

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 68-133
June 7, 1968

**To All Banks, Brokers/Dealers, Nonbank Lenders
and Others Concerned in the Eleventh Federal Reserve District:**

The Board of Governors of the Federal Reserve System has amended the supplements to Regulations T, U, and G to increase margin requirements, effective June 8, 1968. The press statement issued today in connection with this action is quoted below:

The Board of Governors of the Federal Reserve System today amended its Regulations relating to stock market credit to increase the margin requirement from 70 to 80 percent on loans made on stocks, effective tomorrow, June 8.

The Board also increased the margin requirement on loans made on convertible bonds from 50 to 60 per cent, effective tomorrow.

The requirements apply to new extensions of credit by brokers (governed by the Board's Regulation T), by banks (Regulation U), and by other lenders (Regulation G) for the purpose of purchasing or carrying stocks, or bonds convertible into such stocks, listed on a national securities exchange.

The margin increases were made pursuant to authority granted in the Securities Exchange Act of 1934 to prevent excessive use of credit to finance transactions in securities. The Board noted, in this connection, that margin credit of brokerage customers had increased \$200 million in April alone, bringing the total of margin credit outstanding at brokerage houses to \$6.4 billion. Also, there were indications of a further rise in May. The recent increases in stock market credit mark a resumption of the upward trend observed during 1967 when such credit rose 29 per cent at brokerage houses and 19 per cent at commercial banks.

The Board's action applies to initial margin requirements. No change was made in the 70 per cent retention requirement applicable to undermargined accounts. The "retention requirement" relates to that portion of the proceeds of a sale of securities from an account that must be retained if that account does not comply with the new 80 per cent margin requirement.

This action was taken by unanimous vote of the five Board members present: Chairman Martin and Governors Robertson, Daane, Brimmer, and Sherrill.

A copy of the appropriate amended supplement is enclosed for your files.

Yours very truly,

P. E. Coldwell

President

SUPPLEMENT TO REGULATION T

Section 220.8—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective June 8, 1968

(a) **Maximum loan value for general accounts.**—The maximum loan value of securities in a general account subject to § 220.3 shall be:

(1) of a registered non-equity security held in the account on March 11, 1968, and continuously thereafter and of a registered equity security (except as provided in § 220.3(c) and § 220.8(b) and (c)), 20 per cent of the current market value of such securities.

(2) of an exempted security held in the account on March 11, 1968, and continuously thereafter the maximum loan value of the security, as determined by the creditor in good faith.

(b) **Maximum loan value for a special bond account.**—The maximum loan value of an exempt security and of a registered non-equity security pursuant to § 220.4(i) shall be the maximum loan value of the security as determined by the creditor in good faith.

(c) **Maximum loan value for special convertible debt security account.**—The maximum loan value of a registered equity security eligible for a special convertible security account pursuant to § 220.4(j) shall be 40 per cent of the current market value of the security.

(d) **Margin required for short sales.**—The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d) (3), as margin required for short sales of securities (other than exempted securities) shall be 80 per cent of the current market value of each such security.

(e) **Retention requirement.**—In the case of an account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, pursuant to § 220.3(b) (2):

(1) The “retention requirement” of an exempted security held in the general account on March 11, 1968, and continuously thereafter shall be equal to its maximum loan value as determined by the creditor in good faith, and the “retention requirement” of a registered non-equity security held in such account on March 11, 1968, and continuously thereafter and of a registered equity security shall be 70 per cent of the current market value of the security.

REGULATION T SUPPLEMENT

(2) In the case of a special bond account subject to § 220.4(i), the retention requirement of an exempted security and of a registered non-equity security shall be equal to the maximum loan value of the security.

(3) In the case of a special convertible security account subject to § 220.4(j) which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the retention requirement of a security having a loan value in the account shall be 70 per cent of the current market value of the security.

(4) For the purpose of effecting a transfer from a general account to a special convertible security account subject to § 220.4(j), the retention requirement of a security described in §220.4(j) shall be 70 per cent of its current market value.

(f) **Securities having no loan value in general account.**—No securities other than an exempted security or a registered non-equity security held in the account on March 11, 1968, and continuously thereafter, and a registered equity security shall have any loan value in a general account except that a registered equity security eligible for the special convertible security account pursuant to § 220.4(j) shall have loan value only if held in the account on March 11, 1968, and continuously thereafter.

SUPPLEMENT TO REGULATION U

Section 221.4—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective June 8, 1968

(a) **Maximum loan value of stocks.**—For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 20 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible debt securities subject to § 221.3(t).**—For the purpose of § 221.3(t), the maximum loan value of any security against which credit is extended pursuant to § 221.3(t) shall be 40 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.**—For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the “retention requirement” of a stock, whether or not registered on a national securities exchange, and of a convertible debt security subject to § 221.3(t), shall be 70 per cent of its current market value, as determined by any reasonable method.

SUPPLEMENT TO REGULATION G

SECTION 207.5—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective June 8, 1968

(a) **Maximum loan value of registered equity securities.**—For the purpose of section 207.1, the maximum loan value of any registered equity security, except convertible securities subject to section 207.1 (d), shall be 20 per cent of its current market value, as determined by any reasonable method.

(b) **Maximum loan value of convertible debt securities subject to section 207.1 (d).**—For the purpose of section 207.1, the maximum loan value of any security against which credit is extended pursuant to section 207.1 (d) shall be 40 per cent of its current market value, as determined by any reasonable method.

(c) **Retention requirement.**—For the purpose of section 207.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the “retention requirement” of a registered equity security and of a security against which credit is extended pursuant to section 207.1 (d) shall be 70 per cent of its current market value, as determined by any reasonable method.