

SECURITY NATIONAL FINANCIAL CORP  
Form 10-Q  
November 15, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the quarter ended September 30, 2010, 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  
(State or other jurisdiction of incorporation or  
organization)

87-0345941  
(I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250 Salt Lake City, Utah  
(Address of principal executive office)

84123  
(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  No

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

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	8,741,852
Title of Class	Number of Shares Outstanding as of November 12, 2010

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Class C Common Stock, \$.20 par value	9,200,145
Title of Class	Number of Shares Outstanding as of November 12, 2010

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

(Do not check if a smaller reporting company)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2010

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

Assets	September 30, 2010	December 31, 2009
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 100,614,704	\$ 115,832,300
Fixed maturity securities, available for sale, at estimated fair value	135,454	1,149,523
Equity securities, available for sale, at estimated fair value	6,686,738	5,786,614
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$7,093,550 and \$6,808,803 for 2010 and 2009, respectively	97,181,360	103,290,076
Real estate held for investment, net of accumulated depreciation and allowances for losses of \$4,851,855 and \$4,046,272 for 2010 and 2009, respectively	54,913,589	46,901,832
Policy, student and other loans, net of allowances for doubtful accounts	16,250,443	18,145,029
Short-term investments	1,056,685	7,144,319
Accrued investment income	1,913,315	2,072,495
Total investments	278,752,288	300,322,188
Cash and cash equivalents	26,531,667	39,463,803
Mortgage loans sold to investors	94,150,703	39,269,598
Receivables, net	11,502,991	10,873,207
Restricted assets of cemeteries and mortuaries	2,981,336	2,593,413
Cemetery perpetual care trust investments	1,310,899	1,104,046
Receivable from reinsurers	4,576,812	5,776,780
Cemetery land and improvements	11,106,659	10,987,833
Deferred policy and pre-need contract acquisition costs	35,462,412	34,087,951
Property and equipment, net	11,359,905	11,994,284
Value of business acquired	9,257,600	10,252,670
Goodwill	1,075,039	1,075,039
Other	3,338,234	2,776,086
<b>Total Assets</b>	<b>\$ 491,406,545</b>	<b>\$ 470,576,898</b>

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2010	December 31, 2009
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$ 343,670,931	\$ 336,343,433
Unearned premium reserve	5,119,116	4,780,645
Bank loans payable	26,792,271	8,656,245
Notes and contracts payable	221,234	283,744
Deferred pre-need cemetery and mortuary contract revenues	13,212,329	13,381,662
Cemetery perpetual care obligation	2,849,536	2,756,174
Accounts payable	2,427,963	2,601,149
Other liabilities and accrued expenses	20,945,741	24,623,535
Income taxes	15,621,216	17,344,869
Total liabilities	430,860,337	410,771,456
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 8,741,852 shares in 2010 and 8,730,227 shares in 2009	17,483,704	17,460,454
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 9,200,145 shares in 2010 and 9,214,211 in 2009	1,840,029	1,842,842
Additional paid-in capital	19,687,388	19,191,606
Accumulated other comprehensive income, net of taxes	1,651,984	1,593,327
Retained earnings	23,150,395	23,178,944
Treasury stock at cost - 1,333,664 Class A shares in 2010 and 1,454,974 Class A shares in 2009	(3,267,292 )	(3,461,731 )
Total stockholders' equity	60,546,208	59,805,442
Total Liabilities and Stockholders' Equity	\$ 491,406,545	\$ 470,576,898

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Insurance premiums and other considerations	\$ 9,249,421	\$ 9,622,381	\$ 28,902,805	\$ 28,716,070
Net investment income	4,860,315	4,803,809	14,616,096	16,107,643
Net mortuary and cemetery sales	2,973,291	2,584,846	8,996,452	8,958,092
Realized gains on investments and other assets	718,446	459,363	1,372,363	752,132
Mortgage fee income	28,686,744	30,734,493	73,432,864	110,534,277
Other	186,487	449,775	1,300,789	1,088,482
<b>Total revenues</b>	<b>46,674,704</b>	<b>48,654,667</b>	<b>128,621,369</b>	<b>166,156,696</b>
<b>Benefits and expenses:</b>				
Death benefits	4,587,639	4,417,986	14,451,976	13,827,134
Surrenders and other policy benefits	461,203	362,894	1,103,834	1,238,804
Increase in future policy benefits	3,664,300	4,134,055	11,753,649	11,156,238
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,623,542	1,452,899	4,339,167	5,132,219
<b>Selling, general and administrative expenses:</b>				
Commissions	16,917,406	17,702,231	44,929,148	59,148,409
Salaries	6,728,178	7,029,507	20,773,759	20,655,984
Provision for loan losses and loss reserve	1,640,840	3,489,830	3,741,354	13,924,452
Other	8,797,975	8,953,745	24,451,140	27,546,069
Interest expense	842,549	483,051	2,152,755	2,246,045
Cost of goods and services sold-mortuaries and cemeteries	597,886	561,983	1,699,533	1,790,584
<b>Total benefits and expenses</b>	<b>45,861,518</b>	<b>48,588,181</b>	<b>129,396,315</b>	<b>156,665,938</b>
<b>Earning (loss) before income taxes</b>	<b>813,186</b>	<b>66,486</b>	<b>(774,946 )</b>	<b>9,490,758</b>
Income tax benefit (expense)	(309,757 )	(3,437 )	746,562	(3,104,310 )
<b>Net earnings (loss)</b>	<b>\$ 503,429</b>	<b>\$ 63,049</b>	<b>\$ (28,384 )</b>	<b>\$ 6,386,448</b>
<b>Net earnings (loss) per Class A Equivalent common share (1)</b>	<b>\$ 0.06</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.83</b>
<b>Net earnings (loss) per Class A Equivalent common share-assuming dilution (1)</b>	<b>\$ 0.06</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.83</b>
<b>Weighted-average Class A equivalent common share outstanding (1)</b>	<b>8,313,160</b>	<b>7,747,304</b>	<b>8,267,408</b>	<b>7,698,171</b>

Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	8,400,983	7,864,147	8,467,408	7,698,171
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(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 CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net cash provided (used) by operating activities	\$ (46,765,822 )	\$ 13,984,418
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(7,637,611 )	(9,263,264 )
Calls and maturities - fixed maturity securities	24,507,847	18,894,983
Securities available for sale:		
Purchase - equity securities	(4,358,860 )	(3,337,640 )
Sales - equity securities	3,509,569	3,620,935
Purchase of short-term investments	(6,220,779 )	(16,732,142 )
Sales of short-term investments	12,308,413	17,234,580
Sales (Purchase) of restricted assets	(382,899 )	1,615,632
Changes in assets for perpetual care trusts	(217,757 )	(182,023 )
Amount received for perpetual care trusts	93,362	89,453
Mortgage, policy, and other loans made	(78,542,784 )	(66,250,817 )
Payments received for mortgage, policy and other loans	74,413,760	60,540,550
Purchase of property and equipment	(664,417 )	(579,740 )
Disposal of property and equipment	-	845
Purchase of real estate	(1,362,865 )	(2,301,340 )
Sale of real estate	4,640,479	2,847,495
Net cash provided by investing activities	20,085,458	6,197,507
Cash flows from financing activities:		
Annuity contract receipts	6,445,453	6,839,117
Annuity contract withdrawals	(10,725,043 )	(10,525,938 )
Repayment of bank loans on notes and contracts	(1,247,182 )	(1,027,511 )
Change in line of credit borrowings	19,275,000	(225,000 )
Net cash provided (used) by financing activities	13,748,228	(4,939,332 )
Net change in cash and cash equivalents	(12,932,136 )	15,242,593
Cash and cash equivalents at beginning of period	39,463,803	19,914,110
Cash and cash equivalents at end of period	\$ 26,531,667	\$ 35,156,703
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	\$ 12,146,777	\$ 22,000,875

See accompanying notes to condensed consolidated financial statements.





SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2010 (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, 2009, included in the Company's Annual Report on Form 10-K (file number 000-9341). 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 and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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 2009 amounts have been reclassified to bring them into conformity with the 2010 presentation.

2) Recent Accounting Pronouncements

**Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts:** In October 2010, the FASB issued guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company has not yet determined the effect, if any, the adoption of this guidance will have on its consolidated financial statements.

**Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses:** In July 2010, the FASB issued accounting guidance requiring that entities provide additional disclosure about the credit quality of its financing receivables and the related allowance for credit losses. Entities are required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

**Consolidation Analysis Considering Investments Held through Separate Accounts:** In April 2010, the FASB issued guidance clarifying that an insurer is not required to combine interests in investments held in a qualifying separate account with its interests in the same investments held in the general account when performing a consolidation evaluation. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with

early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

**Stock-Based Compensation:** In April 2010, the FASB issued guidance to clarify classification of an employee stock-based payment award when the exercise price is denominated in the currency of a market in which the underlying equity security trades. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with early adoption permitted. 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  
September 30, 2010 (Unaudited)

## 3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of September 30, 2010 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2010:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$2,707,657	\$476,934	\$-	\$3,184,591
Obligations of states and political subdivisions	1,804,968	163,233	(16,147 )	1,952,054
Corporate securities including public utilities	87,769,462	8,490,222	(639,599 )	95,620,085
Mortgage-backed securities	6,745,329	301,842	(665,117 )	6,382,054
Redeemable preferred stock	1,587,288	66,380	(472 )	1,653,196
<b>Total fixed maturity securities held to maturity</b>	<b>\$100,614,704</b>	<b>\$9,498,611</b>	<b>\$(1,321,335)</b>	<b>\$108,791,980</b>
Securities available for sale carried at estimated fair value:				
Fixed maturity securities available for sale:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$98,341	\$37,113	\$-	\$135,454
<b>Total fixed maturity securities available for sale</b>	<b>\$98,341</b>	<b>\$37,113</b>	<b>\$-</b>	<b>\$135,454</b>

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

September 30, 2010 (Unaudited)

## 3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2010:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$20,281	\$-	\$(3,631 )	\$16,650
Common stock:				
Industrial, miscellaneous and all other	6,682,540	557,384	(569,836 )	6,670,088
Total equity securities available for sale at estimated fair value	\$6,702,821	\$557,384	\$(573,467 )	\$6,686,738
Total securities available for sale carried at estimated fair value	\$6,801,162	\$594,497	\$(573,467 )	\$6,822,192
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$59,822,262			
Residential construction	18,676,700			
Commercial	25,775,948			
Less: Allowance for loan losses	(7,093,550 )			
Total mortgage loans on real estate and construction loans held for investment	\$97,181,360			
Real estate at cost – net of depreciation and allowance	\$54,913,589			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	\$16,250,443			
Short-term investments at amortized cost	\$1,056,685			

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

September 30, 2010 (Unaudited)

## 3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2009 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2009:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$9,477,032	\$430,783	\$(6,389 )	\$9,901,426
Obligations of states and political subdivisions	2,034,784	95,333	(20,722 )	2,109,395
Corporate securities including public utilities	95,903,129	3,927,607	(2,763,448)	97,067,288
Mortgage-backed securities	6,852,072	182,932	(1,338,817)	5,696,187
Redeemable preferred stock	1,565,283	-	(109,832 )	1,455,451
Total fixed maturity securities held to maturity	\$115,832,300	\$4,636,655	\$(4,239,208)	\$116,229,747
Securities available for sale carried at estimated fair value:				
Fixed maturity securities available for sale:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$98,280	\$21,158	\$-	\$119,438
Corporate securities including public utilities	1,012,458	17,627	-	1,030,085
Total fixed maturity securities available for sale	\$1,110,738	\$38,785	\$-	\$1,149,523



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2010 (Unaudited)

## 3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2009:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$20,281	\$-	\$(5,061 )	\$15,220
Common stock:				
Industrial, miscellaneous and all other	5,398,320	682,075	(309,001 )	5,771,394
Total equity securities available for sale at estimated fair value	\$5,418,601	\$682,075	\$(314,062 )	\$5,786,614
Total securities available for sale carried at estimated fair value	\$6,529,339	\$720,860	\$(314,062 )	\$6,936,137
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$60,863,842			
Residential construction	25,028,081			
Commercial	24,206,956			
Less: Allowance for loan losses	(6,808,803 )			
Total mortgage loans on real estate and construction loans held for investment	\$103,290,076			
Real estate at cost – net of depreciation & allowance	\$46,901,832			
Policy, student and other loans at amortized cost - net of allowance for doubtful accounts	\$18,145,029			
Short-term investments at amortized cost	\$7,144,319			



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2010 (Unaudited)

## 3) Investments (Continued)

## Fixed Maturity Securities

The following tables summarize unrealized losses on fixed-maturities securities, which are carried at amortized cost, at September 30, 2010 and December 31, 2009. The unrealized losses were primarily related to interest rate fluctuations or spread-widening, and mortgage and other asset-backed securities. 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 September 30, 2010					
Interest rate or spread widening	\$177,372	11	\$478,846	27	\$656,218
Mortgage and other asset-backed securities	3,316	1	661,801	4	665,117
Total unrealized losses	\$180,688	12	\$1,140,647	31	\$1,321,335
Fair Value	\$5,152,026		\$8,674,647		\$13,826,673
At December 31, 2009					
Interest rate or spread widening	\$580,244	37	\$2,320,148	70	\$2,900,392
Mortgage and other asset-backed securities	31,337	3	1,307,479	5	1,338,816
Total unrealized losses	\$611,581	40	\$3,627,627	75	\$4,239,208
Fair Value	\$17,777,172		\$22,641,536		\$40,418,708

As of September 30, 2010, the average market value of the related fixed maturities was 91.3% of amortized cost and the average market value was 90.5% of amortized cost as of December 31, 2009. During the first nine months ended September 30, 2010 and for the year ended December 31, 2009, an other-than-temporary decline in market value resulted in the recognition of an impairment loss on fixed maturity securities of \$60,000 and \$326,000, respectively. No other-than-temporary impairment loss was considered to exist for these fixed maturities as of September 30, 2010 and December 31, 2009.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2010 (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 September 30, 2010 and December 31, 2009. The unrealized losses were primarily the result of decreases in market 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 September 30, 2010					
Non-redeemable preferred stock	\$-	-	\$3,631	2	\$3,631
Industrial, miscellaneous and all other	337,296	52	232,540	13	569,836
Total unrealized losses	\$337,296	52	\$236,171	15	\$573,467
Fair Value	\$2,050,239		\$592,869		\$2,643,108
At December 31, 2009					
Non-redeemable preferred stock	\$-	-	\$5,061	2	\$5,061
Industrial, miscellaneous and all other	55,287	23	253,714	16	309,001
Total unrealized losses	\$55,287	23	\$258,775	18	\$314,062
Fair Value	\$1,007,525		\$660,809		\$1,668,334

As of September 30, 2010, the average market value of the equity securities available for sale was 82.2% of the original investment and the average market value was 84.2% of the original investment as of December 31, 2009. 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. No other-than-temporary impairment loss on equity securities was determined to exist as of September 30, 2010 and December 31, 2009.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
September 30, 2010 (Unaudited)

## 3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at September 30, 2010, 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.

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2010	\$ 432,082	\$ 434,627
Due in 2011 through 2014	16,879,403	18,373,262
Due in 2015 through 2019	33,439,909	37,268,153
Due after 2019	41,530,693	44,680,688
Mortgage-backed securities	6,745,329	6,382,054
Redeemable preferred stock	1,587,288	1,653,196
<b>Total held to maturity</b>	<b>\$ 100,614,704</b>	<b>\$ 108,791,980</b>

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2010, 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 2010	\$ -	\$ -
Due in 2011 through 2014	-	-
Due in 2015 through 2019	-	-
Due after 2019	98,341	135,454
Non-redeemable preferred stock	20,281	16,650
Common stock	6,682,540	6,670,088
<b>Total available for sale</b>	<b>\$ 6,801,162</b>	<b>\$ 6,822,192</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Fixed maturity securities held to maturity:				
Gross realized gains	\$ 862,457	\$ 17,202	\$ 1,158,469	\$ 86,838
Gross realized losses	(289,445)	(462 )	(542,369 )	(1,042 )

Securities available for  
sale:

Gross realized gains	64,337	497,570	512,329	724,506
Gross realized losses	(12,323 )	(54,947 )	(55,396 )	(66,296 )
Other assets	93,420	-	299,330	8,126
Total	\$ 718,446	\$ 459,363	\$ 1,372,363	\$ 752,132

Generally gains and losses from held to maturity securities are a result of early calls and related amortization of premiums or discounts. However, credit losses of \$30,000 and \$326,000 were recognized during the three months ended September 30, 2010 and 2009, respectively, and credit losses of \$60,000 and \$326,000 were recognized during the nine months ended September 30, 2010 and 2009, respectively, from other-than-temporary declines in market value of held to maturity securities.

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## 3) Investments (Continued)

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 11.0%, 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 do business. At September 30, 2010, the Company has 43%, 11% and 14% of its mortgage loans from borrowers located in the states of Utah, Florida and California, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$7,093,550 and \$6,808,803 at September 30, 2010 and December 31, 2009, respectively.

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 September 30, 2010, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Month Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Fixed maturity securities	\$ 1,718,143	\$ 1,762,269	\$ 5,258,146	\$ 5,346,221
Equity securities	61,243	199,509	174,017	605,596
Mortgage loans on real estate	1,350,731	1,347,343	4,349,326	4,223,602
Real estate	453,281	301,198	1,221,181	1,100,579
Policy, student and other loans	227,813	235,344	673,205	667,090
Short-term investments, principally gains on sale of mortgage loans and other	1,892,361	1,593,615	5,070,224	5,998,995
Gross investment income	5,703,572	5,439,278	16,746,099	17,942,083
Investment expenses	(843,257 )	(635,469 )	(2,130,003 )	(1,834,440 )
Net investment income	\$4,860,315	\$4,803,809	\$14,616,096	\$16,107,643

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of \$417,208 and \$150,051 for three months ended September 30, 2010 and 2009, respectively, and \$1,123,517 and \$516,201 for the nine months ended September 30, 2010 and 2009, 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 \$9,304,013 at September 30, 2010 and \$10,614,292 at December 31, 2009. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

4) Comprehensive Income

For the three months ended September 30, 2010 and 2009, total comprehensive income (loss) amounted to \$1,196,041 and \$94,495, respectively.

For the nine months ended September 30, 2010 and 2009, total comprehensive income (loss) amounted to \$30,273 and \$7,557,231, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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5) 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 \$135,569 and \$89,100 has been recognized for these plans for the quarters ended September 30, 2010 and 2009, respectively, and \$405,258 and \$380,711 for the nine months ended September 30, 2010 and 2009, respectively. Deferred tax credit has been recognized related to the compensation expense of \$46,093 and \$30,294 for the quarters ended September 30, 2010 and 2009, respectively, and \$137,788 and \$129,442 for the nine months ended September 30, 2010 and 2009, respectively.

Options to purchase 211,000 shares of the Company’s common stock were granted March 31, 2008. The fair value relating to stock-based compensation is \$453,650 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 March 31, 2009.

Options to purchase 324,000 shares of the Company’s common stock were granted December 5, 2008. The fair value relating to stock-based compensation is \$356,400 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over twelve months ending December 31, 2009.

Options to purchase 330,500 shares of the Company’s common stock were granted December 4, 2009. The fair value relating to stock-based compensation is \$542,275 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 ending December 31, 2010.

The weighted-average fair value of each option granted during 2008 under the 2003 Plan and 2006 Plan is estimated at \$2.15 for the March 31, 2008 options and \$1.10 for the December 5, 2008 options as of the grant date using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 63%, risk-free interest of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted during 2009 under the 2003 Plan and 2006 Plan is estimated at \$1.70 and \$1.55 for the December 4, 2009 options as of the grant date using the Black-Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 72%, risk-free interest of 3.4%, and an unexpected 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.

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## 6) 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 three months and year to date September 30, 2010 decrease in outstanding Class C shares and the corresponding increase in Class A shares was due to conversion of Class C to Class A common stock. The decrease in treasury stock was the result of treasury stock being used to fund the Company's 401-K and Deferred Compensation plans.

## 7) Earnings (Loss) Per Share

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

	Three Months Ended September 30,	
	2010	2009
Numerator:		
Net earnings	\$ 503,429	\$ 63,049
Denominator:		
Basic weighted-average shares outstanding	8,313,160	7,747,304
Effect of dilutive securities:		
Employee stock options	87,823	116,843
Dilutive potential common shares	87,823	116,843
Diluted weighted-average shares outstanding	8,400,983	7,864,147
Basic gain (loss) per share	\$ 0.06	\$ 0.01
Diluted gain (loss) per share	\$ 0.06	\$ 0.01
	Nine Months Ended September 30,	
	2010	2009
Numerator:		
Net earnings (loss)	\$ (28,384 )	\$ 6,386,448
Denominator:		
Basic weighted-average shares outstanding	8,267,408	7,698,171
Effect of dilutive securities:		
Employee stock options	-	-
Dilutive potential common shares	-	-
Diluted weighted-average shares outstanding	8,267,408	7,698,171
Basic gain (loss) per share	\$ 0.00	\$ 0.83
Diluted gain (loss) per share	\$ 0.00	\$ 0.83

Earnings (loss) per share amounts have been adjusted for the effect of annual stock dividends. For the three months ended September 30, 2010 and 2009 the antidilutive employee stock option shares were 1,137,074 and 303,225, respectively. For the nine months ended September 30, 2010 and 2009 the antidilutive employee stock options were



1,506,958 and 303,225, respectively.

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## 8) Business Segments

	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
For the Three Months Ended September 30, 2010					
Revenues from external customers	\$ 13,326,904	\$ 3,397,000	\$ 29,950,800	\$-	\$ 46,674,704
Intersegment revenues	2,058,203	459,026	61,085	(2,578,314 )	-
Segment profit (loss) before income taxes	500,145	(343,430 )	656,471	-	813,186
For the Three Months Ended September 30, 2009					
Revenues from external customers	\$ 14,064,364	\$ 2,799,758	\$ 31,790,545	\$-	\$ 48,654,667
Intersegment revenues	1,696,742	549,493	52,741	(2,298,976 )	-
Segment profit (loss) before income taxes	138,113	(428,248 )	356,621	-	66,486
For the Nine Months Ended September 30, 2010					
Revenues from external customers	\$ 41,714,240	\$ 10,313,048	\$ 76,594,081	\$-	\$ 128,621,369
Intersegment revenues	6,023,605	1,284,815	179,128	(7,487,548 )	-
Segment profit (loss) before income taxes	1,966,940	(306,871 )	(2,435,015 )	-	(774,946 )
Identifiable Assets	456,803,186	109,390,078	37,302,040	(112,088,759)	491,406,545
Goodwill	391,848	683,191	-	-	1,075,039
For the Nine Months Ended September 30, 2009					
Revenues from external customers	\$ 41,522,084	\$ 9,606,021	\$ 115,028,591	\$-	\$ 166,156,696
Intersegment revenues	4,924,358	747,662	155,337	(5,827,357 )	-

Segment profit before income taxes	205,774	(47,534 )	9,332,518	-	9,490,758
Identifiable Assets	426,487,954	91,763,283	40,498,799	(93,696,810 )	465,053,226
Goodwill	391,848	683,191	-	-	1,075,039

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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9) Disclosure about 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.

We utilize a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
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## 9) Disclosure about 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 September 30, 2010.

	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				
Investment in securities available for sale	\$6,822,192	\$6,822,192	\$ -	\$-
Short-term investments	1,056,685	1,056,685	-	-
Restricted assets of cemeteries and mortuaries	1,999,531	1,999,531	-	-
Cemetery perpetual care trust investments	1,308,546	1,308,546	-	-
Derivatives - interest rate lock commitments	2,294,971	-	-	2,294,971
Total assets accounted for at fair value on a recurring basis	\$13,481,925	\$11,186,954	\$ -	\$2,294,971
Liabilities accounted for at fair value on a recurring basis				
Investment type insurance contracts	\$(118,589,972)	\$-	\$ -	\$(118,589,972)
Derivatives - bank loan interest rate swaps	(146,949 )	-	-	(146,949 )
- call options	(109,028 )	(109,028 )	-	-
- interest rate lock commitments	(129,984 )	-	-	(129,984 )
Total liabilities accounted for at fair value on a recurring basis	\$(118,975,933)	\$(109,028 )	\$ -	\$(118,866,905)

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

	Investment Type Insurance Contracts	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2009	\$(115,763,748)	\$ 1,554,711	\$(101,251 )
Options sold	-	-	-
Total gains (losses):			
Included in earnings	(2,826,224 )	-	-

Included in other comprehensive income (loss)	-	610,276	(45,698 )
Balance - September 30, 2010	\$(118,589,972)	\$ 2,164,987	\$(146,949)

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## 9) Disclosure about 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, 2009.

	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				
Investment in securities available for sale	\$6,936,137	\$6,936,137	\$ -	\$ -
Short-term investments	7,144,349	7,144,349	-	-
Restricted assets of cemeteries and mortuaries	1,677,273	1,677,273	-	-
Cemetery perpetual care trust investments	1,104,046	1,104,046	-	-
Derivatives - interest rate lock commitments	1,770,193	-	-	1,770,193
Total assets accounted for at fair value on a recurring basis	\$18,631,998	\$16,861,805	\$ -	\$1,770,193
Liabilities accounted for at fair value on a recurring basis				
Investment-type insurance contracts	\$(115,763,748)	\$ -	\$ -	\$(115,763,748)
Derivatives - bank loan interest rate swaps	(101,251 )	-	-	(101,251 )
- call options	(134,492 )	(134,492 )	-	-
- interest rate lock commitment	(215,481 )	-	-	(215,481 )
Total liabilities accounted for at fair value on a recurring basis	\$(116,214,972)	\$(134,492 )	\$ -	\$(116,080,480)

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

	Investment Type Insurance Contracts	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2008	\$(112,351,916)	\$ 362,231	\$(167,483)
Options sold	-	-	-
Total gains (losses):			
Included in earnings	(3,411,832 )	-	-
Included in other comprehensive income	-	1,192,480	66,277
Balance - December 31, 2009	\$(115,763,748)	\$ 1,554,711	\$(101,206)

The items shown under level one are valued as follows:

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.

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.



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

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9) Disclosure about Fair Value of Financial Instruments (Continued)

The items shown under level three 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%.

Interest rate lock commitments. As discussed further in Note 11, 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.

Bank loan interest rate swaps. 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.

Call options. The Company sells call options against equity positions of publicly traded stocks that are held in the common stock investment portfolio of the Company. The closing price of options on the last day of the quarter is used to calculate the fair value of outstanding options. Accounting adjustments are made to recognize gains (losses) from options activity during the period and reflected in the financial results of the Corporation.

10) Other Business Activity

Mortgage Operations

Over fifty percent of revenue and expenses of the Company 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 and loan purchase agreements 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 SecurityNational Mortgage. For the nine months ended September 30, 2010 and 2009, SecurityNational Mortgage originated and sold 8,230 loans (\$1,525,535,267 total volume), and 13,629 loans (\$2,497,423,000 total volume), respectively. For the three months ended September 30, 2010 and 2009 SecurityNational Mortgage originated and sold 2,771 loans (\$558,294,356 total volume), and 3,848 loans (\$672,799,749 total volume), respectively.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreements at September 30, 2010 was \$66,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of September 30, 2010, there was \$179,742,952 in mortgage loans in which settlements with

third party investors were still pending. Generally when certain 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 date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on June 18, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2010 (Unaudited)

10) Other Business Activity (Continued)

Key accounting policies related to mortgage operations are as follows:

Mortgage loans on real estate, and construction loans are originated and held for investment and carried at their principal balances adjusted for chargeoffs, 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 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 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 from impairment in value, if any. Foreclosed property is carried at the lower of cost or market determined at the time of foreclosure.

Policy, student, 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 mortgage loans meet the sales criteria for the transfer of financial assets which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time the loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including any investor commitments for these loans, prior to warehouse banks purchasing the loans under the purchase commitments.

The Company, through 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 such as 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.
  - 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 the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by the Company are generally settled by the investors as agreed within 25 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in the Company's best interest to repurchase

those loans from the warehouse banks. It is the Company's policy to cure any documentation problems with respect to 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. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedy methods include, but are not limited to:

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2010 (Unaudited)

10) Other Business Activity (Continued)

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 market 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 the Company. Market value is often difficult to determine, but is based on the following:

- For loans that have an active market the Company uses the market price on the repurchased date.
- For loans where there is no market but there is a similar product, the Company uses the market value for the similar product on the repurchased date.
- For loans where no active market exists on the repurchased date, the Company determines that the unpaid principal balance best approximates the market value on the repurchased 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 the Company's determination of fair value because if the loan becomes delinquent, the Company 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, the Company considers the total value of all of the loans because any sale of loans would be made as a pool.

For mortgages originated and sold to investors, mortgage fee income and related expenses are recognized when the loan is originated.

As a standard in the industry, the Company receives payments on the mortgage loans during the time period between the sale date and settlement or repurchase date. During this period the Company services these loans through Security National Life, its life insurance subsidiary.

11) Allowance for Loan Losses and Loan Loss Reserve

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account) and for mortgage loans sold to investors through the mortgage loan loss reserve (a liability account). The allowance for loan losses and doubtful accounts is an allowance for losses on the Company's mortgage loans held for investment. When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real estate collateral. Once a loan is past due more than 90 days the Company does not accrue any interest income and proceeds to foreclose on the real estate. Payments received after a loan is in nonaccrual status are credited first against the interest that was accrued before it reached nonaccrual status, then against the principal balance. If a loan becomes current again, the Company resumes accruing interest. All expenses for foreclosure are expensed as incurred. Once foreclosed, the carrying value will approximate its fair value and the amount is classified as real estate. Mortgage loans require a current appraisal at the time of underwriting and funding. The Company's current policy is not to lend more than 80% of the appraised value unless third party mortgage insurance is obtained to insure the amount in excess of 80%. However, in prior periods loans were made in excess of the 80% threshold. If these prior period loans become delinquent more than 90 days, the amount in excess of 80% is provided for in the allowance for loan losses account.



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## 11) Allowance for Loan Losses and Loan Loss Reserve (Continued)

As of September 30, 2010, the Company's long term mortgage loan portfolio contained mortgage loans with delinquencies more than 90 days. The Company has not received nor recognized any interest income on these loans. The following table summarizes impaired loans as of September 30, 2010 and December 31, 2009, and includes mortgage loans with delinquencies more than 90 days and mortgage loans that may otherwise be impaired.

	As of September 30, 2010	As of December 31, 2009
Impaired Loans without Allowance	\$ -	\$ -
Impaired Loans with Allowance	15,215,069	19,538,135
Balance, end of period	\$ 15,215,069	\$ 19,538,135
Allowance for Impaired Loans	\$ 7,093,550	\$ 6,808,803

On a quarterly basis, the Company performs an analysis of mortgage loans foreclosed during the period in order to verify that loans are carried on the financial statements at the lower of cost or market. The Company believes the write down to 80% of appraised value and the analysis of the loans at time of foreclosure covers the impact of further deterioration in appraised values on the properties in long term mortgages.

During the first nine months ended September 30, 2010, the Company foreclosed on \$12,146,770 in long term mortgage loans and sold \$4,692,302 of foreclosed property. As of September 30, 2010, the Company had a book balance of \$51,152,557 in foreclosed real estate. The Company carries the foreclosed property in Security National Life, Memorial Estates and SecurityNational Mortgage, its life, cemeteries and mortuaries and mortgage subsidiaries, and will rent the properties until it is deemed desirable to sell them.

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

	Three Months Ended September		Nine Months Ended September	
	2010	30, 2009	2010	30, 2009
Balance, beginning of period	\$ 6,795,390	\$ 5,621,574	\$ 6,808,803	\$ 4,780,467
Provisions for losses	298,160	1,066,136	469,241	1,908,473
Charge-offs	-	(438,754 )	(184,494 )	(439,984 )
Balance, end of period	\$ 7,093,550	\$ 6,248,956	\$ 7,093,550	\$ 6,248,956

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.

When a repurchase demand is received, 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.



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## 11) Allowance for Loan Losses and Loan Loss Reserve (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	\$ 9,890,947	\$ 7,833,133	\$ 11,662,897	\$ 2,775,452
Provisions for losses	1,520,934	3,501,940	4,421,255	14,617,599
Charge-offs	(733,866 )	(2,362,336)	(5,406,137 )	(8,420,314 )
Balance, end of period	\$ 10,678,015	\$ 8,972,737	\$ 10,678,015	\$ 8,972,737

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date. The loan loss reserve may not be adequate, however, for claims asserted by Bank of America, Wells Fargo and JP Morgan Chase if SecurityNational Mortgage is unable to negotiate acceptable settlement agreements with these banks, litigation ensues, and SecurityNational Mortgage is not successful in what it believes are its significant defenses to these claims. In such event, a substantial judgment could be entered against SecurityNational Mortgage that exceeds the amount of the loan loss reserve.

## 12) 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 the 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.

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## 12) Derivative Investments (Continued)

The Company utilizes derivative instruments to economically hedge the price risk associated with its outstanding mortgage loan commitments. Forward loan sales commitments protect 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 market value of the option. The liability for call options is adjusted to market value at each reporting date. The market value of outstanding call options as of September 30, 2010 and December 31, 2009 was \$109,028 and \$134,492, 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.

The following table shows the fair value of derivatives as of September 30, 2010 and December 31, 2009.

	Fair Value of Derivative Instruments							
	Asset Derivatives				Liability Derivatives			
	September 30, 2010		December 31, 2009		September 30, 2010		December 31, 2009	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments	other assets	\$2,294,971	other assets	\$1,770,193	Other liabilities	\$129,984	Other liabilities	\$215,481
Call Options	--	--	--	--	Other liabilities	109,028	Other liabilities	134,492
Interest rate swaps	--	--	--	--	Bank loans payable	146,949	Bank loans payable	101,206
Total		\$2,294,971		\$1,770,193		\$385,961		\$451,179

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.

Gross Amount Gain (Loss)

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	Recognized in OCI	
	Three Months Ended September 30,	
Derivative - Cash Flow Hedging Relationships:	2010	2009
Interest Rate Lock Commitments	\$ 282,900	\$ (383,076 )
Interest Rate Swaps	(14,518 )	(10,802 )
Total	\$ 268,382	\$ (393,878 )

	Nine Months Ended September 30,	
Derivative - Cash Flow Hedging Relationships:	2010	2009
Interest Rate Lock Commitments	\$ 610,276	\$ 1,279,889
Interest Rate Swaps	(45,698 )	46,449
Total	\$ 564,578	\$ 1,326,338

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13) Commitments and Contingencies

On April 16, 2010, the Company's life insurance subsidiary, Security National Life, entered into a revolving line of credit with a bank for \$15,000,000. The terms for the line of credit are interest at the LIBOR daily rate plus 2% per annum on amounts drawn and a tiered unused fee between 0% to .25% per annum on the monthly average unfunded balances. There would not be an unused fee if the average balances drawn are 60% or more. The line of credit matures on April 15, 2011. The line of credit is secured by marketable fixed maturity securities. The amount drawn on the line of credit cannot exceed 75% of market value of the fixed maturity securities. The main purpose of the line of credit is for additional funding capacity to originate mortgage loans for the Company's mortgage subsidiary operations of originating and selling loans to third party investors. Amounts drawn will be paid back once the funds are received from third party investors. As of September 30, 2010 \$15,000,000 was drawn on the line.

On December 31, 2008, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with Continental American Insurance Company ("Continental American"), a South Carolina domiciled insurance Company. This agreement was effective November 30, 2008. Under the terms of the agreement, the Company ceded to Continental American 100% of a block of deferred annuities in the amount of \$4,828,487 as of December 31, 2008 and retained the assets and recorded a funds held under coinsurance liability for the same amount. Continental American agreed to pay the Company an initial ceding commission of \$60,000 and a quarterly management fee of \$16,500 per quarter to administer the policies. The Company will also receive a 90% experience refund for any profits on the business. The Company has the right to recapture the business on January 1 subsequent to December 31, 2008 or any other date if mutually agreed and with 90 days written notice to Continental American. The Company and Continental American terminated this agreement on March 31, 2010.

The Company has entered into commitments to fund new residential construction loans. As of September 30, 2010 the Company's commitments are \$19,324,929 for these loans of which \$18,692,242 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% to 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 September 30, 2010). Maturities range between six and twelve months.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreements at September 30, 2010 was \$66,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of September 30, 2010, there were \$179,742,952 in mortgage loans in which settlements with third party investors were still pending. Generally, when certain 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 date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on June 18, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

Aurora Loan Services

In 1998, SecurityNational Mortgage entered into a Loan Purchase Agreement with Lehman Brothers Bank and its wholly owned subsidiary, Aurora Loan Services, LLC. Under the terms of the Loan Purchase Agreement, Lehman Brothers, through its subsidiary, Aurora Loan Services, agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Aurora Loan Services purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. On January 17, 2008, Aurora Loan Services announced it was suspending all wholesale and correspondent mortgage originations. As a result of this policy change, Aurora Loan Services discontinued purchasing mortgage loans from all mortgage brokers and lenders, including SecurityNational Mortgage.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

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13) Commitments and Contingencies (Continued)

During 2007, Aurora Loan Services maintained that as part of its quality control efforts it reviewed mortgage loans purchased from SecurityNational Mortgage and determined that certain of the loans contained alleged misrepresentations and early payment defaults. Aurora Loan Services further maintained that these alleged breaches in the purchased mortgage loans provide it with the right to require SecurityNational Mortgage to immediately repurchase the mortgage loans containing the alleged breaches in accordance with the terms of the Loan Purchase Agreement. In order for Lehman Brothers and Aurora Loan Services to refrain from demanding immediate repurchase of the mortgage loans by SecurityNational Mortgage, SecurityNational Mortgage was willing to enter into an agreement to indemnify Lehman Brothers and Aurora Loan Services for any losses incurred in connection with certain mortgage loans with alleged breaches that were purchased from SecurityNational Mortgage.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Brothers and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agrees to indemnify Lehman Brothers and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may have as a result of any current or future defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage and listed as an attachment to the Indemnification Agreement. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also requires SecurityNational Mortgage to indemnify Lehman Brothers and Aurora Loan Services for 100% of losses incurred on mortgage loans with alleged breaches that are not listed on the attachment to the agreement.

Concurrently with the execution of the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account to secure the obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit is in addition to a \$250,000 deposit that SecurityNational Mortgage made to Aurora Loan Services on December 10, 2007, for a total of \$645,000. Losses from mortgage loans with alleged breaches are payable by SecurityNational Mortgage from the reserve account. However, Lehman Brothers and Aurora Loan Services are not to apply any funds from the reserve account to a particular mortgage loan until an actual loss has occurred.

The Indemnification Agreement further provides that SecurityNational Mortgage will be entitled to have held back 25 basis points on any mortgage loans that Aurora Loan Services purchases from SecurityNational Mortgage and to add the amount of the basis point holdbacks to the reserve account. SecurityNational Mortgage agreed to deliver to Aurora Loan Services at least \$300,000,000 in mortgage loans on an annual basis or at least \$600,000,000 in 24 months. These provisions may not be effective, however, because Aurora Loan Services has discontinued purchasing mortgage loans from SecurityNational Mortgage. SecurityNational Mortgage also agrees to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event will SecurityNational Mortgage be required to pay any amount into the reserve account that would result in a total contribution, including both the basis point holdbacks and cash payments, in excess of \$125,000 for any calendar month.

During 2007 and 2008, SecurityNational Mortgage made \$1,730,000 in total payments to Aurora Loan Services pursuant to the Indemnification Agreement. During the year ended December 31, 2009 and the nine months ended September 30, 2010 SecurityNational Mortgage made payments to Aurora Loan Services of \$1,174,082 and \$750,000, respectively. When SecurityNational Mortgage entered into the Indemnification Agreement, it anticipated using basis point holdbacks from loan production credits toward satisfying the \$125,000 monthly obligations. Because Aurora Loan Services discontinued purchasing mortgage loans from SecurityNational Mortgage shortly after the

Indemnification Agreement was executed, SecurityNational Mortgage has not had the benefit of using the basis point holdbacks toward payment of the \$125,000 monthly obligations.

During 2008 and 2009, funds were paid out of the reserve account to indemnify \$2,732,000 in losses from 34 mortgage loans that were among the 54 mortgage loans with alleged breaches which were listed on the attachment to the Indemnification Agreement. For the nine months ended September 30, 2010, an additional \$375,000 was paid out of the reserve account on two additional loans. The estimated potential losses from the remaining 18 mortgage loans listed on the attachment, which would require indemnification by SecurityNational Mortgage for such losses, is \$2,259,887. During 2008, 2009 and the nine months ended September 30, 2010, the Company recognized losses related to this matter of \$1,636,000, \$1,032,000, and \$1,162,223 respectively; however, management cannot fully determine the total losses, if any, nor the rights that the Company may have as a result of Lehman Brothers' and Aurora Loan Services' refusal to purchase subsequent loans under the Indemnification Agreement. The Company has estimated and accrued \$1,020,887 for losses under the Indemnification Agreement as of September 30, 2010.



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13) Commitments and Contingencies (Continued)

Bank of America, Wells Fargo and JP Morgan Chase

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. As a result of these claims, third party investors, including Bank of America – Countrywide Home Loans, Inc. (“Bank of America”), Wells Fargo Funding, Inc. (“Wells Fargo”) and JP Morgan Chase Bank – EMC Mortgage Corp. (“JP Morgan Chase”), 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. The number of these claims and demands has accelerated during the past several months.

As of September 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims representing actual demands against SecurityNational Mortgage to repurchase mortgage loans or to indemnify against losses related to such loans with total potential losses of such claims of approximately \$32,000,000. These claims are greater than the net asset value of SecurityNational Mortgage, which was \$17,500,000 on September 30, 2010, and its reserve for mortgage loan loss, which was \$10,678,015 on September 30, 2010. The Company disagrees with the claims asserted by Bank of America, Wells Fargo and JP Morgan Chase against SecurityNational Mortgage and believes it has significant defenses to these claims.

SecurityNational Mortgage has been involved in recent settlement discussions with Bank of America and Wells Fargo in an attempt to settle their claims. If SecurityNational Mortgage is unable to negotiate acceptable settlements with Bank of America, Wells Fargo and JP Morgan Chase, legal action may ensue relative to amounts that the banks claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against the claims asserted by these banks to the extent that a substantial judgment were entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Termination of Business Relationship with Bank of America

During the recent settlement discussions with Bank of America, Bank of America made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal, which it regarded as unreasonable and onerous, Bank of America notified SecurityNational Mortgage by letter dated October 20, 2010, of its decision to terminate its business relationship with SecurityNational Mortgage. In particular, the letter provided notice of termination of the Loan Purchase Agreement, dated September 27, 1994 (the “Loan Purchase Agreement”), between SecurityNational Mortgage and Countrywide Funding Corporation. As a result, Bank of America will no longer be accepting any new commitments for mortgage loans from SecurityNational Mortgage. However, Bank of America has continued to purchase mortgage loans from SecurityNational Mortgage where mortgage loan commitments had been made before October 20, 2010.

Bank of America further 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 Bank of America under the Loan Purchase Agreement. Accompanying the termination letter to SecurityNational Mortgage was a notice letter from Bank of America, also dated October 20, 2010. In the notice letter Bank of America stated that it was withdrawing all prior and pending settlement proposals involving SecurityNational Mortgage and Security National Financial

Corporation. Bank of America also stated that it intended to exercise certain rights under the Loan Purchase Agreement by debiting \$5,970,941 from amounts in the “Over/Under Account” that it had been holding for the benefit of SecurityNational Mortgage. Bank of America also maintained it had the right to debit additional amounts credited to the “Over/Under Account” for payment of additional obligations that SecurityNational Mortgage allegedly owed to Bank of America.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

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13) Commitments and Contingencies (Continued)

The Company believes that Bank of America wrongfully applied the \$5,970,941 from the “Over/Under Account” toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to Bank of America. In a letter of October 22, 2010 to Bank of America, SecurityNational Mortgage stated, without waiving any of its rights against Bank of America, that it objected to Bank of America debiting \$5,970,941 from the “Over/Under Account,” as well as any amount attempted to be debited thereafter without specific written approval of SecurityNational Mortgage. SecurityNational Mortgage had sent letters to Bank of America requesting a withdrawal of funds from the “Over/Under Account” before Bank of America had debited the \$5,970,941 from the account. SecurityNational Mortgage is currently determining what action to take against Bank of America for wrongfully debiting the funds from the “Over/Under Account.” As a result of the termination of the business relationship with Bank of America, SecurityNational Mortgage will have less flexibility on pricing when selling mortgage loans to third party investors. In addition, with the loss of Bank of America’s Early Purchase Program for mortgage loans sold to Bank of America, it will take longer for SecurityNational Mortgage to sell its mortgage loans to third party investors.

CitiMortgage

On November 24, 2009, a complaint was filed in the United States District Court, Eastern District of Missouri, by CitiMortgage, Inc. against SecurityNational Mortgage Company. The complaint claimed that at various times since May 3, 2004 SecurityNational Mortgage sold mortgage loans to CitiMortgage that did not meet requirements under certain agreements between CitiMortgage and SecurityNational Mortgage, the complaint specifically addressing nineteen mortgage loans.

The complaint further alleged that with respect to the nineteen mortgage loans, SecurityNational Mortgage refused to cure these alleged nonconforming mortgage loans or to repurchase such loans. Because of SecurityNational Mortgage’s alleged failure to comply with its repurchase obligations in such agreements, the complaint contended that SecurityNational Mortgage owes CitiMortgage in excess of \$3,226,000. The complaint also requested an order requiring SecurityNational Mortgage to perform its obligations under the agreements with CitiMortgage, including to repurchase the defective mortgage loans and indemnify CitiMortgage for its costs and attorneys’ fees in the lawsuit, interest, and such further relief as the court deems just and proper.

SecurityNational Mortgage disputed the claims that CitiMortgage asserted in the complaint. Prior to filing an answer to the complaint, SecurityNational Mortgage and CitiMortgage engaged in settlement discussions. As a result of the settlement discussions, a settlement was reached. The settlement covers the nineteen mortgage loans in the complaint and, in addition, other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage. On February 15, 2010, SecurityNational Mortgage and CitiMortgage entered into a written Settlement Agreement and Release encompassing the aforesaid settlement. Under the terms of the Settlement Agreement and Release, SecurityNational Mortgage paid a settlement amount to CitiMortgage. The Company reserved a sufficient amount to cover the settlement payment in its consolidated financial statements at December 31, 2009.

The Settlement Agreement and Release specifically provides that SecurityNational Mortgage and CitiMortgage fully release each other from any and all claims, liabilities and causes of action that each has or may have had against the other concerning the nineteen mortgage loans identified in the complaint and the other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage prior to the date of the agreement. The agreement does not extend to any mortgage loans purchased by CitiMortgage after the effective date of the settlement agreement nor to claims by borrowers.



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

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September 30, 2010 (Unaudited)

13) Commitments and Contingencies (Continued)

Florida Office of Insurance Regulation Decision

After several months of discussions with the Florida Office of Insurance Regulation concerning the categorization of certain admitted assets, Security National Life received a letter dated June 17, 2009, in which Florida indicated its rejection of Security National Life's position and requested that Security National Life either infuse additional capital or cease writing new business in the State of Florida. Florida's decision was based upon excess investments in subsidiaries by Security National Life and Florida's determination to classify as property acquired and held for the purposes of investment, certain real property that Security National Life acquired in satisfaction of creditor rights and subsequently rented to tenants. These determinations resulted in Security National Life exceeding certain investment limitations under Florida law and in a corresponding capital and surplus deficiency as of March 31, 2009. Florida has acknowledged that the deficiency may be cured by the infusion of additional capital in the amount of the excess investments.

Security National Life strongly disagrees with Florida's interpretation of the Florida statutes, including Florida's opinion that \$21,672,000 of real property that Security National Life acquired in satisfaction of creditor rights as of March 31, 2009 must be included in an investment category that is subject to a limitation of only 5% of admitted assets (which category consists of real estate acquired and held for investment purposes) rather than in the investment category that is subject to a limitation of 15% of admitted assets (which category includes real estate acquired in satisfaction of loans, mortgages, or debts). In rendering its opinion, Florida did not suggest that the real property assets of Security National Life are not fairly stated. The letter further stated that Security National Life may not resume writing insurance in Florida until such time as it regains full compliance with Florida law and receives written approval from Florida authorizing it to resume writing insurance.

On June 18, 2009, Security National Life responded by letter to Florida and expressed its disagreement with Florida's interpretation of the Florida statutes but, for practical purposes, agreed, beginning as of June 30, 2009 and continuing until Florida determines that Security National Life has attained full compliance with the Florida statutes, to cease originating new insurance policies in Florida and not to enter into any new reinsurance agreements with any Florida domiciled insurance Company. The State of Utah, Security National Life's state of domicile, has not determined Security National Life to have a capital and surplus deficiency, nor is Security National Life aware of any state, other than Florida, in which Security National Life is determined to have a capital and surplus deficiency.

During 2008, the annualized premiums for new insurance policies written by Security National Life in Florida were \$464,000, or 4.7% of the total amount of \$9,901,000 in annualized premiums for new insurance policies written by Security National Life during the same period. Security National Life is in the process of preparing an application to be submitted to Florida for approval of a Florida only subsidiary for all new insurance business written in Florida. Security National Life believes that if Florida were to approve a Florida only subsidiary, Security National Life would be able to resume writing new insurance policies in Florida in full compliance with the Florida statutes relating to investments in real estate and subsidiaries.

Legal

The Company is a defendant in various other legal actions arising from the normal conduct of business. Management believes that none of the actions will have a material effect on the Company's financial position or results of operations. Based on management's assessment and legal counsel's representations concerning the likelihood of

unfavorable outcomes, no amounts have been accrued for the above claims in the consolidated financial statements.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

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14) Other Business Activity

On May 24, 2010, Security National Life 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, American Life paid Security National Life, 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 was in accordance with the Agreement and Plan of Complete Liquidation to liquidate the Capital Reserve into Security National Life 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, Security National Life entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Security National Life 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 along with the net due and deferred premiums in the amount of \$12,305, the advance premiums in the amount of \$353, the claims liability in the amount of \$14,486 and the net policy loans in the amount of \$128,487 for the said block of whole life as of January 1, 2010. The total initial consideration of \$3,601,112 in cash was wired to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of the custodial agreement. American Life agreed to pay Security National Life an initial ceding commission of \$375,000 and a management fee of \$3,500 per quarter to administer the policies. American Life also agreed to indemnify Security National Life for these contracts and risks. The initial term on this Agreement will be for a period of one year from the effective date of this Agreement. Subsequent to the one year term, this Agreement will be automatically renewed unless American Life notifies Security National Life of its intention not to renew in writing, 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 calendar-quarter basis and calculated as per the Reinsurance Agreement.

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

Over fifty percent of revenues and expenses of the Company 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 and loan purchase agreements 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 SecurityNational Mortgage. For the nine months ended September 30, 2010 and 2009, SecurityNational Mortgage originated and sold 8,230 loans (\$1,525,535,267 total volume), and 13,629 loans (\$2,497,423,000 total volume), respectively. For the three months ended September 30, 2010 and 2009, SecurityNational Mortgage originated and sold 2,771 loans (\$558,294,356 total volume), and 3,848 loans (\$672,799,749 total volume), respectively.

The loan volume in 2009 was higher than 2010 primarily due to greater refinancing activity in 2009. For the first six months of 2010 the loan volume was primarily for home purchases and was lower due to the slow-down in the economy, the low demand in the housing sector, and new regulations as it relates to mortgage origination and lending activities. For the third quarter of 2010 the loan volume has increased due to refinancing activity. SecurityNational Mortgage expects the loan volume for the rest of the year to be at the \$160,000,000 to \$200,000,000 per month range compared to \$250,000,000 to \$300,000,000 per month range in 2009 and has taken steps to reduce staff and funding costs to these levels of production.

The following table shows the condensed financial results for the three and nine months ended September 30, 2010 and 2009. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2010	2009	% Increase (Decrease)	2010	2009	% Increase (Decrease)
Revenues from external customers						



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Income from loan originations	\$24,421	\$24,682	(1	%)	\$63,607	\$84,363	(25	%)
Secondary gains from investors	5,530	7,108	(22	%)	12,987	30,665	(58	%)
<b>Total</b>	<b>\$29,951</b>	<b>\$31,790</b>	<b>(6</b>	<b>%)</b>	<b>\$76,594</b>	<b>\$115,028</b>	<b>(33</b>	<b>%)</b>
Earnings (Losses) before income taxes	\$656	\$357	84	%	\$(2,435 )	\$9,332	(126	%)

Overall this decrease in profitability for the nine months is due to the lower loan volume and lower secondary gains from investors. However, the third quarter profitability improved due to increased loan volume for the quarter.

#### Significant Accounting Policies

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to unaffiliated warehouse banks. The total amount available to originate loans under these loan purchase agreements at September 30, 2010 was \$66,000,000. SecurityNational Mortgage originates the loans and immediately sells them to warehouse banks. As of September 30, 2010, there was \$179,742,952 in mortgage loans in which settlements with third party investors were still pending. 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 date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage is in the process of renewing one of its loan purchase agreements that expired on June 18, 2010 for an additional one year term. SecurityNational Mortgage continues to sell mortgage loans to such warehouse bank while negotiating the renewal of the loan purchase agreement.

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 mortgage loans meet the sales criteria for the transfer of financial assets which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time a loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including any investor commitments for these loans, prior to warehouse banks purchasing the loans under the purchase commitments.

The Company, through 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 such as 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.
  - 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 the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by SecurityNational Mortgage are generally settled by the investors as agreed within 25 days after delivery. There are situations, however, when the Company 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 the Company's policy to cure any documentation problems with respect to 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. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedy methods include, but are not limited to:

- Research reasons for rejection.
- Provide additional documents.
- Request investor exceptions.
- Appeal rejection decision to purchase committee.
- 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 market 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 the Company. Market value is often difficult to determine, but is based on the following:

- For loans that have an active market, the Company uses the market price on the repurchased date.
- For loans where there is no market but there is a similar product, the Company uses the market value for the similar product on the repurchased date.
- For loans where no active market exists on the repurchased date, the Company determines that the unpaid principal balance best approximates the market value on the repurchased 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 the Company's determination of fair value because, if the loan becomes delinquent, the Company 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, the Company 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 September 30, 2010, the Company's long term mortgage loan portfolio contained mortgage loans of \$15,215,069 in unpaid principal with delinquencies more than 90 days. Of this amount, \$10,617,000 in mortgage loans were in foreclosure proceedings. The Company has not received nor recognized any interest income on the \$15,215,069 in mortgage loans with delinquencies more than 90 days. During the three and nine months ended September 30, 2010, the Company has increased its allowance for mortgage losses by \$298,000 and \$469,000, respectively. This allowance was charged to loan loss expense and included in other selling, general and administrative expenses for the period. The allowance for mortgage loan losses as of September 30, 2010 and December 31, 2009 was \$7,093,550 and \$6,809,000, respectively.

During the first nine months ended September 30, 2010, the Company foreclosed on \$12,147,000 in long term mortgage loans and sold \$4,692,000 of foreclosed property. As of September 30, 2010, the Company had a book balance of \$51,153,000 in foreclosed real estate. The Company carries the foreclosed property in Security National Life, Memorial Estates and SecurityNational Mortgage, its life, cemeteries and mortuaries and mortgage subsidiaries, and will rent the properties until it is deemed desirable to sell them.

#### Mortgage Loan Loss Settlements

The mortgage industry has seen the potential loan losses increase from quarter to quarter and the Company has increased its allowance accordingly. Future estimated loan losses are extremely difficult to assess, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to conservatively estimate its losses on loans sold.

The amount accrued for the three and nine months ended September 30, 2010 was \$1,520,934 and \$4,421,255, respectively. The amount accrued for the three and nine months ended September 30, 2009 was \$3,501,940 and \$14,617,599, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of September 30, 2010 and September 30, 2009, the balance was \$10,678,015 and \$8,972,737, respectively.

#### Aurora Loan Services

In 1998, SecurityNational Mortgage entered into a Loan Purchase Agreement with Lehman Brothers Bank and its wholly owned subsidiary, Aurora Loan Services, LLC. Under the terms of the Loan Purchase Agreement, Lehman Brothers, through its subsidiary, Aurora Loan Services, agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Aurora Loan Services purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. On January 17, 2008, Aurora Loan Services announced it was suspending all wholesale and correspondent mortgage originations. As a result of this policy change, Aurora Loan Services discontinued purchasing mortgage loans from all mortgage brokers and lenders, including SecurityNational Mortgage.

During 2007, Aurora Loan Services maintained that as part of its quality control efforts it reviewed mortgage loans purchased from SecurityNational Mortgage and determined that certain of the loans contained alleged misrepresentations and early payment defaults. Aurora Loan Services further maintained that these alleged breaches in the purchased mortgage loans provide it with the right to require SecurityNational Mortgage to immediately repurchase the mortgage loans containing the alleged breaches in accordance with the terms of the Loan Purchase Agreement. In order for Lehman Brothers and Aurora Loan Services to refrain from demanding immediate repurchase of the mortgage loans by SecurityNational Mortgage, SecurityNational Mortgage was willing to enter into an agreement to indemnify Lehman Brothers and Aurora Loan Services for any losses incurred in connection with certain mortgage loans with alleged breaches that were purchased from SecurityNational Mortgage.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Brothers and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agrees to indemnify Lehman Brothers and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may have as a result of any current or future defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage and listed as an attachment to the Indemnification Agreement. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also requires SecurityNational Mortgage to indemnify Lehman Brothers and Aurora Loan Services for 100% of losses incurred on mortgage loans with alleged breaches that are not listed on the attachment to the agreement.

Concurrently with the execution of the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account to secure the obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit is in addition to a \$250,000 deposit that SecurityNational Mortgage made to Aurora Loan Services on December 10, 2007, for a total of \$645,000. Losses from mortgage loans with alleged breaches are payable by SecurityNational Mortgage from the reserve account. However, Lehman Brothers and Aurora Loan Services are not to apply any funds from the reserve account to a particular mortgage loan until an actual loss has occurred.

The Indemnification Agreement further provides that SecurityNational Mortgage will be entitled to have held back 25 basis points on any mortgage loans that Aurora Loan Services purchases from SecurityNational Mortgage and to add the amount of the basis point holdbacks to the reserve account. SecurityNational Mortgage agreed to deliver to Aurora Loan Services at least \$300,000,000 in mortgage loans on an annual basis or at least \$600,000,000 in 24 months. These provisions may not be effective, however, because Aurora Loan Services has discontinued purchasing mortgage loans from SecurityNational Mortgage. SecurityNational Mortgage also agrees to pay to Aurora Loan Services the difference between the reserve account balance and \$645,000, but in no event will SecurityNational Mortgage be required to pay any amount into the reserve account that would result in a total contribution, including both the basis point holdbacks and cash payments, in excess of \$125,000 for any calendar month.

During 2007 and 2008, SecurityNational Mortgage made \$1,730,000 in total payments to Aurora Loan Services pursuant to the Indemnification Agreement. During the year ended 2009 and the nine months ended September 30, 2010, SecurityNational Mortgage made payments to Aurora Loan Services of \$1,174,082 and \$750,000, respectively. When SecurityNational Mortgage entered into the Indemnification Agreement, it anticipated using basis point holdbacks from loan production credits toward satisfying the \$125,000 monthly obligations. Because Aurora Loan Services discontinued purchasing mortgage loans from SecurityNational Mortgage shortly after the Indemnification Agreement was executed, SecurityNational Mortgage has not had the benefit of using the basis point holdbacks toward payment of the \$125,000 monthly obligations.

During 2008 and 2009, funds were paid out of the reserve account to indemnify \$2,732,000 in losses from 34 mortgage loans that were among the 54 mortgage loans with alleged breaches which were listed on the attachment to the Indemnification Agreement. For the three months ended September 30, 2010, an additional \$375,000 was paid out of the reserve account on four additional mortgage loans. The estimated potential losses from the remaining 18 mortgage loans listed on the attachment, which would require indemnification by SecurityNational Mortgage for such losses, is \$2,260,000. During 2008 and 2009, and the nine months ended September 30, 2010, the Company recognized losses related to this matter of \$1,636,000, \$1,032,000, and \$1,162,223, respectively; however, management cannot fully determine the total losses, if any, nor the rights that the Company may have as a result of Lehman Brothers' and Aurora Loan Services' refusal to purchase subsequent loans under the Indemnification Agreement. The Company has estimated and accrued \$1,020,887 for losses under the Indemnification Agreement as of September 30, 2010.



## CitiMortgage

On November 24, 2009, a complaint was filed in the United States District Court, Eastern District of Missouri, by CitiMortgage, Inc. against SecurityNational Mortgage Company. The complaint claimed that at various times since May 3, 2004 SecurityNational Mortgage sold mortgage loans to CitiMortgage that did not meet requirements under certain agreements between CitiMortgage and SecurityNational Mortgage, the complaint specifically addressing nineteen mortgage loans.

The complaint further alleged that with respect to the nineteen mortgage loans, SecurityNational Mortgage refused to cure these alleged nonconforming mortgage loans or to repurchase such loans. Because of SecurityNational Mortgage's alleged failure to comply with its repurchase obligations in such agreements, the complaint contended that SecurityNational Mortgage owes CitiMortgage in excess of \$3,226,000. The complaint also requested an order requiring SecurityNational Mortgage to perform its obligations under the agreements with CitiMortgage, including to repurchase the defective mortgage loans and indemnify CitiMortgage for its costs and attorneys' fees in the lawsuit, interest, and such further relief as the court deems just and proper.

SecurityNational Mortgage disputed the claims that CitiMortgage asserted in the complaint. Prior to filing an answer to the complaint, SecurityNational Mortgage and CitiMortgage engaged in settlement discussions. As a result of the settlement discussions, a settlement was reached. The settlement covers the nineteen mortgage loans in the complaint and, in addition, other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage. On February 15, 2010, SecurityNational Mortgage and CitiMortgage entered into a written Settlement Agreement and Release encompassing the aforesaid settlement. Under the terms of the Settlement Agreement and Release, SecurityNational Mortgage paid a settlement amount to CitiMortgage. The Company reserved a sufficient amount to cover the settlement payment in its consolidated financial statements at December 31, 2009.

The Settlement Agreement and Release specifically provides that SecurityNational Mortgage and CitiMortgage fully release each other from any and all claims, liabilities and causes of action that each has or may have had against the other concerning the nineteen mortgage loans identified in the complaint and the other mortgage loans that CitiMortgage purchased from SecurityNational Mortgage prior to the date of the agreement. The agreement does not extend to any mortgage loans purchased by CitiMortgage after the effective date of the settlement agreement nor to claims by borrowers.

## Mortgage Loan Loss Settlement Discussions

### Bank of America, Wells Fargo and JP Morgan Chase

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. As a result of these claims, third party investors, including Bank of America – Countrywide Home Loans, Inc. (“Bank of America”), Wells Fargo Funding, Inc. (“Wells Fargo”) and JP Morgan Chase Bank – EMC Mortgage Corp. (“JP Morgan Chase”), 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. The number of these claims and demands has accelerated during the past several months.

As of September 30, 2010, Bank of America, Wells Fargo and JP Morgan Chase had made claims representing actual demands against SecurityNational Mortgage to repurchase mortgage loans or to indemnify against losses related to such loans with total potential losses of such claims of approximately \$32,000,000. These claims are greater than the net asset value of SecurityNational Mortgage, which was \$17,500,000 on September 30, 2010, and its reserve for

mortgage loan loss, which was \$10,678,015 on September 30, 2010. The Company disagrees with the claims asserted by Bank of America, Wells Fargo and JP Morgan Chase against SecurityNational Mortgage and believes it has significant defenses to these claims.

SecurityNational Mortgage has been involved in recent settlement discussions with Bank of America and Wells Fargo in an attempt to settle their claims. If SecurityNational Mortgage is unable to negotiate acceptable settlements with Bank of America, Wells Fargo and JP Morgan Chase, legal action may ensue relative to amounts that the banks claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against the claims asserted by these banks to the extent that a substantial judgment were entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.



#### Termination of Business Relationship with Bank of America

During the recent settlement discussions with Bank of America, Bank of America made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal, which it regarded as unreasonable and onerous, Bank of America notified SecurityNational Mortgage by letter dated October 20, 2010, of its decision to terminate its business relationship with SecurityNational Mortgage. In particular, the letter provided notice of termination of the Loan Purchase Agreement, dated September 27, 1994 (the "Loan Purchase Agreement"), between SecurityNational Mortgage and Countrywide Funding Corporation. As a result, Bank of America will no longer be accepting any new commitments for mortgage loans from SecurityNational Mortgage. However, Bank of America has continued to purchase mortgage loans from SecurityNational Mortgage where mortgage loan commitments had been made before October 20, 2010.

Bank of America further 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 Bank of America under the Loan Purchase Agreement. Accompanying the termination letter to SecurityNational Mortgage was a notice letter from Bank of America, also dated October 20, 2010. In the notice letter Bank of America stated that it was withdrawing all prior and pending settlement proposals involving SecurityNational Mortgage and Security National Financial Corporation. Bank of America also stated that it intended to exercise certain rights under the Loan Purchase Agreement by debiting \$5,970,941 from amounts in the "Over/Under Account" that it had been holding for the benefit of SecurityNational Mortgage. Bank of America also maintained it had the right to debit additional amounts credited to the "Over/Under Account" for payment of additional obligations that SecurityNational Mortgage allegedly owed to Bank of America.

The Company believes that Bank of America wrongfully applied the \$5,970,941 from the "Over/Under Account" toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to Bank of America. In a letter of October 22, 2010 to Bank of America, SecurityNational Mortgage stated, without waiving any of its rights against Bank of America, that it objected to Bank of America debiting \$5,970,941 from the "Over/Under Account," as well as any amount attempted to be debited thereafter without specific written approval of SecurityNational Mortgage. SecurityNational Mortgage had sent letters to Bank of America requesting a withdrawal of funds from the "Over/Under Account" before Bank of America had debited the \$5,970,941 from the account. SecurityNational Mortgage is currently determining what action to take against Bank of America for wrongfully debiting the funds from the "Over/Under Account." As a result of the termination of the business relationship with Bank of America, SecurityNational Mortgage will have less flexibility on pricing when selling mortgage loans to third party investors. In addition, with the loss of Bank of America's Early Purchase Program for mortgage loans sold to Bank of America, it will take longer for SecurityNational Mortgage to sell its mortgage loans to third party investors.

#### Cemetery and Mortuary Operations

The Company sells mortuary services and products through its eight mortuaries in Salt Lake City, Utah and three mortuaries in Phoenix, Arizona. The Company also sells cemetery products and services through its six 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.

The following table shows the condensed financial results for the three and nine months ended September 30, 2010 and 2009. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2010	2009	% Increase (Decrease)	2010	2009	% Increase (Decrease)
Revenues from external customers						
Mortuary revenues	\$1,579	\$1,444	9 %	\$4,792	\$4,835	(1 %)
Cemetery revenues	1,394	1,141	22 %	4,205	4,123	2 %
Other	424	215	97 %	1,316	648	103 %
Total	\$3,397	\$2,800	21 %	\$10,313	\$9,606	7 %
Earnings (Losses) before income taxes	\$(343 )	\$(428 )	19 %	\$(306 )	\$(47 )	(573 %)

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 \$208,000 and \$616,000 for the three and nine months ended September 30, 2010, respectively, and \$139,000 and \$292,000 for the three and nine months ended September 30, 2009, respectively. Due to the economy, leasing activity for these properties is down and Memorial Estates has incurred operating losses of \$231,000 and \$169,000 for the three months ended September 30, 2010 and 2009, respectively, and \$668,000 and \$246,000 for the nine months ended September 30, 2010 and 2009, respectively.

#### Insurance Operations

The Company's insurance business includes funeral plans, and 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 that has lower 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 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 for the three and nine months ended September 30, 2010 and 2009. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2010	2009	% Increase	2010	2009	% Increase

			(Decrease)				(Decrease)	
Revenues from external customers								
Insurance premiums	\$9,250	\$9,622	(4	%)	\$28,903	\$28,716	1	%
Net investment income	\$3,250	\$3,783	(12	%)	10,546	11,463	(8	%)
Other	\$828	\$660	45	%	2,266	1,343	69	%
Total	\$13,328	\$14,065	(4	%)	\$41,715	\$41,522	-	
Intersegment revenue	\$2,059	\$1,696	44	%	\$6,024	\$4,924	22	%
Earnings before income taxes	\$500	\$138	333	%	\$1,967	\$206	855	%

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2010 has improved due to increases in net realized gains and losses including intersegment revenues, and insurance premiums and \$350,000 ceding commission from American Life in connection with the reinsurance agreement entered into during June 2010.

Consolidation

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

Total revenues decreased by \$1,980,000, or 4.1%, to \$46,675,000 for the three months ended September 30, 2010, from \$48,655,000 for the three months ended September 30, 2009. Contributing to this decrease in total revenues was a \$2,047,000 decrease in mortgage fee income, a \$373,000 decrease in insurance premiums and other considerations, and a \$264,000 decrease in other income. This decrease in total revenues was partially offset by a \$388,000 increase in net mortuary and cemetery sales, a \$259,000 increase in realized gains on investments and other assets, and a \$57,000 increase in net investment income.

Insurance premiums and other considerations decreased by \$373,000, or 3.9%, to \$9,249,000 for the three months ended September 30, 2010, from \$9,622,000 for the comparable period in 2009. This decrease was primarily the result of a decrease in first year premiums offset by an increase in renewal premiums.

Net investment income increased by \$56,000, or 1.2%, to \$4,860,000 for the three months ended September 30, 2010, from \$4,804,000 for the comparable period in 2009. This increase was primarily attributable to an increase in rental income from residential and commercial properties and short-term interest income.

Net mortuary and cemetery sales increased by \$388,000, or 15.0%, to \$2,973,000 for the three months ended September 30, 2010, from \$2,585,000 for the comparable period in 2009. This increase was due to an increase in at-need mortuary and cemetery sales.

Realized gains on investments and other assets increased by \$259,000, or 56.4%, to \$718,000 in realized gains for the three months ended September 30, 2010, from \$459,000 in realized gains for the comparable period in 2009. This increase in realized gains on investments was due to gains from the sale of equity and fixed maturity securities.

Mortgage fee income decreased by \$2,047,000, or 6.7%, to \$28,687,000 for the three months ended September 30, 2010, from \$30,734,000 for the comparable period in 2009. This decrease was primarily attributable to a reduction in the number of mortgage loans originated and lower secondary gains from third party investors.

Other revenues decreased by \$264,000, or 58.5%, to \$186,000 for the three months ended September 30, 2010 from \$450,000 for the comparable period in 2009. This decrease was due to reductions in miscellaneous income throughout the Company's operations.

Total benefits and expenses were \$45,862,000, or 98.3% of total revenues, for the three months ended September 30, 2010, as compared to \$48,588,000, or 99.9% of total revenues, for the comparable period in 2009. This decrease resulted primarily from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits decreased by an aggregate of \$202,000, or 2.3%, to \$8,713,000 for the three months ended September 30, 2010, from \$8,915,000 for the comparable period in 2009. This decrease was primarily the result of increased death benefits of \$170,000, and \$98,000 in surrenders and other policy benefits offset by decreased future policy benefits of \$470,000.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$171,000, or 11.7%, to \$1,624,000 for the three months ended September 30, 2010, from \$1,453,000 for the comparable period in 2009. This increase was due to an increase in new business.

Selling, general and administrative expenses decreased by \$3,091,000, or 8.3%, to \$34,084,000 for the three months ended September 30, 2010, from \$37,175,000 for the comparable period in 2009. Salaries decreased by \$302,000 from \$7,030,000 in 2009 to \$6,728,000 in 2010, primarily due to a reduction in the total number of employees. Other expenses decreased by \$156,000 from \$8,954,000 in 2009 to \$8,798,000 in 2010 due to decreased investor fees, processing fees, and loan costs. Provision for loan losses decreased by \$1,849,000 from \$3,490,000 in 2009 to \$1,641,000 in 2010 due primarily to lower provision for loan losses at SecurityNational Mortgage Company. Commission expenses decreased by \$785,000, from \$17,702,000 in the third quarter of 2009 to \$16,917,000 in the third quarter of 2010, due to a reduction in mortgage loan origination costs made by SecurityNational Mortgage, an increase in sales at the cemetery operations, and a decrease in life insurance commissions during the third quarter of 2010.

Interest expense increased by \$360,000, or 74.4%, to \$843,000 for the three months ended September 30, 2010, from \$483,000 for the comparable period in 2009. This increase was primarily due to increased borrowing from warehouse lines of \$347,000, increased bank loans for the mortuary/cemetery operations of \$58,000 offset by a decrease of \$55,000 from the termination of a reinsurance agreement in the life operations.

Cost of goods and services sold of the mortuaries and cemeteries increased by \$36,000, or 6.4%, to \$598,000 for the three months ended September 30, 2010, from \$562,000 for the comparable period in 2009. This increase was primarily due to an increase in at-need mortuary and cemetery sales.

For the three months ended September 30, 2010 and 2009, total comprehensive income (loss) amounted to \$1,196,000 and \$94,000, respectively. This increase of \$1,102,000 was primarily the result of a \$224,000 increase in unrealized gains in securities available for sale, an increase in net income of \$437,000, and an increase of \$440,000 in derivative gains related to mortgage loans.

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%.

#### Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Total revenues decreased by \$37,536,000, or 22.6%, to \$128,621,000 for the nine months ended September 30, 2010, from \$166,157,000 for the nine months ended September 30, 2009. Contributing to this decrease in total revenues was a \$37,101,000 decrease in mortgage fee income and a \$1,492,000 decrease in investment income. This decrease in total revenues was partially offset by a \$38,000 increase in net mortuary and cemetery sales, a \$187,000 increase in insurance premiums and other considerations, a \$620,000 increase in realized gains on investments and other assets, and a \$212,000 increase in other revenues.

Insurance premiums and other considerations increased by \$187,000, or 0.7%, to \$28,903,000 for the nine months ended September 30, 2010, from \$28,716,000 for the comparable period in 2009. This increase was primarily the result of additional premiums realized from new insurance sales.

Net investment income decreased by \$1,492,000, or 9.3%, to \$14,616,000 for the nine months ended September 30, 2010, from \$16,108,000 for the comparable period in 2009. This decrease was primarily attributable to reduced interest income resulting from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Net mortuary and cemetery sales increased by \$38,000, or 0.4%, to \$8,996,000 for the nine months ended September 30, 2010, from \$8,958,000 for the comparable period in 2009. This increase was due to an increase in cemetery sales.

Realized gains on investments and other assets increased by \$620,000, or 82.4%, to \$1,372,000 in realized gains for the nine months ended September 30, 2010, from \$752,000 in realized gains for the comparable period in 2009. This increase in realized gains on investments was due to gains from the sale of equity and fixed maturity securities.

Mortgage fee income decreased by \$37,101,000, or 33.6%, to \$73,433,000 for the nine months ended September 30, 2010, from \$110,534,000 for the comparable period in 2009. This decrease was primarily attributable to a reduction in the number of mortgage loans originated and secondary gains for third party investors.

Other revenues increased by \$213,000, or 19.5%, to \$1,301,000 for the nine months ended September 30, 2010 from \$1,088,000 for the comparable period in 2009. This increase was due to a \$350,000 ceding commission received from American Life in connection with a reinsurance agreement entered into in June 2010, a \$115,000 sale of a land

easement in the cemetery operations, and a reduction in miscellaneous income throughout the Company's operations.

Total benefits and expenses were \$129,396,000, or 100.6% of total revenues, for the nine months ended September 30, 2010, as compared to \$156,666,000, or 94.3% of total revenues, for the comparable period in 2009. This decrease resulted primarily from a reduced number of mortgage loans originated by SecurityNational Mortgage Company.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$1,087,000, or 4.1%, to \$27,309,000 for the nine months ended September 30, 2010, from \$26,222,000 for the comparable period in 2009. This increase was primarily the result of increased death benefits of \$625,000, and increased future policy benefits of \$597,000 primarily due to better persistency and more new business of traditional life products offset by a decrease of \$135,000 in surrenders and other policy benefits primarily due to decreases in policyholder accumulations.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$793,000, or 15.5%, to \$4,339,000 for the nine months ended September 30, 2010, from \$5,132,000 for the comparable period in 2009. This decrease was due to a lower interest rate credited on the fund values of universal life policies.

Selling, general and administrative expenses decreased by \$27,380,000, or 22.6%, to \$93,895,000 for the nine months ended September 30, 2010, from \$121,275,000 for the comparable period in 2009. Salaries increased by \$118,000 from \$20,656,000 in 2009 to \$20,774,000 in 2010, primarily due to merit increases in salaries of existing employees offset in part by a reduction in the total number of employees. Other expenses decreased by \$3,095,000 from \$27,546,000 in 2009 to \$24,451,000 in 2010 due to decreased investor fees, processing fees, and loan costs. Provision for loan losses decreased by \$10,185,000 from \$13,925,000 in 2009 to \$3,741,000 in 2010 due primarily to lower provision for loan losses at SecurityNational Mortgage Company. Commission expenses decreased by \$14,219,000, from \$59,148,000 in the first nine months of 2009 to \$44,929,000 in the first nine months of 2010, due to a reduction in mortgage loan origination costs made by SecurityNational Mortgage, a decrease in sales at the cemetery operations, and a decrease in life insurance commissions.

Interest expense decreased by \$93,000, or 4.2%, to \$2,153,000 for the nine months ended September 30, 2010, from \$2,246,000 for the comparable period in 2009. This reduction was primarily due to decreased borrowing from warehouse lines as a result of a reduction in mortgage loans originated.

Cost of goods and services sold of the mortuaries and cemeteries decreased by \$91,000, or 5.1%, to \$1,700,000 for the nine months ended September 30, 2010, from \$1,791,000 for the comparable period in 2009. This decrease was primarily due to a reduction in at-need mortuary sales.

For the nine months ended September 30, 2010 and 2009, total comprehensive income (loss) amounted to \$30,273 and \$7,557,000, respectively. This decrease of \$7,527,000 was primarily the result of a \$493,000 decrease in derivative losses related to mortgage loans, a decrease in net income of \$6,415,000, and a \$619,000 decrease in unrealized gains in securities available for sale.

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 the 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 nine months ended September 30, 2010, the Company's operations used cash of \$46,766,000. This was due primarily to a \$54,881,000 increase in the first nine months of 2010 in the balance of mortgage loans sold to investors. During the nine months ended September 30, 2009, the Company's operations provided cash of \$13,984,000. This was due primarily to an increase of income from operations in the first nine months of 2009.

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 market values.

The risk that interest rates will change which may cause a decrease in the value of the Company's investments or impair the ability of the Company to market its mortgage and cemetery/mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and/or by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company might have to borrow funds or sell assets prior to maturity and potentially recognize a loss on the sale.

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 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 \$100,750,000 as of September 30, 2010 compared to \$116,982,000 as of December 31, 2009. This represents 36.1% and 38.9% of the total investments as of September 30, 2010, and December 31, 2009, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At September 30, 2010, 6.02% (or \$5,972,000) and at December 31, 2009, 6.9% (or \$7,930,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

The Company has classified certain of its fixed income securities, including high-yield securities, in its portfolio as available for sale, with the remainder classified as held to maturity. However, in accordance with Company policy, any such securities purchased in the future will be classified 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.

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.

We utilize a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

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 September 30, 2010.

	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				
Investment in securities available for sale	\$6,822,192	\$6,822,192	\$ -	\$-
Short-term investments	1,056,685	1,056,685	-	-
Restricted assets of cemeteries and mortuaries	1,999,531	1,999,531	-	-
Cemetery perpetual care trust investments	1,308,546	1,308,546	-	-
Derivatives - interest rate lock commitments	2,294,971	-	-	2,294,971
Total assets accounted for at fair value on a recurring basis	\$13,481,925	\$11,186,954	\$ -	\$2,294,971
Liabilities accounted for at fair value on a recurring basis				
Investment type insurance contracts	\$(118,589,972)	\$-	\$ -	\$(118,589,972)
Derivatives - bank loan interest rate swaps	(146,949 )	-	-	(146,949 )
- call options	(109,028 )	(109,028 )	-	-
- interest rate lock commitments	(129,984 )	-	-	(129,984 )
Total liabilities accounted for at fair value on a recurring basis	\$(118,975,933)	\$(109,028 )	\$ -	\$(118,866,905)

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

	Investment Type Insurance Contracts	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2009	\$(115,763,748)	\$ 1,554,711	\$(101,251 )
Options sold	-	-	-
Total gains (losses):			
Included in earnings	(2,826,224 )	-	-
Included in other comprehensive income (loss)	-	610,276	(45,698 )

Balance - September 30, 2010	\$(118,589,972)	\$ 2,164,987	\$(146,949)
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The items shown under level one are valued as follows:

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.

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 for 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.

The items shown under level three 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 credit rates for interest-sensitive insurance products ranged from 4% to 6.5%.

Interest rate lock commitments. As discussed further in Note 11, 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.

Bank loan interest rate swaps. The fair value of the interest rate swap was derived from proprietary hedges. The interest rate swaps are derivative financial instruments carried at their fair value.

Call options. The Company sells call options against equity positions of publicly traded stocks that are held in the common stock investment portfolio of the Company. The closing price of options on the last day of the quarter is used to calculate the fair value of outstanding options. Accounting adjustments are made to recognize gains (losses) from options activity during the period and reflected in the financial results of the Corporation.

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 September 30, 2010, and December 31, 2009, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable were \$87,560,000 as of September 30, 2010, as compared to \$68,745,000 as of December 31, 2009. Stockholders' equity as a percent of total capitalization was 69.1% and 87.0% as of September 30, 2010 and December 31, 2009, respectively. Bank debt and notes payable increased \$18,074,000 for the nine months ended September 30, 2010 when compared to December 31, 2009, thus decreasing 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 2009 was 8.4% as compared to a rate of 9.0% for 2008. The 2010 lapse rate to date has been approximately the same as 2009.

At September 30, 2010, \$20,867,000 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 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, 2009.

### Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief

Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(a) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the board of directors of the Company, and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2010. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of September 30, 2010. Based on that assessment the Company believes that, at September 30, 2010, its internal control over financial reporting was effective.

(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred in the third quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

Item 1. Legal Proceedings.

The Company is not a party to any other material 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.

On May 24, 2010, Security National Life 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, American Life paid Security National Life, 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 was in accordance with the Agreement and Plan of Complete Liquidation to liquidate the Capital Reserve into Security National Life 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, Security National Life entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Security National Life 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 along with the net due and deferred premiums in the amount of \$12,305, the advance premiums in the amount of \$353, the claims liability in the amount of \$14,486 and the net policy loans in the amount of \$128,487 for the said block of whole life as of January 1, 2010. The total initial consideration of \$3,601,112 in cash was wired to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of the custodial agreement. American Life agreed to pay Security National Life an initial ceding commission of \$350,000 and a management fee of \$3,500 per quarter to administer the policies. American Life agreed to indemnify Security National Life for these contracts and risks. The initial term on this agreement is for a period of one year from the effective date of this agreement. Subsequent to the one year term, this agreement will automatically renew unless American Life notifies Security National Life of its intention not to renew in writing, 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 calendar-quarter basis and calculated in accordance with the Reinsurance Agreement.

SecurityNational Mortgage had been involved in recent discussions with Bank of America, N.A.– Countrywide Home Loans, Inc. (“Bank of America”) to settle claims asserted by Bank of America. Bank of America had asserted in 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 Bank of America. As a result of these claims, Bank of America had demanded that SecurityNational Mortgage repurchase certain allegedly defective mortgage loans that were sold to Bank of America or indemnify Bank of America against any losses related to such loans. SecurityNational Mortgage disagrees with the claims asserted by Bank of America and believes it has significant defenses to these claims.

During these recent settlement discussions, Bank of America made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal, which it regarded as unreasonable and onerous, Bank of America notified SecurityNational Mortgage by letter dated October 20, 2010, of its decision to terminate its business relationship with SecurityNational Mortgage. In particular, the letter provided notice of termination of the Loan Purchase Agreement, dated September 27, 1994 (the “Loan Purchase Agreement”), between SecurityNational Mortgage and Countrywide Funding Corporation. As a result, Bank of America will no longer be accepting any new commitments for mortgage loans from SecurityNational Mortgage. However, Bank of America has continued to purchase mortgage loans from SecurityNational Mortgage where mortgage loan commitments had been made before October 20, 2010.

Bank of America further 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 Bank of America under the Loan Purchase Agreement. Accompanying the termination letter to SecurityNational Mortgage was a notice letter from Bank of America, also dated October 20, 2010. In the notice letter Bank of America stated that it was withdrawing all prior and pending settlement proposals involving SecurityNational Mortgage and Security National Financial Corporation. Bank of America also stated that it intended to exercise certain rights under the Loan Purchase Agreement by debiting \$5,970,941 from amounts in the “Over/Under Account” that it had been holding for the benefit of SecurityNational Mortgage. Bank of America also maintained it had the right to debit additional amounts credited to the “Over/Under Account” for payment of additional obligations that SecurityNational Mortgage allegedly owed to Bank of America.

Security National believes that Bank of America wrongfully applied the \$5,970,941 from the “Over/Under Account” toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to Bank of America. In a letter of October 22, 2010 to Bank of America, SecurityNational Mortgage stated, without waiving any of its rights

against Bank of America, that it objected to Bank of America debiting \$5,970,941 from the “Over/Under Account,” as well as any amount attempted to be debited thereafter without specific written approval of SecurityNational Mortgage. SecurityNational Mortgage had sent letters to Bank of America requesting a withdrawal of funds from the “Over/Under Account” before Bank of America had debited the \$5,970,941 from the account. SecurityNational Mortgage is currently determining what action to take against Bank of America for wrongfully debiting the funds from the “Over/Under Account.” As a result of the termination of the business relationship with Bank of America, SecurityNational Mortgage will have less flexibility on pricing when selling mortgage loans to third party investors. In addition, with the loss of Bank of America’s Early Purchase Program for mortgage loans sold to Bank of America, it will take longer for SecurityNational Mortgage to sell its mortgage loans to third party investors.

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 Security National Life Insurance Company, Capital Reserve Life Insurance Company, and the shareholders of Capital Reserve Life Insurance Company (9)
- 10.9 Escrow Agreement among Security National Insurance Company, Capital Reserve Life Insurance Company, the shareholders of Capital Reserve Life Insurance Company, and Mackey Price Thompson & Ostler as Escrow Agent (9)
- 10.10 Reinsurance Agreement between Security National Life Insurance Company and Capital Reserve Life Insurance Company (9)
- 10.11 Stock Purchase Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, and the shareholders of Southern Security Life Insurance Company (10)
- 10.12 Reinsurance Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, and the shareholders of Southern Security Life Insurance Company (11)
- 10.13 Escrow Agreement among Security National Life Insurance Company, Southern Security Life Insurance Company, the shareholders of Southern Security Life Insurance Company, and Mackey Price Thompson & Ostler, as escrow agent (12)
- 10.14 Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (13)

- 10.15 Agreement and Plan of Complete Liquidation of Security National Life Insurance Company of Louisiana into Security National Life Insurance Company (14)
  - 10.16 Assumption Reinsurance Agreement between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (14)
  - 10.17 Assignment between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (14)
  - 10.18 Agreement and Plan of Complete Liquidation of Capital Reserve Life Insurance Company into Security National Life Insurance Company (14)
  - 10.19 Assignment between Capital Reserve Life Insurance Company and Security National Life Insurance Company (14)
  - 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
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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, 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 8-K, as filed on January 14, 2008
- (10) Incorporated by reference from Report on Form 8-K, as filed on August 25, 2008
- (11) Incorporated by reference from Report on Form 8-K/A, as filed on September 17, 2008
- (12) Incorporated by reference from Report on Form 8-K, as filed on January 7, 2009
- (13) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
- (14) Incorporated by reference from Report on Form 8-K, as filed on January 12, 2010

(b) Reports on Form 8-K:

Current report on Form 8-K, as filed on July 13, 2010.

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: November 12, 2010

/s/ George R. Quist  
George R. Quist  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 12, 2010

/s/ Stephen M. Sill  
Stephen M. Sill  
Vice President, Treasurer and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)