

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5201]
July 9, 1962

MARGIN REQUIREMENTS REDUCED

*To All Banks, Members of National Securities Exchanges,
and Others Interested, in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System issued the following statement today:

The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements for stock market credit extended by brokers and banks, by reducing margin requirements from 70 to 50 per cent, effective July 10, 1962.

In general terms, the Board's margin regulations require credit buyers of stocks to put up a minimum equity when the purchase is made. Under the new amendment, that equity must be at least 50 per cent, beginning tomorrow.

Margin requirements were established initially in October 1934, under authority Congress granted to the Board of Governors in the Securities Exchange Act of 1934, "for the purpose of preventing excessive use of credit for the purchase or carrying of securities."

The requirements have ranged between 40 and 100 per cent, except in the earliest period of regulation. The change ordered today was the first since July 28, 1960, when the requirements were reduced from 90 to 70 per cent.

In making this change, the Board took into account a sharp reduction in stock market credit in recent weeks and the abatement in speculative psychology.

Bank loans to customers for the purpose of purchasing or carrying registered stocks declined more than 5 per cent in June to a level of \$1.3 billion. Furthermore, preliminary data indicate a \$600 million drop in borrowing by stock exchange member firms from banks on customer collateral, the largest monthly decline recorded in the post-war period. On the basis of these data, a substantial decline will be shown in customer debit balances and in total stock market customer credit, when final figures are available for June.

The reduced requirements apply to both purchases and short sales. No other change was made in the Regulations.

Enclosed are printed copies of Supplements, effective July 10, 1962, to Regulations T and U, giving effect to the reduction. Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,
President.

SUPPLEMENT TO REGULATION T

Section 220.8—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective July 10, 1962

(a) **Maximum loan value for general accounts.**—The maximum loan value of a registered security (other than an exempted security) in a general account, subject to § 220.3, shall be 50 per cent of its current market value.

(b) **Margin required for short sales in general accounts.**—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 50 per cent of the current market value of each such security.

(c) **Retention requirement for general accounts.**—In the case of a general 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, the “retention requirement” of a registered security (other than an exempted security), pursuant to § 220.3(b) (2), shall be 50 per cent of its current market value.

PRINTED IN NEW YORK

Supplement to Regulation U
(To Be Issued July 10, 1962)
Federal Reserve Bank of St. Louis, St. Louis, Missouri

SUPPLEMENT TO REGULATION U

Section 221.4—SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective July 10, 1962

(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 50 per cent of its current market value, as determined by any reasonable method.

(b) **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, shall be 50 per cent of its current market value, as determined by any reasonable method.