Fitch Upgrades Stewart, First American

Fitch Ratings has upgraded the issuer default rating of Stewart Information Services Corp. to BBB from BBB- and the insurer financial strength ratings its title underwriting units to A- from BBB+.

It has also upgraded the ratings on the nation’s second largest title underwriter, First American Financial. Fitch raised the IDR to BBB+ from BBB and the IFS on its insurance underwriting subsidiaries to A from A-.

In the case of Stewart, which according to American Land Title Association data has slipped to fourth in terms of market share, the upgrade is because of continued improvement in operating results, sustained solid capitalization and increased reserve stability.

“Stewart’s rating increase is indicative of our steady push to simplify our operations and align our organization to our customers’ needs,” said Matt Morris, CEO of Stewart said in a press release.

“In recent quarters, Stewart has seen tremendous success toward our goal of better financial results. Our most recent earnings release reported our fifth consecutive quarterly profit and excellent results across the board. Our Fitch Ratings increase further validates that our laser focus on operationally sound, and service-oriented initiatives is working.”

Factors which could lead to a further upgrade for Stewart is its profitability is in line with other title companies particularly in down cycles, sustained profitability shown by an operating profit margin of 8% or better, strengthening of its capital metrics, and a financial leverage ratio maintained below 15%.

A downgrade could occur if Stewart’s operating profit margin goes below 3%, capital deterioration, a financial leverage ratio over 20%, or a reserve charge exceeding 5% of the prior year’s surplus.

First American’s upgrade is based on strong capitalization, moderate financial leverage and continued profits. The upgrade is also predicated on Fitch’s belief that management has achieved a sufficient level of loss reserves and will maintain an adequate reserve position going forward.

The rating agency said it is concerned about reserve adequacy and the potential for a slowdown in mortgage originations in the second half of the year. It added that future reported reserve deficiencies could lead Fitch to downgrade First American’s ratings back to prior levels.