SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
May 15, 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 quarter ended March 31, 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: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH	87-0345941
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5300 South 360 West, Suite 250 Salt Lake City, Utah	84123
(Address of principal executive office)	(Zip Code)

(801) 264-1060
(Registrant's telephone number, including area code)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No[X]

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

Class A Common Stock, $2.00 par value	9,638,798
Title of Class	Number of Shares Outstanding as of

May 14, 2012

Class C Common Stock, $.20 par value	10,135,976
Title of Class	Number of Shares Outstanding as of May 14, 2012

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

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [ ]   Smaller reporting company [X]
(Do not check if a smaller reporting company)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED MARCH 31, 2012

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

Assets	March 31, 2012	December 31, 2011
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$ 130,671,375	$ 127,579,087
Equity securities, available for sale, at estimated fair value	5,723,824	6,299,392
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of $4,524,811 and $4,881,173 for 2012 and 2011	107,515,938	115,155,967
Real estate held for investment, net of accumulated depreciation of $4,271,221 and $4,189,641 for 2012 and 2011	3,715,666	3,786,780
Other real estate owned held for investment, net of accumulated depreciation of $2,099,779 and $1,810,238 for 2012 and 2011	54,707,593	46,398,095
Other real estate owned held for sale	5,998,740	5,793,900
Policy and other loans, net of allowances for doubtful accounts of $462,337 and $427,136 for 2012 and 2011	17,866,200	18,463,277
Short-term investments	5,213,346	6,932,023
Accrued investment income	2,419,177	2,323,080
Total investments	333,831,859	332,731,601
Cash and cash equivalents	34,672,787	17,083,604
Mortgage loans sold to investors	60,915,970	77,339,445
Receivables, net	10,234,833	9,934,075
Restricted assets of cemeteries and mortuaries	3,661,532	3,392,497
Cemetery perpetual care trust investments	1,890,067	1,810,185
Receivable from reinsurers	6,855,300	7,484,466
Cemetery land and improvements	11,095,656	11,105,809
Deferred policy and pre-need contract acquisition costs	36,594,705	36,237,069
Property and equipment, net	9,594,677	9,300,185
Value of business acquired	10,748,047	11,020,834
Goodwill	677,039	677,039
Other	4,037,250	3,022,113
Total Assets	$ 524,809,722	$ 521,138,922

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

	March 31, 2012	December 31, 2011
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	$385,101,365	$381,595,568
Unearned premium reserve	4,995,429	5,030,443
Bank and other loans payable	20,214,329	25,019,119
Deferred pre-need cemetery and mortuary contract revenues	13,165,249	13,140,483
Cemetery perpetual care obligation	3,014,266	2,983,077
Accounts payable	2,925,701	2,672,479
Other liabilities and accrued expenses	15,339,307	14,456,887
Income taxes	16,078,644	15,010,279
Total liabilities	460,834,290	459,908,335
Stockholders' Equity		
Common Stock:		
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 9,638,798 shares in 2012 and 9,638,798 shares in 2011	19,277,596	19,277,596
Class B: non-voting common stock - $1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - $0.20 par value; 15,000,000 shares authorized; issued 10,135,976 shares in 2012 and 10,135,976 in 2011	2,027,195	2,027,195
Additional paid-in capital	19,493,662	19,487,565
Accumulated other comprehensive income, net of taxes	1,634,373	654,443
Retained earnings	24,208,806	22,546,623
Treasury stock at cost - 1,144,800 Class A shares in 2012 and 1,198,167 Class A shares in 2011	(2,666,200)	(2,762,835)
Total stockholders' equity	63,975,432	61,230,587
Total Liabilities and Stockholders' Equity	$524,809,722	$521,138,922

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Revenues:		
Insurance premiums and other considerations	$ 12,587,788	$ 12,692,303
Net investment income	6,054,047	4,270,448
Net mortuary and cemetery sales	2,874,949	2,941,993
Realized gains on investments and other assets	171,060	345,090
Other than temporary impairments on investments	(45,000)	(35,129)
Mortgage fee income	25,490,584	13,452,591
Other	189,795	504,884
Total revenues	47,323,223	34,172,180
Benefits and expenses:		
Death benefits	5,186,299	6,148,663
Surrenders and other policy benefits	838,740	734,592
Increase in future policy benefits	5,637,949	4,104,539
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,924,427	2,000,217
Selling, general and administrative expenses:		
Commissions	14,885,790	7,860,633
Salaries	6,512,843	6,184,787
Provision for loan losses and loss reserve	402,474	691,794
Costs related to funding mortgage loans	1,360,304	844,505
Other	6,998,890	6,077,871
Interest expense	768,744	315,542
Cost of goods and services sold-mortuaries and cemeteries	478,171	531,619
Total benefits and expenses	44,994,631	35,494,762
Earnings (loss) before income taxes	2,328,592	(1,322,582)
Income tax (provision) benefit	(666,409)	804,109
Net earnings (loss)	$ 1,662,183	$ (518,473)
Net earnings (loss) per Class A Equivalent common share (1)	$ 0.18	$ (0.06)
Net earnings (loss) per Class A Equivalent common share-assuming dilution (1)	$ 0.17	$ (0.06)
Weighted-average Class A equivalent common share outstanding (1)	9,495,878	9,317,297
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	9,586,830	9,317,297

(1) Earnings (loss) per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings (loss) per common share represent net earnings (loss) per equivalent Class A common share. Net earnings (loss) per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Net earnings (loss)	$ 1,662,183	$ (518,473)
Other comprehensive income:		
Net unrealized gains on derivative instruments	650,093	47,184
Net unrealized gains (losses) on available for sale securities	329,837	(13,969)
Other comprehensive income:	979,930	33,215
Comprehensive income (loss)	$ 2,642,113	$ (485,258)

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2010	$18,357,890	$1,932,031	$19,689,993	$1,188,246	$21,907,579	$(3,147,271)	$59,928,468
Comprehensive income:							
Net earnings	-	-	-	-	(518,473)	-	(518,473)
Other comprehensive income	-	-	-	33,215	-	-	33,215
Grant of stock options	-	-	64,344	-	-	-	64,344
Sale of treasury stock	-	-	11,442	-	-	76,753	88,195
Stock dividends	218	2	(29)	-	(191)	-	-
Conversion Class C to Class A	344	(344)	-	-	-	-	-
Balance at March 31, 2011	$18,358,452	$1,931,689	$19,765,750	$1,221,461	$21,388,915	$(3,070,518)	$59,595,749
Balance at December 31, 2011	$19,277,596	$2,027,195	$19,487,565	$654,443	$22,546,623	$(2,762,835)	$61,230,587
Comprehensive income:							
Net earnings	-	-	-	-	1,662,183	-	1,662,183
Other comprehensive income	-	-	-	979,930	-	-	979,930
Grant of stock options	-	-	47,218	-	-	-	47,218
Sale of treasury stock	-	-	(41,121)	-	-	96,635	55,514
Balance at March 31, 2012	$19,277,596	$2,027,195	$19,493,662	$1,634,373	$24,208,806	$(2,666,200)	$63,975,432

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net cash provided by operating activities	$25,192,747	$42,215,717
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(4,573,813)	(32,119,583)
Calls and maturities - fixed maturity securities	1,406,357	5,936,625
Securities available for sale:		
Purchase - equity securities	(202,883)	(2,223,406)
Sales - equity securities	1,262,645	2,025,175
Purchase of short-term investments	(3,416,721)	(9,728,102)
Sales of short-term investments	5,135,398	3,552,246
Purchase of restricted assets	(241,247)	(97,965)
Changes in assets for perpetual care trusts	(68,720)	(70,728)
Amount received for perpetual care trusts	31,189	31,515
Mortgage, policy, and other loans made	(29,559,249)	(27,365,202)
Payments received for mortgage, policy and other loans	29,240,276	25,350,613
Purchase of property and equipment	(635,862)	(161,806)
Disposal of property and equipment	14,768	-
Purchase of real estate	(53,910)	(98,304)
Sale of real estate	251,720	-
Reinsurance with North America Life	-	12,990,444
Net cash used in investing activities	(1,410,052)	(21,978,478)
Cash flows from financing activities:		
Annuity contract receipts	2,194,651	2,930,871
Annuity contract withdrawals	(3,591,348)	(2,947,744)
Repayment of bank loans on notes and contracts	(396,815)	(410,899)
Proceeds from borrowing on bank loans	-	3,559,026
Change in line of credit borrowings	(4,400,000)	-
Net cash provided by (used in) financing activities	(6,193,512)	3,131,254
Net change in cash and cash equivalents	17,589,183	23,368,493
Cash and cash equivalents at beginning of period	17,083,604	39,556,503
Cash and cash equivalents at end of period	$34,672,787	$62,924,996
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	$9,021,747	$2,975,627

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2011, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate and construction loans held for investment, those used in determining loan loss reserve, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

Certain 2011 amounts have been reclassified to bring them into conformity with the 2012 presentation.

2) Recent Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities – In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to balance sheet offsetting. The new guidance requires disclosures about assets and liabilities that are offset or have the potential to be offset. These disclosures are intended to address differences in the asset and liability offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). This new guidance will be effective for us for interim and annual reporting periods beginning January 1, 2013, with retrospective application required. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

3) Investments

The Company's investments in fixed maturity securities held-to-maturity and equity securities available for sale as of March 31, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2012:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$2,815,824	$478,916	$-	$3,294,740
Obligations of states and political subdivisions	3,032,908	344,615	(7,608)	3,369,915
Corporate securities including public utilities	116,853,730	11,342,155	(1,181,163)	127,014,722
Mortgage-backed securities	6,458,035	364,055	(288,010)	6,534,080
Redeemable preferred stock	1,510,878	57,472	(26,800)	1,541,550
Total fixed maturity securities held to maturity	$130,671,375	$12,587,213	$(1,503,581)	$141,755,007

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

March 31, 2012:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$20,281	$169	$(900)	$19,550
Common stock:				
Industrial, miscellaneous and all other	6,322,732	397,354	(1,015,812)	5,704,274
Total equity securities available for sale at estimated fair value	$6,343,013	$397,523	$(1,016,712)	$5,723,824
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$52,892,902			
Residential construction	14,016,866			
Commercial	45,130,981			
Less: Allowance for loan losses	(4,524,811)			
Total mortgage loans on real estate and construction loans held for investment	$107,515,938			
Real estate held for investment - net of depreciation	$3,715,666			
Other real estate owned held for investment - net of depreciation	54,707,593			
Other real estate owned held for sale	5,998,740			
Total real estate	$64,421,999			
Policy and other loans at amortized cost - net of allowance for doubtful accounts	$17,866,200			
Short-term investments at amortized cost	$5,213,346			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2011 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$2,820,159	$551,740	$-	$3,371,899
Obligations of states and political subdivisions	3,024,425	309,986	(13,156)	3,321,255
Corporate securities including public utilities	113,648,447	10,075,071	(2,268,146)	121,455,372
Mortgage-backed securities	6,575,178	354,286	(356,900)	6,572,564
Redeemable preferred stock	1,510,878	72,639	(129,200)	1,454,317
Total fixed maturity securities held to maturity	$127,579,087	$11,363,722	$(2,767,402)	$136,175,407

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

December 31, 2011:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	$20,281	$-	$(1,843)	$18,438
Common stock:				
Industrial, miscellaneous and all other	7,250,991	363,387	(1,333,424)	6,280,954
Total equity securities available for sale at estimated fair value	$7,271,272	$363,387	$(1,335,267)	$6,299,392
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$54,344,327			
Residential construction	17,259,666			
Commercial	48,433,147			
Less: Allowance for loan losses	(4,881,173)			
Total mortgage loans on real estate and construction loans held for investment	$115,155,967			
Real estate held for investment - net of depreciation	$3,786,780			
Other real estate owned held for investment - net of depreciation	46,398,095			
Other real estate owned held for sale	5,793,900			
Total real estate	$55,978,775			
Policy and other loans at amortized cost - net of allowance for doubtful accounts	$18,463,277			
Short-term investments at amortized cost	$6,932,023			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at March 31, 2012 and December 31, 2011. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At March 31, 2012					
Obligations of states and political subdivisions	$-	0	$7,608	2	$7,608
Corporate securities including public utilities	723,849	36	457,314	12	1,181,163
Mortgage-backed securities	116,030	2	171,980	2	288,010
Redeemable preferred stock	-	0	26,800	1	26,800
Total unrealized losses	$839,879	38	$663,702	17	$1,503,581
Fair Value	$16,591,021		$4,586,000		$21,177,021
At December 31, 2011					
Obligations of states and political subdivisions	$-	0	$13,156	2	$13,156
Corporate securities including public utilities	1,544,224	47	723,922	12	2,268,146
Mortgage-backed securities	161,300	3	195,599	1	356,899
Redeemable preferred stock	800	1	128,400	1	129,200
Total unrealized losses	$1,706,324	51	$1,061,077	16	$2,767,401
Fair Value	$24,249,533		$3,762,892		$28,012,425

As of March 31, 2012, the average market value of the related fixed maturities was 93.4% of amortized cost and the average market value was 91.0% of amortized cost as of December 31, 2011. During the three months ended March 31, 2012 and 2011 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $45,000 and $35,129, respectively.

On a quarterly basis, the Company reviews its available-for-sale fixed investment securities related to corporate securities and other public utilities, consisting of bonds and preferred stocks that are in a loss position. The review involves an analysis of the securities in relation to historical values, and projected earnings and revenue growth rates. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

No other than temporary impairment loss was considered to exist for these fixed maturity securities as of March 31, 2012 and 2011.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

3) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at March 31, 2012 and December 31, 2011. The unrealized losses were primarily the result of decreases in fair value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available-for-sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At March 31, 2012					
Non-redeemable preferred stock	$-	0	$900	1	$900
Industrial, miscellaneous and all other	460,575	52	555,237	23	1,015,812
Total unrealized losses	$460,575	52	$556,137	24	$1,016,712
Fair Value	$1,990,201		$869,074		$2,859,275
At December 31, 2011					
Non-redeemable preferred stock	$-	-	$1,843	2	$1,843
Industrial, miscellaneous and all other	955,400	79	378,024	14	1,333,424
Total unrealized losses	$955,400	79	$379,867	16	$1,335,267
Fair Value	$2,857,082		$560,529		$3,417,611

As of March 31, 2012, the average market value of the equity securities available for sale was 73.8% of the original investment and the average market value was 71.9% of the original investment as of December 31, 2011.
The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During the three months ended March 31, 2012 and 2011, there was no other than temporary decline in fair value.

On a quarterly basis, the Company reviews its investment in industrial, miscellaneous and all other equity securities that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios, projected earnings and revenue growth rates. Based on the analysis a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized. No other than temporary impairment loss was considered to exist for these equity securities as of March 31, 2012 and 2011.

The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments. The fair values for equity securities are based on quoted market prices.

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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3) Investments (Continued)

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2012 through 2015	$931,571	$942,117
Due in 2013 through 2016	18,820,368	20,544,511
Due in 2017 through 2021	50,242,150	54,563,236
Due after 2021	52,708,373	57,629,513
Mortgage-backed securities	6,458,035	6,534,080
Redeemable preferred stock	1,510,878	1,541,550
Total held to maturity	$130,671,375	$141,755,007

The amortized cost and estimated fair value of available for sale securities at March 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in 2012 through 2015	$-	$-
Due in 2013 through 2016	-	-
Due in 2017 through 2021	-	-
Due after 2021	-	-
Non-redeemable preferred stock	20,281	19,550
Common stock	6,322,733	5,704,274
Total available for sale	$6,343,014	$5,723,824

The Company's realized gains and losses, other than temporary impairments from investments and other assets, are summarized as follows:

	Three Months Ended March 31, 2012	2011
Fixed maturity securities held to maturity:		
Gross realized gains	$7,604	$153,491
Gross realized losses	(334)	(38,085)
Other than temporary impairments	(45,000)	(35,129)

Securities available for sale:		
Gross realized gains	137,208	288,251
Gross realized losses	(5,705)	(6,853)
Other than temporary impairments	-	-
Other assets:		
Gross realized gains	32,286	9,156
Gross realized losses	-	(60,870)
Other than temporary impairments	-	-
Total	$126,060	$309,961

The net carrying amount of held to maturity securities sold was $341,173 and $12,341,156 for the three months ended March 31, 2012 and the year ended December 31, 2011, respectively. The net realized gain related to these sales was $7,242 and $462,267 for the three months ended March 31, 2012 and the year ended December 31, 2011, respectively. Certain circumstances lead to these decisions to sell. In 2012 and 2011, the Company sold certain held to maturity bonds in gain positions to reduce its risk in certain industries or companies.

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3) Investments (Continued)

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available-for-sale securities) at March 31, 2012, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Months Ended March 31,	
	2012	2011
Fixed maturity securities	$1,910,344	$1,752,777
Equity securities	63,578	67,986
Mortgage loans on real estate	2,136,577	1,287,213
Real estate	658,456	571,312
Policy and other loans	228,327	213,118
Short-term investments, principally gains on sale of mortgage loans and other	2,041,280	1,374,332
Gross investment income	7,038,562	5,266,738
Investment expenses	(984,515)	(996,290)
Net investment income	$6,054,047	$4,270,448

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of $82,752 and $84,149 for three months ended March 31, 2012 and 2011, respectively.

Net investment income on real estate consists primarily of rental revenue received under short-term leases.

Investment expenses consist primarily of depreciation, property taxes, operating expenses of real estate and an estimated portion of administrative expenses relating to investment activities.

Securities on deposit for regulatory authorities as required by law amounted to $9,603,781 at March 31, 2012 and $9,593,318 at December 31, 2011. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 10.5% per annum, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors live or do business. At March 31, 2012, the Company had 35%, 11% and 11% of its mortgage loans from borrowers located in the states of Utah, California and Florida, respectively. The mortgage loans on real estate balances on the consolidated

balance sheet are reflected net of an allowance for loan losses of $4,524,811 and $4,881,173 at March 31, 2012 and December 31, 2011, respectively.

The Company establishes a valuation allowance for credit losses in its portfolio.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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3) Investments (Continued)

The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

Allowance for Credit Losses and Recorded Investment in Mortgage Loans

	Commercial	Residential	Residential Construction	Total
March 31, 2012				
Allowance for credit losses:				
Beginning balance - January 1, 2011	$-	$4,338,805	$ 542,368	$4,881,173
Charge-offs	-	(137,912)	(250,524)	(388,436)
Provision	-	32,074	-	32,074
Ending balance -March 31, 2012	$-	$4,232,967	$ 291,844	$4,524,811
Ending balance: individually evaluated for impairment	$-	$711,369	$ -	$711,369
Ending balance: collectively evaluated for impairment	$-	$3,521,598	$ 291,844	$3,813,442
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-
Mortgage loans:				
Ending balance	$45,130,981	$52,892,902	$ 14,016,866	$112,040,749
Ending balance: individually evaluated for impairment	$2,108,271	$5,153,359	$ 2,663,415	$9,925,045
Ending balance: collectively evaluated for impairment	$43,022,710	$47,739,543	$ 11,353,451	$102,115,704
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-
December 31, 2011				
Allowance for credit losses:				
Beginning balance - January 1, 2011	$-	$6,212,072	$ 858,370	$7,070,442
Charge-offs	-	(2,994,715)	(430,274)	(3,424,989)
Provision	-	1,121,448	114,272	1,235,720
Ending balance - December 31, 2011	$-	$4,338,805	$ 542,368	$4,881,173
	$-	$738,975	$ 250,524	$989,499

Ending balance: individually evaluated for impairment				
Ending balance: collectively evaluated for impairment	$-	$3,599,830	$ 291,844	$3,891,674
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-
Mortgage loans:				
Ending balance	$48,433,147	$54,344,327	$ 17,259,666	$120,037,140
Ending balance: individually evaluated for impairment	$2,758,235	$4,611,995	$ 5,645,865	$13,016,095
Ending balance: collectively evaluated for impairment	$45,674,912	$49,732,332	$ 11,613,801	$107,021,045
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$ -	$-

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

3) Investments (Continued)

The following is a summary of the aging of mortgage loans for the periods presented:

Age Analysis of Past Due Mortgage Loans

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days 1)	In Foreclosure 1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Net Mortg Loans
ch 31, 2012									
mercial	$-	$-	$-	$2,108,271	$2,108,271	$43,022,710	$45,130,981	$-	$45,130,9
dential	790,088	1,630,155	5,524,043	5,153,359	13,097,645	39,795,257	52,892,902	(4,232,967)	48,659,9
dential nstruction	287,110	1,284,622	1,142,422	2,663,415	5,377,569	8,639,297	14,016,866	(291,844)	13,725,0
l	$1,077,198	$2,914,777	$6,666,465	$9,925,045	$20,583,485	$91,457,264	$112,040,749	$(4,524,811)	$107,515,
ember 31, 2011									
mercial	$-	$-	$1,053,500	$2,758,235	$3,811,735	$44,621,412	$48,433,147	$-	$48,433,1
dential	2,478,084	2,058,261	5,500,340	4,611,995	14,648,680	39,695,647	54,344,327	(4,338,805)	50,005,5
dential nstruction	859,651	682,532	309,651	5,645,865	7,497,699	9,761,967	17,259,666	(542,368)	16,717,2
l	$3,337,735	$2,740,793	$6,863,491	$13,016,095	$25,958,114	$94,079,026	$120,037,140	$(4,881,173)	$115,155,

terest income is not recognized on loans past due greater than 90 days or in foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

3) Investments (Continued)

Impaired Mortgage Loans

Impaired mortgage loans include loans with a related specific valuation allowance or loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary. The recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, for each reporting period and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2012					
With no related allowance recorded:					
Commercial	$2,108,271	$2,108,271	$ -	$2,108,271	$ -
Residential	5,524,043	5,524,043	-	5,524,043	-
Residential construction	3,805,837	3,805,837	-	3,805,837	-
With an allowance recorded:					
Commercial	$-	$-	$ -	$-	$ -
Residential	5,153,359	5,153,359	711,369	5,153,359	-
Residential construction	-	-	-	-	-
Total:					
Commercial	$2,108,271	$2,108,271	$ -	$2,108,271	$ -
Residential	10,677,402	10,677,402	711,369	10,677,402	-
Residential construction	3,805,837	3,805,837	-	3,805,837	-
December 31, 2011					
With no related allowance recorded:					
Commercial	$3,811,735	$3,811,735	$ -	$3,811,735	$ -
Residential	5,500,340	5,500,340	-	5,500,340	-
Residential construction	309,651	309,651	-	309,651	-
With an allowance recorded:					
Commercial	$-	$-	$ -	$-	$ -
Residential	4,611,995	4,611,995	738,975	4,611,995	-
Residential construction	5,645,865	5,645,865	250,524	5,645,865	-
Total:					
Commercial	$3,811,735	$3,811,735	$ -	$3,811,735	$ -

Residential	10,112,335	10,112,335	738,975	10,112,335	-
Residential construction	5,955,516	5,955,516	250,524	5,955,516	-

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

3) Investments (Continued)

Credit Risk Profile Based on Performance Status

The Company's mortgage loan portfolio is monitored based on performance of the loans. Monitoring a mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. The Company defines non-performing mortgage loans as loans 90 days past due or on non-accrual status.

The Company's performing and non-performing mortgage loans were as follows:

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity

	Commercial		Residential		Residential Construction		Total	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Performing	$43,022,710	$44,621,412	$42,215,500	$44,231,992	$10,211,029	$11,304,150	$95,449,239	$100,157,554
Nonperforming	2,108,271	3,811,735	10,677,402	10,112,335	3,805,837	5,955,516	16,591,510	19,879,586
Total	$45,130,981	$48,433,147	$52,892,902	$54,344,327	$14,016,866	$17,259,666	$112,040,749	$120,037,140

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the Company's policy to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals $1,905,000 and $2,308,000 as of March 31, 2012 and December 31, 2011, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

	Mortgage Loans on Nonaccrual Status	
	As of March 31, 2012	As of December 31, 2011
Commercial	$2,108,271	$3,811,735
Residential	10,677,402	10,112,335
Residential construction	3,805,837	5,955,516
Total	$16,591,510	$19,879,586

Loan Loss Reserve

When a repurchase demand sold to investors is received from a third party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand. In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third party investor without having to make any payments to the investor.

The following is a summary of the loan loss reserve that is included in other liabilities and accrued expenses:

	As of March 31, 2012	As of December 31, 2011
Balance, beginning of period	$2,337,875	$5,899,025
Provisions for losses	445,275	1,667,805
Charge-offs	119,738	(5,228,955)
Balance	$2,902,888	$2,337,875

The Company believes the loan loss reserve represents probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims asserted by third party investors. Actual loan loss experience could change, in the near-term, from the established reserve based upon claims asserted by third party investors. If SecurityNational Mortgage is unable to negotiate acceptable terms with the third party investors, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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4) Stock-Based Compensation

The Company has four fixed option plans (the “1993 Plan,” the “2000 Plan”, the “2003 Plan” and the “2006 Plan”) Compensation expense for options issued of $47,218 and $64,344 has been recognized for these plans for the quarters ended March 31, 2012 and 2011, respectively. A deferred tax credit has been recognized related to the compensation expense of $16,054 and $21,877 for the quarters ended March 31, 2012 and 2011, respectively.

Options to purchase 346,500 shares of the Company’s common stock were granted December 2, 2011. The fair value relating to stock-based compensation is $205,175 and will be expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 31, 2012.

Options to purchase 345,600 shares of the Company’s common stock were granted December 3, 2010. The fair value relating to stock-based compensation was $257,376 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over the twelve months ended December 31, 2011.

The weighted-average fair value of each option granted in 2011 under the 2003 Plan and the 2006 Plan, is estimated at $0.52 and $0.71 for the December 2, 2011 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 59%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted in 2010 under the 2003 Plan and the 2006 Plan, is estimated at $0.77 and $0.71 for the December 3, 2010 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 65%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The Company generally estimates the expected life of the options based upon the contractual term of the options. Future volatility is estimated based upon the historical volatility of the Company’s Class A common stock over a period equal to the estimated life of the options. Common stock issued upon exercise of stock options are generally new share issuances rather than from treasury shares.

5) Capital Stock

The Company has two classes of common stock with shares outstanding: Class A and Class C. Class C shares are convertible into Class A shares at any time on a ten to one ratio. The decrease in treasury stock was the result of treasury stock being used to fund the company’s 401-K and Deferred Compensation Plans.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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6) Earnings (Loss) Per Share

The basic and diluted earnings (loss) per share amounts were calculated as follows:

	Three Months Ended March 31,	
	2012	2011
Numerator:		
Net earnings (loss)	$1,662,183	$(518,473)
Denominator:		
Basic weighted-average shares outstanding	9,495,878	9,317,297
Effect of dilutive securities:		
Employee stock options	90,952	-
Dilutive potential common shares	90,952	-
Diluted weighted-average shares outstanding	9,586,830	9,317,297
Basic earnings loss per share	$0.18	$(0.06)
Diluted earnings loss per share	$0.17	$(0.06)

Earnings (loss) per share amounts have been adjusted for the effect of annual stock dividends. For the three months ended March 31, 2012 and 2011, there were 1,673,261 and 1,551,552 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive.

7) Business Segments

Description of Products and Services by Segment

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company's life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company's independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company's cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company's mortgage loan segment consists of loan originations fee income and expenses from the originations of residential and commercial mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles of the form 10K for the year ended December 31, 2011. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

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7) Business Segments (Continued)

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that offer different products and are managed separately due to the different products and the need to report to the various regulatory jurisdictions.

	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
For the Three Months Ended March 31, 2012					
Revenues from external customers	$17,627,349	$2,959,640	$26,736,234	$-	$47,323,223
Intersegment revenues	2,079,099	376,993	75,407	(2,531,499)	-
Segment profit (loss) before income taxes	837,564	226,555	1,264,473	-	2,328,592
Identifiable Assets	500,893,911	112,061,353	31,680,160	(119,825,702)	524,809,722
Goodwill	391,848	285,191	-	-	677,039
For the Three Months Ended March 31, 2011					
Revenues from external customers	$17,148,321	$3,033,086	$13,990,773	$-	$34,172,180
Intersegment revenues	2,066,712	468,025	60,337	(2,595,074)	-
Segment profit (loss) before income taxes	1,079,479	151,624	(2,553,685)	-	(1,322,582)
Identifiable Assets	471,629,809	110,839,889	27,621,213	(119,373,276)	490,717,635
Goodwill	391,848	683,191	-	-	1,075,039

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8) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:
a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in non-active markets; or
c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company utilizes a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

The items shown under Level 1 and Level 2 are valued as follows:

Securities Available-for-sale and Held-to-Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 3.

Restricted Assets of the Cemeteries and Mortuaries: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Cemetery Perpetual Care Trust Investments: A portion of these assets include equity securities that have quoted market prices. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Call Options: The fair values along with methods used to estimate such values are disclosed in Note 3.

The items shown under Level 3 are valued as follows:

Investment-Type Insurance Contracts: Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%. The fair values for the Company's liabilities under investment-type insurance contracts (disclosed as policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

The fair values for the Company's insurance contracts other than investment-type contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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8) Fair Value of Financial Instruments (Continued)

Interest Rate Lock Commitments: The Company's mortgage banking activities enters into interest rate lock commitments with potential borrowers and forward commitments to sell loans to third-party investors. The Company also implements a hedging strategy for these transactions. A mortgage loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after inception of the mortgage loan commitment. Mortgage loan commitments are defined to be derivatives under generally accepted accounting principles and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded as part of other comprehensive income from mortgage banking operations.

Bank Loan Interest Rate Swaps: Management considers the interest rate swap instruments to be an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swaps are a derivative financial instruments carried at its fair value. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

Mortgage Loans on Real Estate: The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Other Real Estate Owned Held for Investment and Held for Sale: The Company believes that in an orderly market fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company uses market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company uses 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

In addition to this analysis performed by the Company, the Company depreciates Other Real Estate Owned Held for Investment. This depreciation reduces the book value of these properties and lessens the exposure to the Company from further deterioration in real estate values.

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8) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at March 31, 2012.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock	$19,550	$19,550	$ -	$-
Common stock	5,704,274	5,704,274	-	-
Total securities available for sale	5,723,824	5,723,824	-	-
Restricted assets of cemeteries and mortuaries	582,286	582,286	-	-
Cemetery perpetual care trust investments	622,719	622,719	-	-
Derivatives - interest rate lock commitments	2,888,260	-	-	2,888,260
Total assets accounted for at fair value on a recurring basis	$9,817,089	$6,928,829	$ -	$2,888,260
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$(50,600,698)	$-	$ -	$(50,600,698)
Future policy benefits - annuities	(65,177,748)	-	-	(65,177,748)
Derivatives - bank loan interest rate swaps	(109,837)	-	-	(109,837)
- call options	(76,711)	(76,711)	-	-
- interest rate lock commitments	(216,939)	-	-	(216,939)
Total liabilities accounted for at fair value on a recurring basis	$(116,181,933)	$(76,711)	$ -	$(116,105,222)

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8) Fair Value of Financial Instruments (Continued)

Following is a summary of changes in the consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2011	$(50,926,020)	$(65,281,586)	$ 1,694,541	$(117,812)
Total gains (losses):				
Included in earnings	325,322	103,838	-	-
Included in other comprehensive income (loss)	-	-	976,780	7,975
Balance - March 31, 2012	$(50,600,698)	$(65,177,748)	$ 2,671,321	$(109,837)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at March 31, 2012.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Other real estate owned held for investment	$-	$-	$ -	$ -
Other real estate owned held for sale	-	-	-	-
Total assets accounted for at fair value on a nonrecurring basis	$-	$-	$ -	$ -

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8) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at December 31, 2011.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock	$18,438	$18,438	$ -	$-
Common stock	6,280,954	6,280,954	-	-
Total securities available for sale	6,299,392	6,299,392	-	-
Restricted assets of cemeteries and mortuaries	548,761	548,761	-	-
Cemetery perpetual care trust investments	617,107	617,107	-	-
Derivatives - interest rate lock commitments	1,904,901	-	-	1,904,901
Total assets accounted for at fair value on a recurring basis	$9,370,161	$7,465,260	$ -	$1,904,901
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$(50,926,020)	$-	$ -	$(50,926,020)
Future policy benefits - annuities	(65,281,586)	-	-	(65,281,586)
Derivatives - bank loan interest rate swaps	(117,812)	-	-	(117,812)
- call options	(80,102)	(80,102)	-	-
- interest rate lock commitment	(210,360)	-	-	(210,360)
Total liabilities accounted for at fair value on a recurring basis	$(116,615,880)	$(80,102)	$ -	$(116,535,778)

Following is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2010	$(52,340,807)	$(65,936,445)	$ 873,059	$(116,533)
Total gains (losses):				

Included in earnings	1,414,787	654,859	-	-
Included in other comprehensive income	-	-	821,482	(1,279)
Balance - December 31, 2011	$(50,926,020)	$(65,281,586)	$ 1,694,541	$(117,812)

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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8) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2011.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage loans on real estate	$5,354,600	-	-	$ 5,354,600
Other real estate owned held for investment	5,419,103	-	-	5,419,103
Other real estate owned held for sale	514,000	-	-	514,000
Total assets accounted for at fair value on a nonrecurring basis	$11,287,703	$-	$ -	$ 11,287,703

9)Other Business Activity

Mortgage Operations

Approximately 57% of the Company's revenues and expenses are through its wholly owned subsidiary, SecurityNational Mortgage. SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life, and with unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through or originated by SecurityNational Mortgage. For the three months ended March 31, 2012 and 2011, SecurityNational Mortgage originated and sold 2,440 loans ($445,523,469 total volume) and 1,569 loans ($262,602,124 total volume), respectively.

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The amount available to originate loans under this agreement at March 31, 2012 was $55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to third party investors. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated,

except in certain circumstances as noted below in the Mortgage Accounting Policy section, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the settlement date with third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with an unaffiliated warehouse bank, which had expired on December 19, 2011, for an indefinite period.

Key accounting policies related to mortgage operations are as follows:

Mortgage loans on real estate and construction loans are carried at their principal balances adjusted for charge offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The Company defers related material loan origination fees, net of related direct loan origination costs, and amortizes the net fees over the term of the loans.

Mortgage loans are collateral dependent and require an appraisal at the time of underwriting and funding. Generally, the Company will fund a loan not to exceed 80% of the fair value of the loan’s collateral value. Amounts over 80% require mortgage insurance by an approved third party insurer. Once a loan is deemed to be impaired, the Company will review the market value of the collateral and provide an allowance for any impairment.

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9) Other Business Activity (Continued)

Mortgage loans sold to investors are carried at the amount due from third party investors, which is the estimated fair value at the balance sheet date, since these amounts are generally collected within a short period of time.

Real estate held for investment is carried at cost, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the properties, or is adjusted to a new basis for impairment in value, if any.

Other real estate owned held for investment are foreclosed properties which the Company intends to hold for investment purposes. These properties are recorded at the lower of cost or fair value upon foreclosure. Deprecation is provided on a straight line basis over the estimated useful life of the properties. These properties are analyzed for impairment periodically in accordance with our policy for long-lived assets.

Other real estate owned held for sale are foreclosed properties which the Company intends to sell. These properties are carried at the lower of cost or fair value, less cost to sell.

Policy and other loans are carried at the aggregate unpaid balances, less allowances for possible losses.

Mortgage fee income consists of origination fees, processing fees, and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria is as follows: (i) the transferred assets have been isolated from SecurityNational Mortgage and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) SecurityNational Mortgage does not maintain effective control over the transferred mortgage.

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of March 31, 2012, there was $129,244,000 in mortgage loans in which settlements with third party investors were still pending.

SecurityNational Mortgage sells all mortgage loans to third party investors without recourse. However, it may be required to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor,
- The existence of misrepresentation or fraud in the origination of the loan,
- The loan becomes delinquent due to nonpayment during the first several months after it is sold,
- Early pay-off of a loan, as defined by the agreements,
- Excessive time to settle a loan,
- Investor declines purchase, and

- Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage's historical data shows that 99% of all loans originated are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

It is SecurityNational Mortgage's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. SecurityNational Mortgage believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

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9) Other Business Activity (Continued)

- Research reasons for rejection,
- Provide additional documents,
- Request investor exceptions,
- Appeal rejection decision to purchase committee, and
- Commit to secondary investors.

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six month time period, the loans are repurchased and transferred to the long term investment portfolio at the lower of cost or fair value and previously recorded sales revenue is reversed. Any loan that later becomes delinquent is evaluated by the Company at that time and any impairment is adjusted accordingly.

Determining lower of cost or market. Cost is equal to the amount paid to the warehouse bank and the amount originally funded by SecurityNational Mortgage. Market value, while often difficult to determine, is based on the following guidelines:

- For loans that have an active market, SecurityNational Mortgage uses the market price on the repurchase date.
- For loans where there is no market but there is a similar product, SecurityNational Mortgage uses the market value for the similar product on the repurchase date.
- For loans where no active market exists on the repurchase date, SecurityNational Mortgage determines that the unpaid principal balance best approximates the market value on the repurchase date, after considering the fair value of the underlying real estate collateral and estimated future cash flows.

The appraised value of the real estate underlying the original mortgage loan adds significance to SecurityNational Mortgage's determination of fair value because, if the loan becomes delinquent, SecurityNational Mortgage has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, SecurityNational Mortgage considers the total value of all of the loans because any sale of loans would be made as a pool.

For mortgages originated and held for investment, mortgage fee income and related expenses are recognized when the loan is originated.

10) Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with generally accepted accounting principles.

Receivables are the result of cemetery and mortuary operations, mortgage loan operations and life insurance operations. The allowance is based upon the Company's historical experience for collectively evaluated impairment. Other allowances are based upon receivables individually evaluated for impairment. Collectability of the cemetery and mortuary receivables is significantly influenced by current economic conditions. The critical issues that impact

recovery of mortgage loan operations are interest rate risk, loan underwriting, new regulations and the overall economy.

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in Note 3 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company, does not accrue any interest income and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed, the carrying value will approximate its fair value and the amount is classified as other real estate owned held for investment or sale. The Company will rent the properties until it is deemed desirable to sell them.

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10) Allowance for Doubtful Accounts and Loan Losses and Impaired Loans (Continued)

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors.

The loan loss reserve analysis involves mortgage loans that have been sold to third party investors where the Company has received a demand from the investor. There are generally three types of demands: make whole, repurchase, or indemnification. These types of demands are more particularly described as follows:

Make whole demand – A make whole demand occurs when an investor forecloses on a property and then sells the property. The make whole amount is calculated as the difference between the original unpaid principal balance, accrued interest and fees, less the sale proceeds.

Repurchase demand – A repurchase demand usually occurs when there is a significant payment default, error in underwriting or detected loan fraud.

Indemnification demand – On certain loans the Company has negotiated a set fee that is to be paid in lieu of repurchase. The fee varies by investor and by loan product type.

Additional information related to the Loan Loss Reserve is included in Note 3.

11) Derivative Investments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of mortgage loan commitments from the time a derivative loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of derivative loan commitments that will be exercised (i.e., the number of loan commitments that will be funded) fluctuates. The probability that a loan will not be funded within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the inception of the interest rate lock. However, many borrowers continue to exercise derivative loan commitments even when interest rates have fallen.

In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will not be funded within the terms of the mortgage loan commitment also is influenced by the source of the applications (retail, broker or correspondent channels), proximity to rate lock expiration, purpose for the loan (purchase or refinance) product type and the application approval status. The Company has developed fallout estimates using historical data that take into account all of the variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. These fallout estimates are used to estimate the number of loans that the Company expects to be funded within the terms of the mortgage loan commitments and are updated periodically to reflect the most current data.

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

The Company utilizes forward loan sales commitments to economically hedge the price risk associated with its outstanding mortgage loan commitments. A forward loan sales commitment protects the Company from losses on sales of the loans arising from exercise of the loan commitments by securing the ultimate sales price and delivery date of the loans. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the derivative loan commitments, thereby reducing earnings volatility related to the recognition in earnings of changes in the values of the commitments.

The Company has adopted a strategy of selling "out of the money" call options on its available-for-sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for call options is adjusted to fair value at each reporting date. The fair value of outstanding call options as of March 31, 2012 and December 31, 2011 was $76,711 and $80,102, respectively. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option and retains the underlying equity security.

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11) Derivative Investments (Continued)

The following table shows the fair value of derivatives as of March 31, 2012 and December 31, 2011.

Fair Value of Derivative Instruments

	Asset Derivatives				Liability Derivatives			
	March 31, 2012		December 31, 2011		March 31, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments	other assets	$2,888,260	other assets	$1,904,901	Other liabilities	$216,939	Other liabilities	$210,360
Call Options	--	--	--	--	Other liabilities	76,711	Other liabilities	80,102
Interest rate swaps	--	--	--	--	Bank loans payable	109,837	Bank loans payable	117,812
Total		$2,888,260		$1,904,901		$403,487		$408,274

The following table shows the gain (loss) on derivatives for the periods presented. There were no gains or losses reclassified from accumulated other comprehensive income (OCI) into income or gains or losses recognized in income on derivatives ineffective portion or any amounts excluded from effective testing.

	Net Amount Gain (Loss) Recognized in OCI Three Months Ended March 31,	
Derivative - Cash Flow Hedging Relationships:	2012	2011
Interest Rate Lock Commitments	$976,780	$57,851
Interest Rate Swaps	7,975	13,639
Sub Total	$984,755	$71,490
Tax Effect	$334,662	$24,306
Total	$650,093	$47,184

12) Reinsurance, Commitments and Contingencies

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company ("North America Life"), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of $15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life's contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, the Company agreed to be responsible for all the contractual liabilities under the coinsured policies, including the administration of the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement. Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of $3,525,875. In addition, North America Life transferred $15,703,641 in assets and $19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The $15,703,641 in assets included $12,990,444 in cash, $8,997 in policy loans, and $2,704,200 in promissory note secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

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12) Reinsurance, Commitments and Contingencies (Continued)

On September 1, 2011 Security National Life with the approval of the Texas Department of Insurance assumed all of the policies which were issued by North America Life previously assumed and coinsured pursuant to the terms of the Coinsurance Agreement. Security National Life has assumed the same terms and conditions as set forth in each policy and certificates of assumptions were sent to all policyholders.

On August 31, 2011 the Company entered into a stock purchase agreement with North America Life to purchase all of the outstanding shares of common stock of Trans-Western Life Insurance Company ("Trans-Western"), a Texas domiciled insurance company and a wholly-owned subsidiary of North America Life. The Company completed the Stock Purchase Agreement on May 2, 2012. Purchase consideration paid was $480,988 which was the capital and surplus of Trans-Western at December 31, 2011. The Stock Purchase Agreement was approved by the Texas Insurance Department on March 20, 2012. All of Trans-Western's insurance business has been ceded to North America Life of which approximately 47% of the insurance in force has been assumed by the Company under the Coinsurance Agreement explained above.

Reinsurance with American Life and Security Corporation

On May 24, 2010, the Company completed a stock purchase transaction with American Life and Security Corporation ("American Life") a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the Stock Purchase Agreement among the Company, American Life, and the shareholders of the Company, American Life paid the Company at closing purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of $1,692,576, plus additional consideration in the amount of $105,000 for a total of $1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate Capital Reserve into the Company in the same manner as the liquidation described in Private Letter Ruling 9847027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue code of 1986, as amended, and other applicable provisions described in such Letter Ruling. American Life obtained approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, the Company entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Under the terms of the agreement, the Company ceded to American Life a block of deferred annuities in the amount of $2,678,931 and a block of whole life policies in the amount of $1,048,134, together with net due and deferred premiums in the amount of $12,305, advance premiums in the amount of $353, claims liability in the amount of $14,486, and net policy loans in the amount of $128,487. The total initial consideration of $3,601,112 in cash was transferred to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of a custodial agreement. American Life agreed to pay the Company an initial ceding commission of $375,000 and a management fee of $3,500 per quarter to administer the policies. American Life agreed to indemnify the Company for these contracts and risks. The initial term on this agreement will be for a period of one year. After the initial one year term, this agreement will be automatically renewed unless American Life notifies the Company in writing of its intention not to renew, no less than 180 days prior to the expiration of the then current agreement. Each automatic renewal period of this agreement will be for a term of one year. The accounting and settlement of this agreement will be on a quarterly basis and calculated pursuant to the terms thereof.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended March 31, 2012 and 2011 were $445,000 and $530,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of March 31, 2012 and December 31, 2011, the balances were $2,903,000 and $2,338,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of $4,300,000, of which $1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of $3,300,000. The $3,300,000 balance was paid shortly after the parties executed the settlement agreement.

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12) Reinsurance, Commitments and Contingencies (Continued)

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. For the three months ended March 31, 2012 and 2011 Wells Fargo deducted $414,765 and $0, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period. SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells Fargo. For the three months ended March 31, 2012 and 2011 Wells Fargo deducted $58,632 and $0, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period. Finally, SecurityNational Mortgage is required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 28 real estate properties with a total book value of $5,597,900 as of March 31, 2012.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of March 31, 2012, the Company reserved and accrued $2,903,000 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers.

Mortgage Loan Loss Demand

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of March 31, 2012, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than $20,000,000. Additional potential claims and notices of potential claims from third party investors have been made

since March 31, 2012. The Company has reserved and accrued $2,903,000 as of March 31, 2012 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was $18,779,000 on March 31, 2012, and its reserve for mortgage loan loss, which was $2,903,000 on March 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

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March 31, 2012 (Unaudited)

12) Reinsurance, Commitments and Contingencies (Continued)

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Termination of Business Relationship with Third Party Investor

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal because it regarded the language in the settlement documents as unreasonable, the investor notified SecurityNational Mortgage by letter dated October 20, 2010 of its decision to terminate its business relationship with SecurityNational Mortgage.

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting $5,971,000 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage.

SecurityNational Mortgage believes the investor wrongfully applied the $5,971,000 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. The investor has asserted potential claims and notices of potential claims concerning the alleged defective loans that SecurityNational Mortgage sold to such investor. SecurityNational Mortgage disagrees with these potential claims and notices and believes it has significant defenses to such claims and notices, as well as a claim against the investor for the return of the $5,971,000 that the investor had wrongfully taken from the over/under account.

JP Morgan Chase Indemnification Demand

The Company and its wholly-owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification relating to mortgage loans that EMC Mortgage, LLC ("EMC Mortgage") allegedly purchased as a third party investor from SecurityNational Mortgage. The notice was from JP Morgan Chase & Co. ("JP Morgan Chase") in behalf of EMC Mortgage. According to the notice, the alleged indemnification claims relate to mortgage loans that SecurityNational Mortgage sold to EMC Mortgage under a Mortgage Loan Purchase Agreement, dated December 5, 2005, between SecurityNational Mortgage and EMC. The notice also referenced an Agreement of Guaranty, dated February 23, 2006, by the Company relative to EMC Mortgage. The notice states that EMC Mortgage allegedly purchased mortgage loans from SecurityNational Mortgage, which were later securitized by means of mortgage pass-through certificates.

The notice of indemnification claims from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the "Trust"), which was filed on September 13, 2011 in

the Delaware Court of Chancery. A copy of the complaint and the amended complaint has been provided by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage's assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all accrued but unpaid interest.

The notice from JP Morgan Chase further states that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any losses arising from the lawsuit against EMC based upon alleged untrue statements of material fact related to information that was provided by SecurityNational Mortgage. The amended complaint includes the loan numbers of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust. In a letter from JP Morgan Chase accompanying a copy of the amended complaint, JP Morgan Chase asserted that 21 mortgage loans originated by SecurityNational Mortgage were included in the lawsuit as part of the alleged non-complying mortgage loans that EMC allegedly sold to the Trust. Thus, it appears that only a very small percentage of the alleged non-complying mortgage loans that EMC Mortgage sold to the Trust were mortgage loans that SecurityNational Mortgage had sold to EMC.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

12) Reinsurance, Commitments and Contingencies (Continued)

Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example, neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of $352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to the 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid $395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a $250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of $645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services the difference between the reserve account balance and $645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of $125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. ("Lehman Holdings") claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $500,000, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of March 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 (Unaudited)

12) Reinsurance, Commitments and Contingencies (Continued)

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately $4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages of approximately $5,041,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately $4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of March 31, 2012, the Company’s commitments were $9,880,000 for these loans of which $7,860,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of March 31, 2012). Maturities range between six and twelve months.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole-life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on lower interest rates by originating and refinancing mortgage loans.

Results of Operations

Mortgage Operations

Overview

SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains mortgage loans primarily from its retail offices and independent brokers. The loans are funded from internal cash flows, including through loan purchase agreements with Security National Life, and from unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage.

For the three months ended March 31, 2012 and 2011, SecurityNational Mortgage originated and sold 2,440 loans ($445,523,469 total volume) and 1,587 loans ($265,230,124 total volume), respectively. The mortgage loan volume in 2012 has been higher than in 2011 primarily due to an increase market share in mortgage loan originations. SecurityNational Mortgage anticipates the loan volume for 2012 to be approximately $125,000,000 to $200,000,000 per month range compared to $80,000,000 to $150,000,000 per month range in 2011.

The following table shows the condensed financial results of the mortgage operations for the three months ended March 31, 2012 and 2011. See Note 8 to the Condensed Consolidated Financial Statements.

	Three months ended March 31 (in thousands of dollars)		
	2012	2011	% Increase (Decrease)
Revenues from external customers			
Income from loan originations	$22,401	$11,085	102 %
Secondary gains from investors	4,335	2,906	49 %
Total	$26,736	$13,991	91 %
Earnings (Losses) before income taxes	$1,264	$(2,554)	149 %

Overall, this increase in profitability for the three months ended March 31, 2012 was due to the higher loan volume and higher secondary gains from third party investors.

Significant Accounting Policies

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The amount available to originate loans under this agreement at December 31, 2011 was $55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to third party investors. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the settlement date with third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with an unaffiliated warehouse bank, which had expired on December 19, 2011, for an indefinite period.

Mortgage fee income consists of origination fees, processing fees, and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria is as follows: (i) the transferred assets have been isolated from SecurityNational Mortgage and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) SecurityNational Mortgage does not maintain effective control over the transferred mortgage.

SecurityNational Mortgage must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments. As of March 31, 2012, there was $129,244,000 in mortgage loans in which settlements with third party investors were still pending.

SecurityNational Mortgage sells all mortgage loans to third party investors without recourse. However, it may be required to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor,
- The existence of misrepresentation or fraud in the origination of the loan,
- The loan becomes delinquent due to nonpayment during the first several months after it is sold,
- Early pay-off of a loan, as defined by the agreements,
- Excessive time to settle a loan,
- Investor declines purchase, and
- Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to SecurityNational Mortgage. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. SecurityNational Mortgage’s historical data shows that 99% of all loans originated are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when SecurityNational Mortgage determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

It is SecurityNational Mortgage's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. SecurityNational Mortgage believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- Research reasons for rejection,
- Provide additional documents,
- Request investor exceptions,
- Appeal rejection decision to purchase committee, and
- Commit to secondary investors.

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six month time period, the loans are repurchased and transferred to the long term investment portfolio at the lower of cost or fair value and previously recorded sales revenue is reversed. Any loan that later becomes delinquent is evaluated by the Company at that time and any impairment is adjusted accordingly.

Determining lower of cost or market. Cost is equal to the amount paid to the warehouse bank and the amount originally funded by SecurityNational Mortgage. Market value, while often difficult to determine, is based on the following guidelines:

- For loans that have an active market, SecurityNational Mortgage uses the market price on the repurchase date.
- For loans where there is no market but there is a similar product, SecurityNational Mortgage uses the market value for the similar product on the repurchase date.

- For loans where no active market exists on the repurchase date, SecurityNational Mortgage determines that the unpaid principal balance best approximates the market value on the repurchase date, after considering the fair value of the underlying real estate collateral and estimated future cash flows.

The appraised value of the real estate underlying the original mortgage loan adds significance to SecurityNational Mortgage's determination of fair value because, if the loan becomes delinquent, SecurityNational Mortgage has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, SecurityNational Mortgage considers the total value of all of the loans because any sale of loans would be made as a pool.

For mortgages originated and held for investment, mortgage fee income and related expenses are recognized when the loan is originated.

As of March 31, 2012, the Company's long term mortgage loan portfolio consisted of $16,592,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $9,925,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $16,592,000 in mortgage loans with delinquencies more than 90 days. During the three months ended March 31, 2012, the Company provided an allowance for mortgage losses of $32,000. This allowance for mortgage losses was charged to loan loss expense and included in selling, general and administrative expenses for the period. The ending balance of allowances for mortgage loan losses as of March 31, 2012 and December 31, 2011 were $4,525,000 and $4,881,000, respectively.

Also as of March 31, 2012, the Company had foreclosed on a total of $60,706,000 in long term mortgage loans, of which $9,022,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2012. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will lease or rent the properties until it is deemed economically desirable to sell them.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended March 31, 2012 and 2011 were $445,000 and $530,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of March 31, 2012 and December 31, 2011, the balances were $2,903,000 and $2,338,000, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage paid an initial settlement amount to Wells Fargo in the amount of $4,300,000, of which $1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of $3,300,000. The $3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo has the right to deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. For the three months ended March 31, 2012 and 2011 Wells Fargo deducted $414,765 and $0, representing 10 basis points from the purchase proceeds of the loans that SecurityNational Mortgage sold to Wells Fargo during that period. SecurityNational Mortgage is also required under the settlement agreement to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo and pay such amounts to Wells

Fargo. For the three months ended March 31, 2012 and 2011 Wells Fargo deducted $58,632 and $0, representing 10 basis points from the purchase proceeds of the loans it sold to mortgage loan purchasers other than Wells Fargo during that period. Finally, SecurityNational Mortgage is required under the settlement agreement to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 28 real estate properties with a total book value of $5,597,900 as of March 31, 2012.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, released SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage released Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of March 31, 2012, the Company reserved and accrued $2,903,000 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers.

Mortgage Loan Loss Demands

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

As of March 31, 2012, third party investors had asserted total potential claims and notices of potential claims relating to mortgage loan repurchases, indemnifications and other issues that are substantially greater than $20,000,000. Additional potential claims and notices of potential claims from third party investors have been made since March 31, 2012. The Company has reserved and accrued $2,903,000 as of March 31, 2012 to settle all such investor related claims.

The total amount of potential claims and notices of potential claims are greater than the net asset value of SecurityNational Mortgage, which was $18,779,000 on March 31, 2012, and its reserve for mortgage loan loss, which was $2,903,000 on March 31, 2012. SecurityNational Mortgage disagrees with the claims and notices of potential claims asserted by third party investors against it and believes it has significant defenses to these claims. Any additional losses in excess of the current loan loss reserve cannot be estimated as SecurityNational Mortgage is currently in the process of reviewing repurchase demands and notices of potential claims from third party investors.

If SecurityNational Mortgage is unable to resolve demands by the third party investors on acceptable terms, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment is entered against SecurityNational Mortgage which is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Termination of Business Relationship with Third Party Investor

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal because it regarded the language in the settlement documents as unreasonable, the investor notified SecurityNational Mortgage by letter dated October 20, 2010 of its decision to terminate its business relationship with SecurityNational Mortgage.

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting $5,971,000 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage.

SecurityNational Mortgage believes the investor wrongfully applied the $5,971,000 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. The investor has asserted potential claims and notices of potential claims concerning the alleged defective loans that SecurityNational Mortgage sold to such investor. SecurityNational Mortgage disagrees with these potential claims and notices and believes it has significant defenses to such claims and notices, as well as a claim against the investor for the return of the $5,971,000 that the investor had wrongfully taken from the over/under account.

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The notice of indemnification claims from JP Morgan Chase also states that EMC Mortgage has been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the "Trust"), which was filed on September 13, 2011 in the Delaware Court of Chancery. A copy of the complaint and the amended complaint has been provided by JP Morgan Chase. The amended complaint contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust contained breaches of representations and warranties concerning the mortgage loans. The amended complaint also contends that despite EMC Mortgage's assurance to the Trust that the mortgage loans met certain minimum quality standards, there have been defaults and foreclosures in many of such loans. As a result of the alleged defaults and foreclosures, the amended complaint asserts that EMC Mortgage is required to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all accrued but unpaid interest.

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Moreover, to the extent the claims by the Trust against EMC Mortgage relate to mortgage loans that SecurityNational Mortgage sold to EMC, the Company believes it has defenses to such claims with respect to EMC. For example, neither the Company nor SecurityNational Mortgage is a party to any agreement involving the Trust, nor are they privy to any agreements between EMC Mortgage and the Trust. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust has brought against EMC Mortgage.

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During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $500,000, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of March 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately $4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages of approximately $5,041,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement

under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately $4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

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Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah and one mortuary in Phoenix, Arizona. The Company also sells cemetery products and services through its five cemeteries in Salt Lake City, Utah and one cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

On May 10, 2011, the Company and its subsidiary, Greer-Wilson Funeral Home, Inc., completed an asset sales transaction with SCI Arizona Funeral Services, Inc. (“SCI”), an Arizona corporation, to sell substantially all of the operating assets of Greer-Wilson Funeral Home and Crystal Rose Funeral Home to SCI. Under the terms of the asset purchase agreement among Greer-Wilson Funeral Home, Crystal Rose Funeral Home and SCI, SCI paid $2,225,000 at closing to the Company and Greer-Wilson. The agreement also granted a three year right of first refusal to SCI to purchase Paradise Chapel Funeral Home. If the Company elects to sell Paradise Chapel Funeral Home within the three year period, the Company must provide a bona fide third party offer to SCI after which SCI has ten business days to exercise its right to purchase Paradise for the offer amount.

The following table shows the condensed financial results of the Cemetery and Mortuary operations for the three months ended March 31, 2012 and 2011. See Note 8 to the Condensed Consolidated Financial Statements.

	Three months ended March 31 (in thousands of dollars)		
	2012	2011	% Increase (Decrease)
Revenues from external customers			
Mortuary revenues	$1,389	$1,559	(11%)
Cemetery revenues	1,625	1,503	8%
Other	(54)	(29)	(86%)
Total	$2,960	$3,033	(2%)
Earnings (Losses) before income taxes	$227	$152	49%

Included in other revenue is rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income is offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates has recorded depreciation on these properties of $258,000 and $251,000 for the three months ended March 31, 2012 and 2011, respectively.

Insurance Operations

The Company’s insurance business includes funeral plans, interest sensitive life insurance as well as other traditional life and accident, and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to $15,000. The Company believes that funeral plans represents a marketing niche where there is less competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person’s death. On a per thousand dollar cost of insurance basis, these policies can be more expensive to the policy holder than many types of non-burial insurance due to their low face amount,

requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the condensed financial results of the insurance operations for the three months ended March 31, 2012 and 2011. See the Note 8 to the Condensed Consolidated Financial Statements.

	Three months ended March 31 (in thousands of dollars)		
	2012	2011	% Increase (Decrease)
Revenues from external customers			
Insurance premiums	$12,588	$12,692	(1%)
Net investment income	4,817	3,742	29%
Other	222	714	(69%)
Total	$17,627	$17,148	3%
Intersegment revenue	$2,079	$2,067	1%
Earnings before income taxes	$838	$1,079	(22%)

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. On March 30, 2011 the Company completed a co-insurance agreement with North American Life Insurance Company, effective December 1, 2010. As a result, four months of reinsurance premiums and death claims were recorded in the three months ended March 31, 2011. Profitability in the three months ended March 31, 2012 has decreased due to the additional one month of premiums and death claims from the co-insurance agreement. The increase in net investment income offset this reduction.

Consolidation

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Total revenues increased by $13,151,000, or 38.5%, to $47,323,000 for the three months ended March 31, 2012, from $34,172,000 for the three months ended March 31, 2011. Contributing to this increase in total revenues was a $12,038,000 increase in mortgage fee income and a $1,784,000 increase in net investment income. This increase in total revenues was offset by a $315,000 decrease in other revenues, a $174,000 decrease in realized gains on investments and other assets, a $105,000 decrease in insurance premiums and other considerations, a $67,000 decrease in net mortuary and cemetery sales, and a $10,000 increase in other than temporary impairments.

Insurance premiums and other considerations decreased by $105,000, or 0.8%, to $12,587,000 for the three months ended March 31, 2012, from $12,692,000 for the comparable period in 2011. This decrease was primarily the result of a decrease in premiums from the North American Life Company co-insurance agreement.

Net investment income increased by $1,784,000, or 41.8%, to $6,054,000 for the three months ended March 31, 2012, from $4,270,000 for the comparable period in 2011. This increase was primarily attributable to an $849,000 increase in mortgage loan interest, a $667,000 increase in short-term investment income, a $158,000 increase in fixed maturity securities income on real estate, an $87,000 increase in rental income, and a $15,000 increase in interest on policy loans.

Net cemetery and mortuary sales decreased by $67,000, or 2.3%, to $2,875,000 for the three months ended March 31, 2012, from $2,942,000 for the comparable period in 2011. This decrease was primarily due to a reduction in at-need sales in the mortuary operations.

Realized gains on investments and other assets decreased by $174,000, or 50.4%, to a $171,000 realized gain for the three months ended March 31, 2012, from a $345,000 realized gain for the comparable period in 2011. This decrease in realized gains on investments and other assets was the result of decreases in realized gains on fixed maturity securities and decreases in securities available for sale.

Other than temporary impairments on investments increased by $10,000, or 28.1%, to $45,000 for the three months ended March 31, 2012, from $35,000 for the comparable period in 2011. This increase was the result of an increase in other than temporary impairments on fixed maturity securities held to maturity.

Mortgage fee income increased by $12,038,000, or 89.5%, to $25,491,000 for the three months ended March 31, 2012, from $13,453,000 for the comparable period in 2011. This increase was primarily attributable to an increased market share in mortgage loan originations and an increase in secondary gains on mortgage loans sold to investors.

Other revenues decreased by $315,000, or 62.4%, to $190,000 for the three months ended March 31, 2012, from $505,000 for the comparable period in 2011. This decrease was due to a reduction in miscellaneous revenues from the North American Life co-insurance transaction.

Total benefits and expenses were $44,995,000, or 95.1% of total revenues, for the three months ended March 31, 2012, as compared to $35,495,000, or 103.9% of total revenues, for the comparable period in 2011.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of $675,000 or 6.1%, to $11,663,000 for the three months ended March 31, 2012, from $10,988,000 for the comparable period in 2011. This increase was primarily the result of a $1,533,000 increase in future policy benefits, and a $104,000 increase in surrender and other policy benefits, which was offset by a decrease of $962,000 in death

benefits, primarily due to the reinsurance transaction with North America Life Insurance Company.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by $76,000, or 3.8%, to $1,924,000 for the three months ended March 31, 2012, from $2,000,000 for the comparable period in 2011. This decrease was primarily due to better persistency in the traditional life line of business.

Selling, general and administrative expenses increased by $8,500,000, or 39.2%, to $30,160,000 for the three months ended March 31, 2012, from $21,660,000 for the comparable period in 2011. This increase was the result of an increase in commission expenses of $7,025,000, from $7,861,000 for the three months ended March 31, 2011 to $14,886,000 for the comparable period in 2012 due to increased mortgage loan originations made by SecurityNational Mortgage. Salaries increased by $328,000 from $6,185,000 for the three months ended March 31, 2011 to $6,513,000 for the comparable period in 2012, primarily due to an increase in the number of employees. Provision for loan losses and loss reserve decreased by $289,000 from $692,000 for the three months ended March 31, 2011 to $403,000 for the comparable period in 2012, primarily due to a reduction in the monthly accrual. Costs related to funding mortgage loans increased by $515,000 from $845,000 for the three months ended March 31, 2011 to $1,360,000 for the comparable period in 2012 due to additional loans funded. Other expenses increased by $921,000 from $6,078,000 for the three months ended March 31, 2011 to $6,999,000 for the comparable period in 2012.

Interest expense increased by $453,000, or 143.6%, to $769,000 for the three months ended March 31, 2012, from $316,000 for the comparable period in 2011. This increase was primarily due to an increased use of the mortgage warehouse line resulting from additional mortgage loan originations.

Cost of goods and services sold of the cemeteries and mortuaries decreased by $54,000, or 10.1%, to $478,000 for the three months ended March 31, 2012, from $532,000 for the comparable period in 2011. This reduction was primarily due to a decrease in cemetery and mortuary revenue.

Comprehensive income for the three months ended March 31, 2012 and 2011 amounted to a gain of $2,642,000 and a loss of $485,000, respectively. This $3,127,000 increase in comprehensive income in 2012 was primarily the result of a $344,000 increase in unrealized gains in securities available for sale, a $603,000 increase in derivatives related to mortgage loans and a $2,180,000 increase in net income.

Income taxes for the insurance segment have a lower effective tax rate of 13.6% due to the deduction for small life companies. Cemetery, mortuary and mortgage segments have an effective tax rate of 34%.

Liquidity and Capital Resources

The Company’s life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from proceeds from the maturity of held-to-maturity investments or sale of other investments. The mortgage subsidiary realizes cash flow from fees generated by originating and refinancing mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long term and adequate to pay current policyholder claims, annuity payments, expenses on the issuance of new policies, the maintenance of existing policies, debt service, and to meet operating expenses.

During the three months ended March 31, 2012, the Company's operations provided cash of $25,193,000. This was due primarily to a $5,497,000 increase in future policy benefits and a $16,423,000 decrease for the three months of 2012 in the balance of mortgage loans sold to investors. During the three months ended March 31, 2011, the Company’s operations used cash of $42,216,000. This was due primarily to a $41,453,000 decrease for the three months of 2011 in the balance of mortgage loans sold to investors and a $3,492,000 increase in future policy benefits.

The Company’s liability for future life, annuity and other benefits is expected to be paid out over the long-term due to the Company’s market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person’s death. A person generally will keep these policies in force and will not surrender them prior to a person’s death. Because of the long-term nature of these liabilities, the Company is able to hold to maturity its bonds, real estate and mortgage loans, thus reducing the risk of liquidating these long-term investments as a result of any sudden changes in fair values.

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held to maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company’s products.

The Company’s investment philosophy is intended to provide a rate of return which will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and the warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to $130,671,000 as of March 31, 2012 compared to $127,579,000 as of December 31, 2011. This represents 38.8% and 38.2% of the total investments as of March 31, 2012 and December 31, 2011, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners (NAIC). Under this rating system, there are six categories used for rating bonds. At March 31, 2012, 3.27% (or $4,224,000) and at December 31, 2011, 4.11% (or $5,182,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which were considered non-investment grade.

The Company has classified its fixed income securities as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher yielding longer-term securities.

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At March 31, 2012 and December 31, 2011, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable was $84,190,000 as of March 31, 2012, as compared to $86,250,000 as of December 31, 2011. Stockholders' equity as a percent of total capitalization was 76% and 71% as of March 31, 2012 and December 31, 2011, respectively. Bank debt and notes payable decreased $4,805,000 for the three months ended March 31, 2012 when compared to December 31, 2011, thus increasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2011 was 6.5% as compared to a rate of 8.0% for 2010. The 2012 lapse rate to date has been approximately the same as 2011.

At March 31, 2012, $26,409,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to the Company, its parent company, without the approval of insurance regulatory authorities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes since the annual report on Form 10-K filed for the year ended December 31, 2011.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of March 31, 2012, the Company carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The officers have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012 and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with United States GAAP.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings.

Lehman Brothers – Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of $352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged breaches in the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to the 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 54 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid $395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a $250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of $645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. However, Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services the difference between the reserve account balance and $645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of $125,000 for any calendar month.

Since the reserve account was established, funds had been paid from the account to indemnify $4,281,000 in alleged losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of $1,289,000 and $500,000, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. As of March 31, 2012, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling $625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement. The complaint alleges, among other things, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans sold by SecurityNational to justify the amount of payments demanded from, and made by SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately $4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A Lehman Holdings’ subsidiary owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement to

Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void, which is disputed by SecurityNational Mortgage.

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages of approximately $5,041,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately $3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately $4,000,000 from Lehman Bank and Aurora Loan Services, which are related to Lehman Holdings.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

See "Table of Contents – Part I – Financial Information" under page 2 above

(a)(2) Financial Statement Schedules

None

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits

The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-K or are incorporated by reference to previous filings.

3.1	Articles of Restatement of Articles of Incorporation (4)
3.2	Amended Bylaws (6)
4.1	Specimen Class A Stock Certificate (1)
4.2	Specimen Class C Stock Certificate (1)
4.3	Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
10.1	Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
10.2	2003 Stock Option Plan (5)
10.3	2006 Director Stock Option Plan (12)
10.4	Deferred Compensation Agreement with George R. Quist (2)
10.5	Deferred Compensation Plan (3)
10.6	Employment agreement with J. Lynn Beckstead, Jr. (7)

10.7	Employment agreement with Scott M. Quist (8)
10.8	Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (9)
10.9	Settlement Agreement and Release with Wells Fargo Funding (10)
10.10	Coinsurance Agreement between Security National Life Insurance Company and North American Life Insurance Company (11)
31.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 INS	XBRL Instance Document*
101 SCH	XBRL Schema Document*
101 CAL	XBRL Calculation Linkbase Document*
101 LAB	XBRL Labels Linkbase Document*
101 PRE	XBRL Presentation Linkbase Document*
101 DEF	XBRL Definition Linkbase Document*

* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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(1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
(2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989
(3) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
(4) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003
(5) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company's Annual Meeting of Shareholders
(6) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
(7) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
(8) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
(9) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
(10) Incorporated by reference from Report on Form 8-K, as filed on April 12, 2011
(11) Incorporated by reference from Report on Form 8-K/A, as filed on May 6, 2011

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION
Registrant

Dated: May 14, 2012	/s/ George R. Quist George R. Quist Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Dated: May 14, 2012	/s/ Stephen M. Sill Stephen M. Sill Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)