**Section 202.50 Reserves**

A mortgage guaranty insurance company shall establish and maintain the following four reserve accounts:

a) Reserve for General Expenses – A reserve in an amount sufficient to meet general expenses, including amounts due vendors for goods, supplies, equipment and amounts due for compensation, taxes and licenses:

b) Loss Reserve – A loss reserve computed upon the case basis in a manner to accurately reflect loss frequency and loss severity which shall take into consideration, among other things, claims incurred but not yet reported, including estimated losses on;

1) Insured loans which have resulted in the conveyance to the company of property which remains unsold;

2) Insured loans in the process of foreclosure; and

3) Insured loans and insured lease obligations in default for four months or longer for any lesser period of time which is defined as a default in the company's policy;

c) Unearned Premium Reserve – A reserve for unearned premiums computed and maintained on an annual or monthly pro rata basis on all unexpired coverage, except that in the case of premiums paid in advance for coverage issued for the terms of years shown in Illustration 1, the unearned premium factors specified shall be utilized in calculating the reserved amount provided, however, that on premiums paid in advance for coverage periods in excess of 15 years, the unearned portion of the premium during the first 15 years of coverage shall be the premium collected minus an amount equal to the premium that would have been earned had the applicable premium for 15 years' coverage been received and the premium remaining after 15 years shall be released from the unearned premiums reserve pro rata over the remaining term of coverage.

d) Contingency Reserve – A reserve for contingencies to protect against the effect of adverse economic cycles affecting the housing industry and to permit compliance with Section 832(e) of the Internal Revenue Code of 1954, as amended (26 U.S.C. 832e). To which shall be contributed annually the greater

1) Fifty percent (50%) of the earned premium reported for the year in the fire and casualty annual statement; or

2) The sum of

A) One seventh of the policyholders reserve attributable to residential properties designed for occupancy by not more than four families; plus

B) One fourth of the policyholders reserve attributable to residential properties designed for occupancy by five or more families; plus

C) One third of the policyholders reserve attributable to properties occupied for industrial or commercial purposes; plus

D) One tenth of the policyholders reserve attributable to leases;

i) The contingency reserve shall be maintained for a period of 120 months after which it shall be released and become a part of the general and unrestricted assets of the company.

ii) Upon notice to the Director, the contingency reserve shall be available to the company to the extent necessary to make loss payments either; when the incurred losses in a year exceed 35% of the earned premiums in that year or; when incurred losses in a year exceed 70% of the amount contributed to the contingency reserve, whichever is greater. Funds used in this manner shall be accounted for on a first-in first-out basis.