§ 6502. Financial requirements. (a) A mortgage insurer shall not transact business unless:

(1) if a stock insurance company, it has paid-in capital of at least one million dollars and paid-in surplus of at least one million dollars or, if a mutual insurance company, a minimum initial surplus of two million dollars. A stock company shall at all times thereafter maintain a minimum surplus of at least five hundred thousand dollars, a mutual company shall at all times thereafter maintain a minimum surplus of at least one million five hundred thousand dollars;

(2) it establishes a contingency reserve out of net premiums (gross premiums less premiums returned to policyholders) remaining after establishing the unearned premium reserve. The company shall contribute to the contingency reserve an amount equal to fifty percent of such remaining earned premiums. Contributions to the contingency reserve made during each calendar year shall be maintained for a period of one hundred and twenty months, except that withdrawals may be made by the company with the prior approval of the superintendent in any year in which the actual incurred losses exceed thirty-five percent of the corresponding earned premiums. The unearned premium reserve shall be computed as required by section one thousand three hundred five of this chapter except that on policies covering a risk period of more than one year it shall be computed in accordance with standards promulgated by the superintendent; and

(3) in addition to the contingency reserve, the case basis method or other method as may be prescribed by the superintendent shall be used to determine the loss reserve in a manner consistent with section one thousand three hundred three of this chapter. It shall include a reserve for claims reported and unpaid and claims incurred but not reported, including:

(A) estimated losses on insured loans which have resulted in the conveyance of property which remains unsold;

(B) insured loans in the process of foreclosure; and

(C) insured loans in default for four or more months.

(b) A mortgage insurer shall not:

(1) have outstanding a total liability under its aggregate insurance policies exceeding twenty-five times its policyholders' surplus, computed on the basis of the company's liability under its election as

provided in subsection (c) of section six thousand five hundred three of this article. Total liability shall be calculated net of applicable reinsurance. No company which has outstanding total liability exceeding twenty-five times its policyholders' surplus shall transact new business until its total liability no longer exceeds twenty-five times its policyholders' surplus;

(2) declare dividends except from undivided profits remaining on hand above the aggregate of its paid-in capital, paid-in surplus and contingency reserve or, if a mutual insurance company, its initial surplus and contingency reserve; or

(3) invest its contingency reserve except in tax and loss bonds purchased pursuant to § 832(e) of the Internal Revenue Code, to the extent of the tax savings resulting from the deduction for federal income tax purposes equal to the annual contributions to the contingency reserve. The contingency reserve shall otherwise be held in cash or invested only in the types of reserve investments specified in paragraphs one and two of subsection (a) of section one thousand four hundred four of this chapter.