First American Financial Corp
Form 10-Q
October 26, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 001-34580

FIRST AMERICAN FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(714) 250-3000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

On October 19, 2012, there were 106,670,469 shares of common stock outstanding.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

INFORMATION INCLUDED IN REPORT

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

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

- *THE HOLDING OF AND EXPECTED CASH FLOWS FROM DEBT SECURITIES AND ASSUMPTIONS RELATING THERETO;*
- *EXPECTED PENSION PLAN AND SUPPLEMENTAL BENEFIT PLAN CONTRIBUTIONS AND RETURNS;*
- *THE EFFECT OF LAWSUITS, REGULATORY EXAMINATIONS AND INVESTIGATIONS AND OTHER LEGAL PROCEEDINGS ON THE COMPANY S FINANCIAL CONDITION, RESULTS OF OPERATIONS OR CASH FLOWS;*
- *THE EFFECT OF PENDING ACCOUNTING PRONOUNCEMENTS ON THE COMPANY S FINANCIAL STATEMENTS;*
- *FUTURE ACTIONS TO BE TAKEN IN CONNECTION WITH THE COMPANY S REVIEW OF ITS AGENCY RELATIONSHIPS;*
- *THE REALIZATION OF TAX BENEFITS ASSOCIATED WITH CERTAIN LOSSES AND UNRECOGNIZED TAX BENEFIT ESTIMATES;*
- *FUTURE PAYMENT OF DIVIDENDS;*
- *THE SUFFICIENCY OF THE COMPANY S RESOURCES TO SATISFY OPERATIONAL CASH REQUIREMENTS; AND*
- *THE LIKELIHOOD OF CHANGES IN EXPECTED ULTIMATE LOSSES AND CORRESPONDING LOSS RATES AND CLAIM RESERVES,*

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

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

- *INTEREST RATE FLUCTUATIONS;*
- *CHANGES IN THE PERFORMANCE OF THE REAL ESTATE MARKETS;*
- *VOLATILITY IN THE CAPITAL MARKETS;*

UNFAVORABLE ECONOMIC CONDITIONS;

IMPAIRMENTS IN THE COMPANY S GOODWILL OR OTHER INTANGIBLE ASSETS;

FAILURES AT FINANCIAL INSTITUTIONS WHERE THE COMPANY DEPOSITS FUNDS;

CHANGES IN APPLICABLE GOVERNMENT REGULATIONS;

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

REGULATION OF TITLE INSURANCE RATES;

REFORM OF GOVERNMENT-SPONSORED MORTGAGE ENTERPRISES;

LIMITATIONS ON ACCESS TO PUBLIC RECORDS AND OTHER DATA;

PRODUCT MIGRATION;

CHANGES IN RELATIONSHIPS WITH LARGE MORTGAGE LENDERS;

CHANGES IN MEASURES OF THE STRENGTH OF THE COMPANY S TITLE INSURANCE UNDERWRITERS, INCLUDING RATINGS AND STATUTORY SURPLUSES;

LOSSES IN THE COMPANY S INVESTMENT PORTFOLIO;

EXPENSES OF AND FUNDING OBLIGATIONS TO THE PENSION PLAN;

MATERIAL VARIANCE BETWEEN ACTUAL AND EXPECTED CLAIMS EXPERIENCE;

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- *DEFALCATIONS, INCREASED CLAIMS OR OTHER COSTS AND EXPENSES ATTRIBUTABLE TO THE COMPANY S USE OF TITLE AGENTS;*

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

- *INABILITY TO REALIZE THE BENEFITS OF THE COMPANY S OFFSHORE STRATEGY;*

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

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

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

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements.

FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Balance Sheets

(in thousands, except par values)

(unaudited)

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 745,372	$ 418,299
Accounts and accrued income receivable, net	265,234	227,847
Income taxes receivable		12,304
Investments:		
Deposits with savings and loan associations and banks	87,825	56,201
Debt securities	2,456,300	2,201,911
Equity securities	177,704	184,000
Other long-term investments	192,794	200,805
	2,914,623	2,642,917
Loans receivable, net	112,306	139,191
Property and equipment, net	340,497	337,578
Title plants and other indexes	516,448	513,998
Deferred income taxes	44,893	39,617
Goodwill	836,147	818,420
Other intangible assets, net	58,596	59,994
Other assets	165,182	152,045
	$ 5,999,298	$ 5,362,210
Liabilities and Equity		
Deposits	$ 1,415,705	$ 1,093,236
Accounts payable and accrued liabilities	739,928	727,807
Due to CoreLogic, Inc. (CoreLogic), net	41,523	35,951
Deferred revenue	169,709	155,626
Reserve for known and incurred but not reported claims	976,825	1,014,676
Income taxes payable	97,306	
Notes and contracts payable	272,497	299,975
	3,713,493	3,327,271
Commitments and contingencies (Note 16)		
Stockholders equity:		
Preferred stock, $0.00001 par value, Authorized 500 shares; Outstanding none		

Common stock, $0.00001 par value:		
Authorized 300,000 shares; Outstanding 106,589 shares and 105,410 shares as of September 30, 2012 and December 31, 2011, respectively	1	1
Additional paid-in capital	2,097,654	2,081,242
Retained earnings	306,417	124,816
Accumulated other comprehensive loss	(123,275)	(177,459)
Total stockholders equity	2,280,797	2,028,600
Noncontrolling interests	5,008	6,339
Total equity	2,285,805	2,034,939
	$ 5,999,298	$ 5,362,210

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

AND SUBSIDIARY COMPANIES

Condensed Consolidated Statements of Income

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Revenues				
Direct premiums and escrow fees	$ 535,846	$ 426,533	$ 1,446,920	$ 1,189,605
Agent premiums	443,028	366,028	1,220,375	1,114,390
Information and other	159,103	158,969	482,690	467,437
Investment income	23,154	16,695	64,227	59,560
Net realized investment gains (losses)	47,271	682	54,350	(1,768)
Net other-than-temporary impairment (OTTI) losses recognized in earnings:				
Total OTTI losses on debt securities		(7,854)	(1,757)	(9,102)
Portion of OTTI losses on debt securities recognized in other comprehensive loss		3,912	(1,807)	3,886
		(3,942)	(3,564)	(5,216)
	1,208,402	964,965	3,264,998	2,824,008
Expenses				
Personnel costs	344,140	291,950	971,462	868,703
Premiums retained by agents	355,191	293,583	978,703	893,382
Other operating expenses	213,111	191,203	607,908	578,373
Provision for policy losses and other claims	106,209	112,177	288,276	318,926
Depreciation and amortization	18,429	19,018	54,944	56,984
Premium taxes	13,470	15,403	36,546	34,359
Interest	1,970	3,220	7,437	9,104
	1,052,520	926,554	2,945,276	2,759,831
Income before income taxes	155,882	38,411	319,722	64,177
Income taxes	51,982	17,116	111,196	25,976
Net income	103,900	21,295	208,526	38,201
Less: Net income attributable to noncontrolling interests	430	252	762	152
Net income attributable to the Company	$ 103,470	$ 21,043	$ 207,764	$ 38,049
Net income per share attributable to the Company s stockholders (Note 10):				
Basic	$ 0.97	$ 0.20	$ 1.95	$ 0.36
Diluted	$ 0.95	$ 0.20	$ 1.92	$ 0.36
Cash dividends per share	$ 0.08	$ 0.06	$ 0.24	$ 0.18

Weighted-average common shares outstanding (Note 10):				
Basic	106,445	105,375	106,099	105,104
Diluted	108,709	107,005	108,243	106,837

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

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Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Net income	$ 103,900	$ 21,295	$ 208,526	$ 38,201
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities	11,051	(47,739)	37,120	(45,577)
Unrealized gain (loss) on securities for which credit-related portion was recognized in earnings	1,914	(424)	5,494	1,060
Foreign currency translation adjustment	8,469	(16,189)	7,803	(9,535)
Pension benefit adjustment	1,258	3,381	3,773	10,146
Total other comprehensive income (loss), net of tax	22,692	(60,971)	54,190	(43,906)
Comprehensive income (loss)	126,592	(39,676)	262,716	(5,705)
Less: Comprehensive income attributable to noncontrolling interests	434	80	768	80
Comprehensive income (loss) attributable to the Company	$ 126,158	$ (39,756)	$ 261,948	$ (5,785)

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

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Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	For the Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 208,526	$ 38,201
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for policy losses and other claims	288,276	318,926
Depreciation and amortization	54,944	56,984
Excess tax benefits from share-based compensation	(1,029)	(1,085)
Share-based compensation	11,922	12,134
Net realized investment (gains) losses	(54,350)	1,768
Net OTTI losses recognized in earnings	3,564	5,216
Equity in earnings of affiliates	(9,098)	(6,000)
Dividends from equity method investments	6,413	9,130
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:		
Claims paid, including assets acquired, net of recoveries	(338,911)	(354,193)
Net change in income tax accounts	81,008	(2,984)
Increase in accounts and accrued income receivable	(33,482)	(11,909)
Increase (decrease) in accounts payable and accrued liabilities	15,369	(66,076)
Net change in due to CoreLogic, net	(77)	18,593
Increase in deferred revenue	13,961	12,173
Other, net	4,459	4,828
Cash provided by operating activities	251,495	35,706
Cash flows from investing activities:		
Net cash effect of acquisitions/dispositions	(26,142)	(781)
Net increase in deposits with banks	(30,880)	(3,739)
Net decrease in loans receivable	26,885	13,305
Purchases of debt and equity securities	(1,320,652)	(669,574)
Proceeds from sales of debt and equity securities	835,535	473,301
Proceeds from maturities of debt securities	359,518	240,823
Net decrease in other long-term investments	5,819	1,703
Proceeds from note receivable from CoreLogic		18,787
Capital expenditures	(56,642)	(47,441)
Proceeds from sale of property and equipment	7,423	7,361
Cash (used for) provided by investing activities	(199,136)	33,745
Cash flows from financing activities:		
Net change in deposits	322,469	(125,874)
Proceeds from issuance of debt	340,065	3,185
Repayment of debt	(367,940)	(17,311)
Net proceeds (payments) in connection with share-based compensation plans	3,253	(140)

Purchase of subsidiary shares from / other decreases in noncontrolling interests	(2,282)	(2,955)
Contributions from noncontrolling interests	221	
Distributions to noncontrolling interests	(502)	(297)
Excess tax benefits from share-based compensation	1,029	1,085
Cash dividends	(23,315)	(18,892)
Cash provided by (used for) financing activities	272,998	(161,199)
Effect of exchange rate changes on cash	1,716	(6,030)
Net increase (decrease) in cash and cash equivalents	327,073	(97,778)
Cash and cash equivalents Beginning of period	418,299	728,746
Cash and cash equivalents End of period	$ 745,372	$ 630,968
Supplemental information:		
Cash paid during the period for:		
Interest	$ 7,227	$ 9,356
Premium taxes	$ 37,615	$ 33,000
Income taxes, net	$ 30,439	$ 21,580
Noncash investing and financing activities:		
Net noncash contribution from The First American Corporation (TFAC) as a result of separation	$	$ 5,581
Liabilities assumed in connection with acquisitions	$ 2,768	$ 2,450

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

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Condensed Consolidated Statement of Stockholders Equity

(in thousands)

(unaudited)

	First American Financial Corporation Stockholders						
	Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interests	Total
Balance at December 31, 2011	105,410	$ 1	$ 2,081,242	$ 124,816	$ (177,459)	$ 6,339	$ 2,034,939
Net income for the nine months ended September 30, 2012				207,764		762	208,526
Dividends on common shares				(25,513)			(25,513)
Shares issued in connection with share-based compensation plans	1,179		4,932	(650)			4,282
Share-based compensation expense			11,922				11,922
Purchase of subsidiary shares from /other decreases in noncontrolling interests			(442)			(1,840)	(2,282)
Sale of subsidiary shares to /other increases in noncontrolling interests						22	22
Distributions to noncontrolling interests						(502)	(502)
Contributions from noncontrolling interests						221	221
Other comprehensive income (Note 15)					54,184	6	54,190
Balance at September 30, 2012	106,589	$ 1	$ 2,097,654	$ 306,417	$ (123,275)	$ 5,008	$ 2,285,805

See notes to condensed consolidated financial statements.

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FIRST AMERICAN FINANCIAL CORPORATION

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Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 Basis of Condensed Consolidated Financial Statements

Spin-off

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

Basis of Presentation

The condensed consolidated financial information included in this report has been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011. The condensed consolidated financial statements included herein are unaudited; however, in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the consolidated results for the interim periods. All material intercompany transactions and balances have been eliminated upon consolidation. Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

The condensed consolidated statement of cash flows for the nine months ended September 30, 2011 was corrected to reflect an adjustment that increased cash provided by operating activities by $9.5 million, decreased cash provided by investing activities by $3.5 million, and decreased the effect of exchange rate changes on cash by $6.0 million, and an adjustment to correct the classification of purchase of subsidiary shares from / other decreases in noncontrolling interests which increased cash provided by investing activities and increased cash used for financing activities by $3.0 million. These adjustments had no impact on the net change in cash and cash equivalents and were not considered material, individually or in the aggregate, to previously issued financial statements.

Recently Adopted Accounting Pronouncements

In October 2010, the Financial Accounting Standards Board (FASB) issued updated guidance related to accounting for costs associated with acquiring or renewing insurance contracts. The updated guidance modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. Under the updated guidance only costs based on successful efforts (that is, acquiring a new or renewal contract) including direct-response advertising costs are eligible for capitalization. The updated guidance is effective for the interim and annual periods beginning after December 15, 2011. The adoption of the guidance, on a prospective basis, did not have a material impact on the Company s condensed consolidated financial statements.

In May 2011, the FASB issued updated guidance that is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. The amendments are of two types: (i) those that clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The updated guidance is effective for interim and annual periods beginning after December 15, 2011. Except for the disclosure requirements, the adoption of the guidance had no impact on the Company s condensed consolidated financial statements.

In June 2011, the FASB issued updated guidance that is intended to increase the prominence of other comprehensive income in financial statements. The updated guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity, and requires either consecutive presentation of the statement of net income and other comprehensive income or in a single continuous statement of comprehensive income. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of the guidance had no impact on the Company s condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

Pending Accounting Pronouncements

In July 2012, the FASB issued updated guidance that is intended to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets, other than goodwill, by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The updated guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with current guidance. The updated guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. Management did not early adopt this guidance and does not expect this guidance to have a material impact on the Company s condensed consolidated financial statements.

In December 2011, the FASB issued updated guidance requiring entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013. Except for the disclosure requirements, management does not expect the adoption of this guidance to have a material impact on the Company s condensed consolidated financial statements.

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

The Company administers escrow deposits and trust assets as a service to its customers. Escrow deposits totaled $3.9 billion and $3.1 billion at September 30, 2012 and December 31, 2011, respectively, of which $1.2 billion and $0.9 billion, respectively, were held at the Company s federal savings bank subsidiary, First American Trust, FSB. The escrow deposits held at First American Trust, FSB are included in the accompanying condensed consolidated balance sheets in cash and cash equivalents and debt and equity securities, with offsetting liabilities included in deposits. The remaining escrow deposits were held at third-party financial institutions.

Trust assets totaled $3.1 billion and $2.8 billion at September 30, 2012 and December 31, 2011, respectively, and were held or managed at First American Trust, FSB. Escrow deposits held at third-party financial institutions and trust assets are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. However, the Company could be held contingently liable for the disposition of these assets.

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

The Company facilitates tax-deferred property exchanges for customers pursuant to Section 1031 of the Internal Revenue Code and tax-deferred reverse exchanges pursuant to Revenue Procedure 2000-37. As a facilitator and intermediary, the Company holds the proceeds from sales transactions and takes temporary title to property identified by the customer to be acquired with such proceeds. Upon the completion of such exchange, the identified property is transferred to the customer or, if the exchange does not take place, an amount equal to the sales proceeds or, in the case of a reverse exchange, title to the property held by the Company is transferred to the customer. Like-kind exchange funds held by the Company totaled $575.5 million and $564.7 million at September 30, 2012 and December 31, 2011, respectively. The like-kind exchange deposits were held at third-party financial institutions and, due to the structure utilized to facilitate these transactions, the proceeds and property are not considered assets of the Company and, therefore, are not included in the accompanying condensed consolidated balance sheets. All such amounts are placed in deposit accounts insured, up to applicable limits, by the Federal Deposit Insurance Corporation. The Company could be held contingently liable to the customer for the transfers of property, disbursements of proceeds and the return on the proceeds.

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FIRST AMERICAN FINANCIAL CORPORATION

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Notes to Condensed Consolidated Financial Statements - (Continued)

(unaudited)

Note 3 Debt and Equity Securities

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

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Other-than-temporary impairments in AOCI
September 30, 2012					
U.S. Treasury bonds	$ 74,298	$ 1,867	$ (12)	$ 76,153	$
Municipal bonds	337,678	17,036	(167)	354,547	
Foreign bonds	238,213	2,866	(70)	241,009	
Governmental agency bonds	205,398	1,631	(191)	206,838	
Governmental agency mortgage-backed securities	1,240,736	13,852	(497)	1,254,091	
Non-agency mortgage-backed securities (1)	31,081	1,322	(3,621)	28,782	30,282
Corporate debt securities	279,187	15,863	(170)	294,880	
	$ 2,406,591	$ 54,437	$ (4,728)	$ 2,456,300	$ 30,282
December 31, 2011					
U.S. Treasury bonds	$ 71,995	$ 2,236	$	$ 74,231	$
Municipal bonds	329,935	19,263	(75)	349,123	
Foreign bonds	212,200	3,026	(206)	215,020	
Governmental agency bonds	195,784	1,970	(1)	197,753	
Governmental agency mortgage-backed securities	1,066,656	10,816	(925)	1,076,547	
Non-agency mortgage-backed securities (1)	42,089	478	(11,933)	30,634	32,089
Corporate debt securities	248,921	10,407	(725)	258,603	
	$ 2,167,580	$ 48,196	$ (13,865)	$ 2,201,911	$ 32,089

(1) At September 30, 2012, the $31.1 million amortized cost is net of $3.6 million in other-than-temporary impairments determined to be credit related which have been recognized in earnings for the nine months ended September 30, 2012. At December 31, 2011, the $42.1 million amortized cost is net of $9.1 million in other-than-temporary impairments determined to be credit related which have been recognized in earnings for the year ended December 31, 2011. At September 30, 2012, the $3.6 million gross unrealized losses include $3.1 million of unrealized losses for securities determined to be other-than-temporarily impaired and $0.5 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. At December 31, 2011, the $11.9 million gross unrealized losses include $11.4 million of unrealized losses for securities determined to be other-than-temporarily impaired and $0.5 million of unrealized losses for securities for which an other-than-temporary impairment has not been recognized. The $30.3 million and $32.1 million other-than-temporary impairments recorded in accumulated other comprehensive income (AOCI) through September 30, 2012 and December 31, 2011, respectively, represent the amount of other-than-temporary impairment losses recognized in AOCI which, starting January 1, 2009, were not included in earnings due to the fact that the losses were not considered to be credit related. Other-than-temporary impairments were recognized in AOCI for non-agency mortgage-backed securities only.

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

(in thousands)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
September 30, 2012				
Preferred stocks	$ 8,546	$ 536	$ (3)	$ 9,079
Common stocks	161,400	7,344	(119)	168,625
	$ 169,946	$ 7,880	$ (122)	$ 177,704
December 31, 2011				
Preferred stocks	$ 7,007	$ 678	$ (17)	$ 7,668
Common stocks (1)	224,880	3,793	(52,341)	176,332
	$ 231,887	$ 4,471	$ (52,358)	$ 184,000

(1) At December 31, 2011, CoreLogic common stock with a cost basis of $167.6 million and an estimated fair value of $115.5 million was included in common stocks. In connection with the Separation, TFAC issued to the Company a number of shares of its common stock. During the third quarter of 2012, the Company sold its remaining 8.9 million shares of CoreLogic common stock for an aggregate cash price of $207.9 million and recorded a gain of $40.4 million related to the sale. At September 30, 2012, the Company no longer owns any CoreLogic common stock.

The Company had the following net unrealized gains (losses) as of September 30, 2012 and December 31, 2011:

(in thousands)	As of September 30, 2012	As of December 31, 2011
Debt securities for which an other-than-temporary impairment has been recognized	$ (1,823)	$ (10,937)
Debt securities all other	51,532	45,268
Equity securities	7,758	(47,887)
	$ 57,467	$ (13,556)

Sales of debt and equity securities resulted in realized gains of $48.3 million and $2.5 million and realized losses of $32 thousand and $0.2 million for the three months ended September 30, 2012 and 2011, respectively. Sales of debt and equity securities resulted in realized gains of $63.9 million and $8.4 million and realized losses of $0.3 million and $1.3 million for the nine months ended September 30, 2012 and 2011, respectively.

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The Company had the following gross unrealized losses as of September 30, 2012 and December 31, 2011:

	Less than 12 months		12 months or longer		Total	
(in thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
September 30, 2012						
Debt securities:						
U.S. Treasury bonds	$ 15,832	$ (12)	$	$	$ 15,832	$ (12)
Municipal bonds	18,459	(107)	871	(60)	19,330	(167)
Foreign bonds	14,701	(46)	1,546	(24)	16,247	(70)
Governmental agency bonds	7,726	(191)			7,726	(191)
Governmental agency mortgage-backed securities	41,060	(215)	26,786	(282)	67,846	(497)
Non-agency mortgage-backed securities			16,238	(3,621)	16,238	(3,621)
Corporate debt securities	5,408	(18)	3,267	(152)	8,675	(170)
Total debt securities	103,186	(589)	48,708	(4,139)	151,894	(4,728)
Equity securities	4,599	(122)			4,599	(122)
Total	$ 107,785	$ (711)	$ 48,708	$ (4,139)	$ 156,493	$ (4,850)
December 31, 2011						
Debt securities:						
U.S. Treasury bonds	$	$	$	$	$	$
Municipal bonds	3,141	(34)	1,896	(41)	5,037	(75)
Foreign bonds	30,508	(206)	690		31,198	(206)
Governmental agency bonds	13,828	(1)	4,150		17,978	(1)
Governmental agency mortgage-backed securities	280,114	(793)	43,835	(132)	323,949	(925)
Non-agency mortgage-backed securities			26,500	(11,933)	26,500	(11,933)
Corporate debt securities	36,707	(695)	1,290	(30)	37,997	(725)
Total debt securities	364,298	(1,729)	78,361	(12,136)	442,659	(13,865)
Equity securities	131,768	(52,358)			131,768	(52,358)
Total	$ 496,066	$ (54,087)	$ 78,361	$ (12,136)	$ 574,427	$ (66,223)

Substantially all securities in the Company s non-agency mortgage-backed portfolio are senior tranches and all were investment grade at the time of purchase, however, all have been downgraded below investment grade since purchase. The table below summarizes the composition of the Company s non-agency mortgage-backed securities by collateral type, year of issuance and current credit ratings. Percentages are based on the amortized cost basis of the securities and credit ratings are based on Standard & Poor s Ratings Services (S&P) and Moody s Investor Service, Inc. (Moody s) published ratings. If a security was rated differently by both rating agencies, the lower of the two ratings was selected. All amounts and ratings are as of September 30, 2012.

(in thousands, except percentages and number of securities)	Number of Securities	Amortized Cost	Estimated Fair Value	Non-Investment Grade/ Not Rated
Non-agency mortgage-backed securities:				
Prime single family residential:				
2007	1	$ 4,707	$ 3,677	100.0%
2006	5	13,371	11,918	100.0%
2005	1	3,436	2,959	100.0%
Alt-A single family residential:				
2007	2	9,567	10,228	100.0%
	9	$ 31,081	$ 28,782	100.0%

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The amortized cost and estimated fair value of debt securities at September 30, 2012, by contractual maturities, are as follows:

(in thousands)	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
U.S. Treasury bonds					
Amortized cost	$ 16,264	$ 37,020	$ 20,830	$ 184	$ 74,298
Estimated fair value	$ 16,438	$ 38,282	$ 21,182	$ 251	$ 76,153
Municipal bonds					
Amortized cost	$ 1,720	$ 73,600	$ 111,449	$ 150,909	$ 337,678
Estimated fair value	$ 1,734	$ 76,011	$ 118,653	$ 158,149	$ 354,547
Foreign bonds					
Amortized cost	$ 50,145	$ 162,020	$ 26,048		$ 238,213
Estimated fair value	$ 50,403	$ 164,143	$ 26,463		$ 241,009
Governmental agency bonds					
Amortized cost	$ 107	$ 100,129	$ 82,017	$ 23,145	$ 205,398
Estimated fair value	$ 107	$ 100,785	$ 82,853	$ 23,093	$ 206,838
Corporate debt securities					
Amortized cost	$ 8,227	$ 120,545	$ 135,723	$ 14,692	$ 279,187
Estimated fair value	$ 8,290	$ 125,079	$ 145,346	$ 16,165	$ 294,880
Total debt securities excluding mortgage-backed securities					
Amortized cost	$ 76,463	$ 493,314	$ 376,067	$ 188,930	$ 1,134,774
Estimated fair value	$ 76,972	$ 504,300	$ 394,497	$ 197,658	$ 1,173,427
Total mortgage-backed securities					
Amortized cost					$ 1,271,817
Estimated fair value					$ 1,282,873
Total debt securities					
Amortized cost					$ 2,406,591
Estimated fair value					$ 2,456,300

Other-than-temporary impairment debt securities

The Company determines if a non-agency mortgage-backed security in a loss position is other-than-temporarily impaired by comparing the present value of the cash flows expected to be collected from the security to its amortized cost basis. If the present value of the cash flows expected to be collected exceed the amortized cost of the security, the Company concludes that the security is not other-than-temporarily impaired. The Company performs this analysis on all non-agency mortgage-backed securities in its portfolio that are in an unrealized loss position. The methodology and key assumptions used in estimating the present value of cash flows expected to be collected are described below. For the securities that were determined not to be other-than-temporarily impaired at September 30, 2012, the present value of the cash flows expected to be collected exceeded the amortized cost of each security.

If the Company intends to sell a debt security in an unrealized loss position or determines that it is more likely than not that the Company will be required to sell a debt security before it recovers its amortized cost basis, the debt security is other-than-temporarily impaired and it is written down to fair value with all losses recognized in earnings. As of September 30, 2012, the Company does not intend to sell any debt securities in an unrealized loss position and it is not more likely than not that the Company will be required to sell debt securities before recovery of their amortized cost basis.

If the Company does not expect to recover the amortized cost basis of a debt security with declines in fair value (even if the Company does not intend to sell the debt security and it is not more likely than not that the Company will be required to sell the debt security before the recovery of its remaining amortized cost basis), the losses the Company considers to be the credit portion of the other-than-temporary impairment loss (credit loss) is recognized in earnings and the non-credit portion is recognized in other comprehensive income. The credit loss is the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security. The cash flows expected to be collected are discounted at the rate implicit in the security immediately prior to the recognition of the other-than-temporary impairment.

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Expected future cash flows for debt securities are based on qualitative and quantitative factors specific to each security, including the probability of default and the estimated timing and amount of recovery. The detailed inputs used to project expected future cash flows may be different depending on the nature of the individual debt security. Specifically, the cash flows expected to be collected for each non-agency mortgage-backed security are estimated by analyzing loan-level detail to estimate future cash flows from the underlying assets, which are then applied to the security based on the underlying contractual provisions of the securitization trust that issued the security (e.g. subordination levels, remaining payment terms, etc.). The Company uses third-party software to determine how the underlying collateral cash flows will be distributed to each security issued from the securitization trust. The primary assumptions used in estimating future collateral cash flows are prepayment speeds, default rates and loss severity. In developing these assumptions, the Company considers the financial condition of the borrower, loan to value ratio, loan type and geographical location of the underlying property. The Company utilizes publicly available information related to specific assets, generally available market data such as forward interest rate curves and CoreLogic s securities, loans and property data and market analytics tools.

The table below summarizes the primary assumptions used at September 30, 2012 in estimating the cash flows expected to be collected for these securities.

	Weighted average	Range
Prepayment speeds	9.5%	8.1% - 10.9%
Default rates	4.6%	1.9% - 13.2%
Loss severity	26.4%	5.8% - 41.6%

The Company did not recognize any other-than-temporary impairments considered to be credit related on its non-agency mortgage-backed securities for the three months ended September 30, 2012, and recognized $3.6 million in earnings for the nine months ended September 30, 2012. It is possible that the Company could recognize additional other-than-temporary impairment losses on some securities it owns at September 30, 2012 if future events or information cause it to determine that a decline in value is other-than-temporary.

The following table presents the change in the credit portion of the other-than-temporary impairments recognized in earnings on debt securities for which a portion of the other-than-temporary impairments related to other factors was recognized in other comprehensive income (loss) for the three and nine months ended September 30, 2012 and 2011.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Credit loss on debt securities held at beginning of period	$ 37,740	$ 26,382	$ 34,176	$ 25,108
Addition to credit loss for which an other-than-temporary impairment was previously recognized		2,541	3,564	3,815
Addition to credit loss for which an other-than-temporary impairment was not previously recognized		1,401		1,401
Credit loss on debt securities held as of September 30	$ 37,740	$ 30,324	$ 37,740	$ 30,324

Other-than-temporary impairment equity securities

When a decline in the fair value of an equity security, including common and preferred stock, is considered to be other-than-temporary, such equity security is written down to its fair value. When assessing if a decline in value is other-than-temporary, the factors considered include the length of time and extent to which fair value has been below cost, the probability that the Company will be unable to collect all amounts due under the contractual terms of the security, the seniority of the securities, issuer-specific news and other developments, the financial condition and prospects of the issuer (including credit ratings), macro-economic changes (including the outlook for industry sectors, which includes government policy initiatives) and the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

When an equity security has been in an unrealized loss position for greater than twelve months, the Company s review of the security includes the above noted factors as well as the evidence, if any, that exists to support the Company s view that the security will recover its value in the foreseeable future, typically within the next twelve months. If objective, substantial evidence does not indicate a likely recovery during that timeframe, the Company s policy is that such losses are considered other-than-temporary and therefore an impairment loss is recorded. The Company did not record any other-than-temporary impairments related to its equity securities for the three or nine months ended September 30, 2012 or 2011.

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Fair value measurement

The Company classifies the fair value of its debt and equity securities using a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security in the Company s available-for-sale portfolio is based on management s assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. The three hierarchy levels are defined as follows:

Level 1 Valuations based on unadjusted quoted market prices in active markets for identical securities. The fair value of equity securities are classified as Level 1.

Level 2 Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The Level 2 category includes U.S. Treasury bonds, municipal bonds, foreign bonds, governmental agency bonds, governmental agency mortgage-backed securities and corporate debt securities, many of which are actively traded and have market prices that are readily verifiable.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment. The Level 3 category includes non-agency mortgage-backed securities which are currently not actively traded.

If the inputs used to measure fair value fall in different levels of the fair value hierarchy, a financial security s hierarchy level is based upon the lowest level of input that is significant to the fair value measurement. The valuation techniques and inputs used to estimate the fair value of the Company s debt and equity securities are summarized as follows:

Debt Securities

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

Typical inputs and assumptions to pricing models used to value the Company s U.S. Treasury bonds, governmental agency bonds, governmental agency mortgage-backed securities, municipal bonds, foreign bonds and corporate debt securities include, but are not limited to, benchmark yields, reported trades, broker-dealer quotes, credit spreads, credit ratings, bond insurance (if applicable), benchmark securities, bids, offers, reference data and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include the structure of issuance, characteristics of the issuer, collateral attributes and prepayment speeds. The fair value of non-agency mortgage-backed securities was obtained from the independent pricing service referenced above and subject to the Company s validation procedures discussed above. However, due to the fact that these securities were not actively traded, there were fewer observable inputs available requiring the pricing service to use more judgment in determining the fair value of the securities, therefore the Company classified non-agency mortgage-backed securities as Level

3.

The significant unobservable inputs used in the fair value measurement of the Company s non-agency mortgage-backed securities are prepayment rates, default rates and loss severity in the event of default. Significant increases (decreases) in any

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of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Equity Securities

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

The following table presents the Company s available-for-sale investments measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, classified using the three-level hierarchy for fair value measurements:

(in thousands)	Estimated fair value as of September 30, 2012	Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury bonds	$ 76,153	$	$ 76,153	$
Municipal bonds	354,547		354,547	
Foreign bonds	241,009		241,009	
Governmental agency bonds	206,838		206,838	
Governmental agency mortgage-backed securities	1,254,091		1,254,091	
Non-agency mortgage-backed securities	28,782			28,782
Corporate debt securities	294,880		294,880	
	2,456,300		2,427,518	28,782
Equity securities:				
Preferred stocks	9,079	9,079		
Common stocks	168,625	168,625		
	177,704	177,704		
	$ 2,634,004	$ 177,704	$ 2,427,518	$ 28,782

(in thousands)	Estimated fair value as of December 31, 2011	Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury bonds	$ 74,231	$	$ 74,231	$
Municipal bonds	349,123		349,123	
Foreign bonds	215,020		215,020	
Governmental agency bonds	197,753		197,753	

Governmental agency mortgage-backed securities	1,076,547		1,076,547	
Non-agency mortgage-backed securities	30,634			30,634
Corporate debt securities	258,603		258,603	
	2,201,911		2,171,277	30,634
Equity securities:				
Preferred stocks	7,668	7,668		
Common stocks	176,332	176,332		
	184,000	184,000		
	$ 2,385,911	$ 184,000	$ 2,171,277	$ 30,634

The Company did not have any transfers in and out of Level 1 and Level 2 measurements during the three and nine months ended September 30, 2012 and 2011. The Company s policy is to recognize transfers between levels in the fair value hierarchy at the end of the reporting period.

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The following table presents a summary of the changes in fair value of Level 3 available-for-sale investments for the three and nine months ended September 30, 2012 and 2011:

(in thousands)	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
Fair value at beginning of period	$ 28,324	$ 43,915	$ 30,634	$ 47,534
Total gains/(losses) (realized and unrealized):				
Included in earnings:				
Realized gains (losses)	110	(190)	110	(191)
Net other-than-temporary impairment losses recognized in earnings		(3,942)	(3,564)	(5,216)
Included in other comprehensive income (loss)	3,190	(757)	9,157	3,035
Settlements	(1,707)	(1,508)	(6,420)	(7,622)
Sales	(1,135)	(2,458)	(1,135)	(2,480)
Transfers into Level 3				
Transfers out of Level 3				
Fair value as of September 30	$ 28,782	$ 35,060	$ 28,782	$ 35,060
Unrealized gains (losses) included in earnings for the period relating to Level 3 available-for-sale investments that were still held at the end of the period:				
Net other-than-temporary impairment losses recognized in earnings	$	$ (3,942)	$ (3,564)	$ (5,216)

The Company did not purchase any non-agency mortgage-backed securities during the three and nine months ended September 30, 2012 and 2011.

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Note 4 Financing Receivables

Financing receivables are summarized as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Loans receivable, net:		
Real estate mortgage		
Multi-family residential	$ 8,849	$ 12,028
Commercial	106,824	130,724
Other	1,290	1,403
	116,963	144,155
Allowance for loan losses	(3,893)	(4,171)
Participations sold	(778)	(861)
Deferred loan fees, net	14	68
Loans receivable, net	112,306	139,191
Other long-term investments:		
Notes receivable secured	11,612	14,776
Notes receivable unsecured	2,652	4,207
Loss reserve	(2,237)	(3,402)
Notes receivable, net	12,027	15,581
Total financing receivables, net	$ 124,333	$ 154,772

Aging analysis of loans and notes receivable at September 30, 2012, is as follows:

	Total	Current	30-59 days past due	60-89 days past due	90 days or more past due	Nonaccrual status
			(in thousands)			
Loans Receivable:						
Multi-family residential	$ 8,849	$ 8,849	$	$	$	$
Commercial	106,824	104,068		161		2,595
Other	1,290	1,290				
	$ 116,963	$ 114,207	$	$ 161	$	$ 2,595

	Total	Current	30-59 days past due	60-89 days past due	90 days or more past due	Nonaccrual status
Notes Receivable:						
Secured	$ 11,612	$ 10,566	$	$	$	$ 1,046
Unsecured	2,652	1,590				1,062
	$ 14,264	$ 12,156	$	$	$	$ 2,108

Aging analysis of loans and notes receivable at December 31, 2011, is as follows:

	Total	Current	30-59 days past due (in thousands)	60-89 days past due	90 days or more past due	Nonaccrual status
Loans Receivable:						
Multi-family residential	$ 12,028	$ 12,028	$	$	$	$
Commercial	130,724	123,736	1,918	170		4,900
Other	1,403	1,403				
	$ 144,155	$ 137,167	$ 1,918	$ 170	$	$ 4,900

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	Total	Current	30-59 days past due	60-89 days past due	90 days or more past due	Nonaccrual status
			(in thousands)			
Notes Receivable:						
Secured	$ 14,776	$ 10,712	$	$	$	$ 4,064
Unsecured	4,207	108				4,099
	$ 18,983	$ 10,820	$	$	$	$ 8,163

The Company performs an analysis of its allowance for loan losses on a quarterly basis. In determining the allowance, the Company considers various factors, such as changes in the nature and volume of the portfolio, changes in the trend of the volume and severity of past due and classified loans, changes to the concentration of credit, as well as changes in legal and regulatory requirements. The allowance for loan losses is maintained at a level that is considered appropriate by the Company to provide for known risks in its portfolio.

Loss reserves are established for notes receivable based upon an estimate of probable losses for the individual notes. A loss reserve is established on an individual note when it is deemed probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the note. The loss reserve is based upon the Company s assessment of the borrower s overall financial condition, resources and payment record; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including the expected future cash flows, estimated fair value of collateral on secured notes, general economic conditions and trends, and other relevant factors, as appropriate. Notes are placed on non-accrual status when management determines that the collectibility of contractual amounts is not reasonably assured.

Note 5 Goodwill

A reconciliation of the changes in the carrying amount of goodwill by operating segment, for the nine months ended September 30, 2012, is as follows:

(in thousands)	Title Insurance and Services	Specialty Insurance	Total
Balance as of December 31, 2011	$ 771,655	$ 46,765	$ 818,420
Acquisitions	15,382		15,382
Other net adjustments	2,345		