work, which would either be a title search foreclosure title search or TSG in the western states.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

But that's a small portion?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

No, it's a significant portion of the revenue.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

And what was that number up Q3 to Q4 then?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

We haven't broken it out in that level of detail, but we had significant growth in our default foreclosure business in the title side.

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

Jordan, some information that might give you some color in '08 on a consolidated basis, our default oriented revenue was about \$550 million. And in '07 it was 46% less than that.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

Can you say what it was Q3 to Q4?

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

I don't have that. Do you think you could get back to me with that? I could follow up with that? Yes, I think so so.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

Okay. Second question is, is there any major difference between you guys and LPS in terms of the actual businesses you are doing? Because theirs was still up, forgetting that maybe they have different clients and that. But I'm trying to understand why, if it's the same industry and you are the two biggest players, why they would be up and you would be down? Do they account for things more up front and you guys accrue it more? Do you have any knowledge of that?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

No, it's business mix. Again, we are, we're much more balanced than we do, we do participate in the foreclosure activities, but we're much more focused on loss mitigation and loan modifications. And that was a strategy that we adopted in 2008, and we've, we have focused less on the default outsourcing model that LPS is focused on and so we're very happy with our position right now. So we actually are very optimistic about the outlook for 2009.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

Would it be fair to say if we're moving towards a program where there's a lot less foreclosures and a lot more modifications, you would benefit much more than they would?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

I'm not going to respond to that. I'll let you make that decision. I will tell you that our revenue mix is, is more balanced I think, between those two. But I'm not going to comment on other companies.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

And finally, would you say that the foreclosure business in Q1 has continued to slow down from Q4?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

Yes, I would say it's, I wouldn't say continued to slow down, but I would say it's roughly on the same pace.

**Jordan Hymowitz** - *Philadelphia Financial - Analyst*

Okay. Thank you.

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

Thank you.

**Operator**

Michael Ting of PartnerRe Asset Management, you may ask your question

**Michael Ting** - *PartnerRe Asset Management - Analyst*

Yes, I would like to follow up on the adverse development. When you look at your claims across the geography, did they roughly correlate to your market share in those markets? Or are there certain markets you are seeing a higher level of development?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

There's nothing unique between geography approach, and it's very tied to our market share approach.

**Michael Ting** - *PartnerRe Asset Management - Analyst*

Okay. Given what you know today, what are current cumulative loss estimates for the 2006, 2007 [vendages]?

**Buddy Pizsel** - *The First American Corporation - CFO and Treasurer*

2006 and 2007 are running about 7.6%, 7.7%, and as I said earlier, we're accruing 2008 at 6.6% for all the reasons that the overall underwriting and our own actions have improved our expectations.

**Michael Ting** - *PartnerRe Asset Management - Analyst*

Okay. But do you have an estimate of what the ultimate cumulative loss would be for those two years?

**Buddy Pizsel** - *The First American Corporation - CFO and Treasurer*

That is the ultimate cumulative loss.

**Michael Ting** - *PartnerRe Asset Management - Analyst*

7.6% and 7.7% is your estimate?

**Buddy Pizsel** - *The First American Corporation - CFO and Treasurer*

Yes.

**Michael Ting** - *PartnerRe Asset Management - Analyst*

Got it. And with regards to centralizing of the claims processing, is any of that currently done outside of the US? I think you mentioned outsourcing overseas. Is that, any of that outsourced to thirds parties, or any of that down overseas in markets like India or the Philippines?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

No, it all down in the US.

**Michael Ting** - *PartnerRe Asset Management - Analyst*

Okay, great, thank you.

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

Thank you.

**Operator**

Arieh Coll of Eaton Vance, you may ask your question.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*

Good morning, gentlemen and hope you enjoy having a better year in 2009.

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

We will.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*

Couple of questions on the loan modifications you mentioned. You're expecting \$4 million in 2009. Can you clarify what amount of money the government pays for this modification work?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

Well, we contract with the servicers, so the government will --

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
I'll make it simpler. So what do the servicers pay you?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*  
We don't disclose what we get and part of that is, it is still developing and part of that is for some people, we may do the full spectrum. We may do the decisioning analytics that allow them to figure out what loans go in that 80 to 105 LTD bucket, which ones are above that, which ones are below that. So other people will use this for the, the document prep and case management and call center activities, so it's really dependent --

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
It depends, fine. I'm trying to understand the process. The \$4 million you're expecting in 2009 would be how much of an increase from the amount of volume done in 2008?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*  
Very dramatic. I don't have that number, but --

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
Is it \$2 million going to \$4 million?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*  
I don't have that number. It's at least that.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
What I'm trying to clarify is, you're saying that your default oriented revenue in the business was \$550 million in 2008. And if your loan modification business is going from \$2 million to \$4 million hypothetically, does that suggest that this default oriented revenue could approach a billion dollars this year?

**Park Kennedy** - *The First American Corporation - Chairman and CEO*  
No. The \$550 million, this is Parker, the \$550 million was spread over our entire Company. Not just Information Services.

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*  
And the -- let me just give you a sense. I mean, depending on the nature of the solution and whether it's holistic solution or piecemeal, the revenue that firms like ours would get for property going through foreclosure, it is a lot more than going through a loan modification. We are not talking about the same type of dollars to an outsource provider. And that could probably be anywhere from, 20% to 50%, depending on the services provided.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
Okay. But clearly, when we're talking about the number of open orders you're having for refinancing and new mortgages, those volumes are completely separate from the loan modification business, which is in your information services businesses?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*  
Yes.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
Okay. And two last things --

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*  
And \$4 million is our expectation for the market, not for how many we're going to do, just so we're clear. That's a market number.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
It was my misunderstanding. Two last things. With your reduced employee count today, your opening orders of 9000, 10,000 per day, what is your capacity given the reduced number of employees?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*  
This is Dennis. Again, it's a factor we just look at literally daily, weekly. Right now, we are comfortable with our current employee counts and our current order counts. And I think we have some benefits here, we're leveraging our technology very effectively, we're leveraging our overall structure effectively. So we're handling the current volumes without capacity constraint right now.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*  
And what I'm asking is if we went to 12,000 per day, what is the number you would have to begin hiring additional people?

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

Again, it will depend on the type of orders and it will depend on the geographic distribution of those orders, and so we'll play it out as we go forward in the future. But I'll tell you through all the activity we've done in the last two years, we will be very diligent about minimizing adding costs to this business, so we're going to try to run it as efficiently as we possibly can moving forward.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*

The last thing, is as you close these additional mortgages and you try to leverage your existing expenses, what percentage of every dollar do you think will flow to pretax for the incremental business? Is it 40% or some other number? If you're left to getting \$500 of additional revenue on a closed or \$1000 -- what percentage of that, do you think, is profit?

**Frank McMahon** - *The First American Corporation - EVP and CEO of First American's Information Solutions Group*

We haven't really disclosed, that's getting close to a guidance structure, guidance statement. We've not disclosed that, but your point is accurate and we watch your point, very, very closely, and that is for every incremental dollar we bring into this business, we track our incremental expenses very, very closely. That's one of our key measurements -- management measurements.

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

Also, what you're getting at is what our operational leverage is, and while we can't really say exactly what our margin would be because it differs by- product, there's no question that there is a lot of upside leverage because our expenses are low enough now that we really don't need much improvement on the revenue side to see really good margins.

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

And just let me follow up, this is Dennis again. Again, while I didn't give you the exact numbers on our incremental margin, we definitely think you will see it in the revenues and the profits of the Company as we move through '09 and these closings start to occur.

**Arieh Coll** - *Eaton Vance Managed Investments - Analyst*

Okay, well thank you again.

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

Thank you.

**Dennis Gilmore** - *The First American Corporation - EVP and CEO of First American's Financial Services Group*

You're welcome.

**Operator**

That's all the questions we have today. That concludes this morning's call. We would like to remind listeners that today's call will be available for replay on the Company's website or by dialing (203) 369- 0797. Copies of today's press release announcing First American Corporation's year end results and the accompanying slide presentation are also 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. This concludes today's conference call. You may now disconnect.