



The First American Corporation

The First American Corporation
Conference Call Transcript
Second Quarter 2009 | July 30, 2009

Operator

Welcome and thank you for standing by. (Operator Instructions.)

A copy of today's press release and the accompanying presentation are also available on First American's website at www.firstam.com/investor. Please note that the call is being recorded and will be available for replay from the Company's investor website and for a short period of time by calling 203-369-1047.

We will now turn the call over to Ms. Jo Etta Bandy, Senior Vice President of Corporate Communications, to make an introductory statement.

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

Good morning, everyone, and thank you for joining us on this morning's call.

At this time we would like to remind listeners that Management's commentary and responses to 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 facts.

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 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 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 on today's call will be our Chairman and Chief Executive Officer, Park Kennedy, Buddy Pizel, First American's Chief Financial Officer, Frank McMahon, Chief Executive Officer of the Information Solutions Group, and Dennis Gilmore, Chief Executive Officer of The Financial Services Group.

During the call, we will be referring to the slide presentation which is currently available on First American's website at 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. First American reported strong results in the second quarter. Earnings per diluted share were \$0.75 versus \$0.21 in the second quarter of 2008.

Second quarter earnings include net realized investment losses of \$13.1 million, or \$0.14 per diluted share, net of tax. Excluding this item, earnings per diluted share were \$0.89.

During Q2 of -- each of our primary business groups clearly demonstrated the unique strength of its business model. The steady earnings of our Information Solutions Group reflect our diversified business mix and the deep relationships with the major mortgage originators and servicers. We do well with the very big lenders, and they are active originators in any real estate environment.

The Financial Services Group showed the strength of its unique systems and its strong offshore business model. This model allows us to respond to higher order volumes without significantly increasing our US employee base. I am confident that the executives in each business group are experienced and aggressive and will do well in any market.

We recently announced that we have made an offer to acquire the issued and outstanding common stock of our publicly traded subsidiary, First Advantage. Acquiring the minority interest in First Advantage will enhance our financial flexibility, reduce organizational complexity, and provide greater overall operational efficiency.

We believe this transaction will boost the financial strength of First American as we continue to prepare for the separation of our Information Solutions and Financial Services businesses.

On January 15, 2008, the Company announced its intention to separate its Financial Services companies from its Information Solutions companies in a spinoff transaction resulting in two separate publicly traded entities.

Due to negative trends and uncertainty in the real estate and mortgage credit markets, the Company delayed the consummation of the transaction to focus on responding to these conditions.

During the first quarter, the Company stepped up efforts to prepare for the spinoff and is working diligently toward completing the transaction, including obtaining the IRS ruling request, making the filings with various insurance and banking regulatory authorities, and preparing the Form 10.

We expect to consummate the spinoff during the first half of 2010. We are targeting a completion date in the first quarter, but we don't have full control over the ultimate timing of the transaction due to regulatory matters.

The timing also assumes that there is not a severe downturn in the real estate and mortgage markets. We will update the investor community on a regular basis as we make progress toward the spinoff.

Now, I would like to introduce Buddy Pizel, who will comment on our financial results.

Buddy Pizel - The First American Corporation - CFO

Thank you, Park. Let's get right into the results.

Operating revenues were \$1.5 billion in the second quarter, a decrease of 10% relative to the prior year, and a 14% increase relative to the first quarter of 2009.

For sequential quarters, direct title revenues were up 24%. On the agency side, sequential revenues were up 18%. Information Solutions had total revenue growth of 8% year-over-year. The increase was driven

by a 34% revenue growth in the information and outsourcing solution segment, which continued to benefit from the refinance volumes and market share gains, so a very strong revenue quarter.

The Company recorded \$21.8 million of realized losses for the quarter primarily related to common equity securities. Most of the losses occurred in the title insurance and the specialty insurance segments.

Eighty-five percent of our equity security holdings are index funds, much of which was purchased over five years ago. Like the overall equity market, values for equity securities has declined significantly since the second quarter of 2008.

Even though we'll continue to hold these investments, the accounting world has changed, so that once unrealized losses are over a year old, many companies recognize the losses in the P&L.

Given the way our practice has evolved, we felt it was prudent to recognize these losses now. We fully expect that we will see appreciation of these holdings in the future.

Overall, the quality of our investment portfolio remains very high. With this action, we've taken essentially all of our equity security market value declines. We have relatively small cash losses projected for our remaining non-agency portfolio, and the rest of the portfolio is largely government-backed.

Turning to expenses. Expenses in the second quarter declined 15% relative to the prior year, and were up 7% sequentially.

Salary and other expenses are up 3% sequentially on the headcount side. Title headcount remained relatively unchanged compared to the first quarter. Headcount in the rest of the Company is essentially flat. We remain committed to improving the efficiency of the business regardless of the market environment.

The loss provision in the title insurance segment was 6.5% for the second quarter. The current quarter rate reflects the expected claims experience for policy year 2009 with no reserve estimate adjustments required for the prior policy years. Both paid and in current claims were lower than our forecast for both the second quarter and the year-to-date periods, and we continue to believe that we are well reserved.

So, you put all that together and adjusted EPS was \$0.89 per share, excluding the impact of the net realized investment losses.

Next, liquidity and capital management. As of June 30th, First American had \$60 million of cash at the holding company. At the end of July, we will have about \$70 million at the holding company, and that's after making our second quarter dividend.

Our forecast for the rest of the year would leave approximately \$125 million of cash at the holding company at year-end. This positions us well to fund both holding companies upon the spin.

The total Company had over \$1 billion of cash on the balance sheet as of June 30th. We believe there's considerable opportunity on the financial services side to permanently reinvest cash into fixed income securities. We expect much of that reinvestment to occur throughout 2009.

The debt-to-capital ratio at the end of the quarter was 20.8%. We estimate that surplus at the regulated insurance company improved over the quarter and should end the year up significantly, even after its dividends to the holding company. So, overall, we continue to have good financial flexibility.

Lastly, I'd like to point out that we've removed all references to our post-spin pro forma balance sheets and income statements for the Financial Services and Information Solutions companies.

I want to explain why we did that. As Park said, we're making a lot of progress on the spin. Part of that work is to create the most flexibility and the strongest balance sheets that we can for both companies. We've come up with solid ideas that will improve both companies' financial strength, but cannot continue to disclose these iterations as they evolve.

We're targeting early fourth quarter to start the filing process with the SEC, so you'll see, at that point, what will be close to a final view of the balance sheets for both companies.

Now, I'll pass it on to Frank McMahon, who'll comment on the Information Solutions Company.

Frank McMahon - *The First American Corporation - CEO, Information Solutions*

Great. Thank you, Buddy.

The second quarter of 2009 was a relatively strong one for the Information Solutions Group. Consistent with our first quarter results, the actions taken in 2008 have positioned us well to capitalize on this year's opportunities.

The actions taken over the last 12 months have been a combination of expense cuts, product company integrations, product development initiatives, and key hires.

Our second quarter revenues increased 5.3% on a sequential quarter basis and over 8% relative to the second quarter of last year. Our revenue growth is being driven by market share gains, the introduction of new products, and an increase in origination related revenues.

During the first six months of this year, we have been hired by 41 new or existing clients for new business that is expected to generate over \$95 million in annualized revenue. We experienced revenue growth in flood, collateral valuation, in both appraisal and BPOs, default, and lead generation products in the second quarter relative to last year.

Our appraisal revenues were favorably impacted by the conversion of a joint venture relationship to a direct relationship and market share gains as more and more lenders elected to outsource their appraisal work to companies that can provide the right level of expertise, technology, and geographic coverage.

Conversely, the employer and litigation support business at First Advantage continued to experience year-over-year declines in revenue. However, we are starting to see signs of life in both areas, with our pipelines building, and our Employer Services business adding 10 new clients in the second quarter that will result in over \$10 million in annualized revenue.

Finally, our property tax outsourcing business had higher revenue in this quarter than in the preceding quarter as market share gains in the first quarter began to be visible as we (inaudible) the loans on our system and began to recognize revenue.

In terms of new products, this summer we have introduced a number of new and enhanced mortgage risk analytic products. This would include our new HPI Index and our HPI forecast, a decisioning analytic tool we call [Wilcap] that can help servicers select the optimal loss mitigation strategy and a new bond analytic platform that provides analysis and pricing capabilities.

We have created a product partnership with Intex that brings together the best-in-class in terms of loan level data, deal libraries, and cash flow information and analytics and pricing models.

We introduced this product earlier this week at our annual risk summit and received very favorable feedback from many of the 245 clients that attended that conference.

Finally, we recently announced enhancements to the loss mitigation module of our default technology platform, called VendorScape, to fully support the home affordability modification program.

On the expense side, our controllable costs, which are all costs except cost of goods sold, depreciation and interest, were down 6.5% relative to last year, and were up 2.5% on a sequential quarter basis. We continue to take a disciplined approach to managing our costs and infrastructure in an effort to increase margins.

The combination of revenues increasing 8.1% and controllable costs going down by 6.5% resulted in meaningful margin expansion. Our EBITDA margin for the quarter was 25.9%, which was up over 8% relative to last year, and our pre-tax margin was over 20%, up over 17% year-over-year.

I'd now like to comment on our outlook for the second half of 2009. Based on what we're seeing in terms of order flows, especially in our credit business, we expect origination related revenues, which are about 34% of our total revenues, to decline by 10% to 15% relative to the first half of the year.

However, we expect to be able to make up most of that shortfall through an increase in default related revenues, continued market share gains, and increased adoption rates on new products.

We also expect government actions to continue to provide further growth. Default related volumes should continue to increase as the [HAMP] program continues to be rolled out and the impact of the expiration of the foreclosure moratoriums is seen in the marketplace.

In addition, the public/private investment program continues to be move toward implementation, and that is expected to increase demand for many of our mortgage risk analytic tools.

In terms of our full-year outlook, as we have previously disclosed, the Information Solution Group currently has three primary long-term financial goals - revenue growth of 7%, EBITDA growth of 10%, and EBITDA margin improvement of 5%, not five percentage points, but 5%.

On our last earnings call, we discussed that in 2009 we expect to make progress toward our revenue goal, although, we do not anticipate achieving 7% in 2009. And in fact, our revenues are up 4.4% year-over-year.

We stated that we will make considerable progress towards achieving our 10% EBITDA growth goal and, in fact, we are up 11.4% year-over-year. So, we're ahead of where we thought we would be in terms of that goal.

We stated that we anticipate achieving our 5% EBITDA margin improvement goal, and we have improved the margin by 6.6% year-over-year.

So, based on our performance year-to-date, and our expectations for the balance of the year, we remain comfortable that we can achieve both our EBITDA growth and EBITDA margin goal, but do not expect to achieve the revenue goal this year.

However, we remain confident, as the economy improves and businesses like our employer and dealer business that are very much tied to that economy, we will be able to meet our long-term goal of 7% revenue growth over time.

With that, I'd now like to turn it over to Dennis to discuss the Financial Services Group results.

Dennis Gilmore - *The First American Corporation* - CEO, Financial Services

Thank you, Frank.

The second quarter, pretax income for the Title Insurance segment was \$62 million, which included \$15.5 million of net realized investment losses. Excluding these investment losses, pre-taxed income was \$78 million for an adjusted pre-tax margin of 8.2%.

During the quarter, the Company experienced an increase in refinance activity as well as a modest increase in purchase activity.

The default businesses continue to perform well, which offset weaknesses in our commercial and international markets.

In the second quarter, we opened 566,000 orders, including 10,100 orders per day in April and 9,200 orders in May, 7,200 in June and, in July we are opening approximately 7,100 orders per day.

The Company experienced a sharp decline in refinance orders at the end of May. This order volume decline will have an impact on our third quarter revenue due to the lag between open and closed orders.

Direct revenue declined 10% over the prior year due to a decrease in the average revenue per order, offset by an increase in the number of title orders closed.

Our average revenue [per] was 101,300 for the quarter, an increase of 4% relative to the first quarter, primarily due to a shift in the order mix.

Our agency revenue declined 26% over the prior year. The decline was a result of the same factors affecting our direct operations, as well as the continued termination of [on-profitable] agency relationships.

We believe there's significant opportunity to enhance the profitability of our agency business by improving our agency splits, terminating underperforming agents, and optimizing our agency distribution.

Our salaries and other personnel costs decreased 18% over the prior year.

During the second quarter, employees at the title insurance segment remained flat at 12,900.

Other operating expenses declined 21% over the prior year. The primary driver of the decline was successful implementation of cost containment programs, including reduced occupancy costs. The Company closed 29 offices during the quarter in our continued effort to rationalize our footprint.

Total revenue in our commercial division was \$52 million, a 44% decline relative to the prior year.

The commercial outlook for 2009 remains challenging due to weaknesses in the credit market. However, First American is well positioned when the commercial markets recover due to our strong balance sheet and healthy financial ratings.

Total revenues in our international division were \$80 million, a 35% decline relative to the prior year. While our international operations are experiencing the impact of the global recession, our relationships with our large foreign lenders remain strong and the long-term prospect remains promising.

Our total revenues at our specialty insurance segment were \$64 million, a 16% decrease over the prior year, primarily due to a decline in business volumes impacting our property and casualty insurance and home warranty divisions.

Pre-tax income for the segment was \$1.3 million, which included a \$6.3 million of net realized investment losses. Excluding these investment losses, pre-tax income was \$8 million for a pre-tax margin of 11%.

As we discussed last quarter, we are centralizing our claims processing. In June, we launched our first processing center with another four to go live by the end of the third quarter.

This central approach to claims handling will reduce our outside legal costs, improve our recovery rates, and standardize our overall claims handling processes. This project is consistent with our overall strategy of simplifying and standardizing operations.

To summarize, though disappointed with our investment losses, we are pleased with the progress we are making to improve our operating margins. Decline in open orders in June and July will impact our revenue next quarter, but we will continue to focus on the efficiencies of our business by simplifying our operation structure, leveraging our technology on our offshore capacities, and act swiftly on expenses when market conditions dictate.

Our long-term objective is to achieve an annual pre-tax margin of at least 10% in the title segment.

I'd now like to open up the line for questions.

Operator

(Operator Instructions.) Jason Deleeuw from Piper Jaffray.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Thank you. Good morning, everyone.

Dennis Gilmore - The First American Corporation - CEO, Financial Services

Good morning.

Park Kennedy - The First American Corporation - Chairman and CEO

Hi.

Frank McMahon - The First American Corporation - CEO, Information Solutions

Good morning, Jason.

Jason Deleeuw - Piper Jaffray & Company - Analyst

With the 7,100 open orders per day in July, what percent of those are you seeing as refi orders? And then, your direct order -- your revenue per order was up a little bit sequentially quarter-over-quarter. If you get more of a normal -- like a 50/50 purchase refi mix, do you think your revenue per order can return to -- like the levels we saw back in 2008, 15, 16 -- above 1,600?

Dennis Gilmore - The First American Corporation - CEO, Financial Services

Sure. This is Dennis. Let me answer the question.

A couple things. First, we're running at about 34% to 37% refinance right now in our mix. We have seen an increase in our purchase market, but we still are operating in a weak commercial market.

We look at our average order per file. We had a sequential decline over last year, I think, of 18%, but we're encouraged by an increase of 4% over the first quarter. So, we're running, right now, at about \$1,300 per file.

We are anticipating a modest increase in our average fee per order heading into the second quarter, but I -- again, I'm going to use the word, again, modest because we're going to see a better mix towards resale, but that mix is still heavily swayed towards lower end properties which have lower average fees. And we still will not see a recovery in the commercial markets probably until 2010 at the earliest.

Jason Deleeuw - Piper Jaffray & Company - Analyst

So, net/net we would still -- you're probably going to fall a little bit short, at least, on the revenue per order than what we saw, like, a year ago, even if the mix is the same just because of the lower end properties and the commercial weakness.

Dennis Gilmore - *The First American Corporation - CEO, Financial Services*

That's what we're modeling right now.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

Okay. And then, for -- I'm just wondering if you have the title business right-sized for the current volumes you're seeing through July. Do you think there will be more cuts needed, and what kind of pre-tax margin -- I mean, it was very strong this quarter, and I'm just wondering what kind of margin in title do you think you can get at these current volumes?

Dennis Gilmore - *The First American Corporation - CEO, Financial Services*

Sure. Let me -- again, this is Dennis. A couple points here.

First, we're very encouraged by our first half performance and the fact that we were able to deal with a very strong increase in volumes with -- at a net level, no increased employees. Actually, we're down 200-plus employees for the first six months.

And so, what that's really showing us is the benefit that we have towards our common brand, our common processing, our common offshore approach to our production. We were able to really handle big increases in volumes with a pretty stable workforce.

Now, where we did add costs, they were really on the closing side, and most of those costs were more variable in nature. So, as we go into the second quarter, and I do think we'll see some revenue pressure in the second quarter, we'll adjust our -- excuse me, as we go into the third quarter, I think we'll see some revenue pressure, and we'll adjust our costs accordingly.

Like we have for the past two years, we'll be very aggressive on taking the costs out where we think they're appropriate, so we'll just continue to adjust the business as we see fit with our order volumes.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

But, you would expect that the second quarter margin was -- just because of the volumes being so strong, I mean, that would be the high for the year?

Dennis Gilmore - *The First American Corporation - CEO, Financial Services*

Well, I think that we're going to have more pressure in the second half.

Jason Deleeuw - *Piper Jaffray & Company - Analyst*

Okay. And then, I'll get back in queue, and I just have one last question. I'm wondering, on the split up of the two companies, are the current volumes healthy enough to support the split up of the Company?

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

Yes, Jason. This is Park. I do feel that the current volumes are healthy enough. And if they continue, I think we'll be able to comfortably split the companies. Even if they decline a bit, I think we'll be okay because of some of the things that we're going to do to the balance sheet between now and the split.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Can you elaborate on some of those things, or is it too early?

Park Kennedy - The First American Corporation - Chairman and CEO

Yes, it's a tad early.

Jason Deleeuw - Piper Jaffray & Company - Analyst

All right. Thank you very much.

Dennis Gilmore - The First American Corporation - CEO, Financial Services

Thank you.

Park Kennedy - The First American Corporation - Chairman and CEO

Thank you.

Operator

Nik Fiskens of Stephens.

Nik Fiskens - Stephens, Inc. - Analyst

Hey, good morning, and congrats on another strong quarter.

Dennis Gilmore - The First American Corporation - CEO, Financial Services

Thank you.

Nik Fiskens - Stephens, Inc. - Analyst

Can you give us a little bit more detail on the processes that you're going through to enable the spin? I mean, can you kind of give us an idea of where we are with the IRS, the regulators and the debt, please?

Park Kennedy - The First American Corporation - Chairman and CEO

This is Park. I'll start and turn it over to Buddy.

One of the things that we've done is, in effect, clarify the balance sheet. A step in that direction was the offer to buy-in the First Advantage shares. And then, there are other things that are underway.

Buddy?

Buddy Pizel - *The First American Corporation - CFO*

Yes, Nik, we said that we're targeting the Form 10 submission, early fourth quarter. We think that gives us enough time to be able to accomplish something in the first quarter, so we're working diligently on that, including all the auditing work of the prior years.

We're starting the process where -- we're well underway in sort of identifying the way the two companies are going to look, which really is critical to the IRS tax-free ruling that, again, we've not filed yet, but we're getting close to that.

The long pull really is regulatory approvals, especially internationally, so we have yet to begun that work, but -- I mean, to formally submit information to the regulators, but, again, a lot of work underway.

You mentioned the debt and the credit facilities. Again, we're working very closely with our bank and some of the banks in our syndicates to start engaging in that process.

So, literally, there's no aspect of the proprietary work related to the spin that we're not fully engaged in at this point.

Nik Fisker - *Stephens, Inc. - Analyst*

Okay. Thank you.

The other thing, Dennis, I'm wondering why you haven't started cutting heads already, given that volumes have slowed.

Dennis Gilmore - *The First American Corporation - CEO, Financial Services*

Okay. We've had opportunity this last -- first half of the year to not add heads. And so, we're running this business differently than it's been run in the past. We're seeing the benefits of really our working approach to how we're running the business.

So, while others had to add a lot of headcount in the first half of the year, we didn't add heads. Actually, we're down net 200.

Where we did add cost, it was in our closing aspect, and we still have very elevated closing ratios going into the third quarter. Now, as those roll off, and if the volumes stay where they are, or they go down, we'll address the expense base in a very aggressive manner like we always have.

Nik Fisker - *Stephens, Inc. - Analyst*

So, if I look at the closed orders in June, should it be representative of what July should look at?

Dennis Gilmore - *The First American Corporation - CEO, Financial Services*

I think it'll be close.

Nik Fisker - *Stephens, Inc. - Analyst*

Okay. Great. Thanks so much.

Operator

(Operator Instructions.) Rajiv Patel of Galleon Group.

Rajiv Patel - *Galleon Group - Analyst*

Hey, guys. Thanks for taking a question from me.

In the title business, I was just looking at the -- your reserve coverage, and can you just help explain the methodology behind that because -- and this could be rough math, but if I look at the claims you did this quarter and annualize them and take your reserves and divide it by the annualized claims, you -- I come to about 4.2, 4.3 years.

But, then when I do the same thing with one of your competitors, Fidelity National, I come to a little north of 8 years. So, can you just explain the -- what goes into the reserve methodology there?

Thanks.

Buddy Pizel - *The First American Corporation - CFO*

Well, we don't really try to calculate how many years of coverage.

The way this works is, we do a very detailed evaluation of the emerging claims experienced, both on the paid and occurrence side, and then we determine by every vintage year, what's the adequacy of the reserves. And then, we make a selection as to what we think we need for the current year's business.

We've been getting more and more -- we've increased our ability to get into a much more deeper view of different splits of what's contributing to the loss experience that we have. And maybe what might help is that when we look back at policy year 2007, which is at a 7.7% accrual rate. We're now able to see the revenue lines that have the higher loss experience, which are essentially gone today.

And if you just move out that revenue and move out the losses for products that had very high loss ratios, you get to a adjusted 2007 policy year experience of 6.3%. And what that tells us is that when you look at our accrual rate for 2008, which is 6.5%, that it feels conservative, and the early read on the 2009 book is that we're building up some redundancies.

So, I can't comment specifically on the 4.3 years, but I can just tell you we feel better, with each passing month, as to where our reserve levels are set.

Rajiv Patel - *Galleon Group - Analyst*

So, you feel like you may actually -- and not to put words in your mouth, but you feel like you may have -- as this cycle kind of plays out, you may have additional redundancies which could be -- which could take through the P&L some time in the future?

Buddy Pizel - *The First American Corporation - CFO*

I'd say it's early to tell. I'd say that the initial trends are favorable.

Rajiv Patel - Galleon Group - Analyst

Okay. Great. Thanks very much.

Operator

Jason Deleeuw.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Thank you. I just want to hone in here on the Info Solutions business a little bit. It sounds like you're going to fall short of the revenue growth goal, but you're still very confident on the margins, and the margins were very strong this quarter.

So, I'm just wondering is this orders margin a sustainable run rate, or are there some revenue mix issues in there that -- where we can maybe see as the volumes trail off or other issues where maybe the margins come down a bit from the strong levels this quarter?

Frank McMahon - The First American Corporation - CEO, Information Solutions

Jason, it's Frank.

So, we're looking at -- we do think we can improve the margin by 5% for the year. We're up a little over 6% year-to-date, so we're comfortable we can get to the 5%.

We may see a little erosion in the second half, especially given the growth that we are seeing on the appraisal side and, again, some of that is market driven. Some of that is just how lenders are thinking about that business today, and the appraisal business is a slightly lower margin business for us than some of the others.

But, overall, we still think we can get to that 5% goal, which would tell you that we're -- if we see some erosion, it's not going to be material relative to the first half.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Thank you. And then, just on that collateral valuation revenue, I mean, it's very strong. It's up nicely quarter-over-quarter and with the appraisals -- increased outsourcing, the appraisals -- but there's also -- there's a volume aspect to it. So, kind of going forward, I mean just with the volumes coming down -- I mean, it sounds like you guys have picked up market share there, but the volumes have also trailed off. So, I mean, do you -- would you expect that the revenue to trail off a bit, too, from strong levels this quarter?

Frank McMahon - The First American Corporation - CEO, Information Solutions

Yes. I think -- well, not necessarily, because I think that if we see a 10% to 15% reduction in refinance activity, which is kind of what we've seen in July, we think that some of the market share gains that we have been able to pick up this year may offset that. So, we look for appraisal to actually be relatively steady for the balance of the year.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Great. And then, the 41 new business deals that you guys have, can you just give us some color on the types of clients that you're winning this business from?

Frank McMahon - The First American Corporation - CEO, Information Solutions

Well, again, it's 41 either new or existing clients.

And so, there's really two dynamics going on. The first is that our clients are telling us that they want to go deeper with [fewer]. The large financial institutions want to do business with people that have best-in-class products, that are sustainable, are going to be around, that have invested in the right level of information security compliance, etc. And so, we continue to experience very good cross-sell experience with the large lenders.

In addition, primarily on the investor side, a number of people have raised money to buy distressed assets, both whole loans and securities. And that wave of selling activity really hasn't happened yet, but as some of these government programs get implemented, but also as the market just starts to operate in a more liquid fashion, we see a lot of people lining up to use our mortgage risk analytic products. So, we've added a lot of clients in that business. We expect to add even more, going forward.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Okay. So, you have seen some benefit from clients that have raised money to buy distressed assets. In looking at your business, have they actually signed up and become clients, or are they still kind of sitting on the fence? And do you have, like, a timeline, a little bit, for when you think there's going to be some action on that front in terms of putting the money to work on -- buying these distressed assets? What have you guys seen in the marketplace.

Frank McMahon - The First American Corporation - CEO, Information Solutions

Yes, I would say, actually, in the second quarter there wasn't -- that didn't move the needle in terms of financial results, so we still think that is something that's a growth opportunity for us.

So, what typically happens is people don't want to spend a lot of money until they can execute, in terms of buying assets, so high level of engagement.

I mentioned earlier, we had our Risk Summit Conference earlier this week. We had 245 clients attend that, mostly interested in our mortgage risk analytic products.

So, given the environment, we were thrilled with that attendance, and the level of engagement was very high. So, we still think that's an area of meaningful growth for us, going forward.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Great. And then, just my last question here is, on the pipeline that you're seeing for the default services and info and outsourcing, the revenue continues to be very strong. What are you guys seeing in the pipeline and your outlook for that revenue?

Frank McMahon - The First American Corporation - CEO, Information Solutions

Well, again, just so we're clear, our default business -- there's some of it on my side and there's some of it on Dennis' side and they're both pretty meaningful, so you need to look at both.

But, on my side, we continue to see good pipelines there. It's not as material as some of our competitors at -- running at \$70 million a quarter. But, we still think there's a reasonable tail to the foreclosure activity and would expect that business to continue to grow for probably at least another 12 to 18 months.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Okay. And can you just give us some more color and remind us on exactly what type of services you're offering there? I mean, I know there's stuff with REO and there's probably -- handling delinquencies and stuff. Can you just give us some color along the types of services that you're offering?

Frank McMahon - The First American Corporation - CEO, Information Solutions

Sure.

Jason Deleeuw - Piper Jaffray & Company - Analyst

And who? Is it mostly mortgage servicers?

Frank McMahon - The First American Corporation - CEO, Information Solutions

Yes, it's primarily mortgage servicers, and we have a technology default platform that many servicers use, called VendorScape. We provide REO services. We provide field services. So, those would be the three large buckets in terms of our default-related activities.

Jason Deleeuw - Piper Jaffray & Company - Analyst

Thank you very much.

Operator

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

We'd like to remind listeners that today's call will be available for replay on the Company's website or by dialing 203-369-1047.

Copies of the press release announcing First American's first quarter results and the accompanying slide presentation are also available on First American's website at www.firstam.com/investor.

The Company would like to thank you for your presentation. This concludes today's conference call. You may now disconnect.