Maintenance Margin

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What is a Maintenance Margin

Maintenance margin is the minimum amount of equity that must be maintained in a margin account. In the context of the NYSE and FINRA, after an investor has bought securities on margin, the minimum required level of margin is 25% of the total market value of the securities in the margin account. Keep in mind that this level is a minimum, and many brokerages have higher maintenance requirements of 30-40%.

Maintenance margin is also referred to as "minimum maintenance" or "maintenance requirement."

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Maintenance Margin

Breaking Down Maintenance Margin

As governed by the Federal Reserve's Regulation T, when a trader buys on margin, key levels must be maintained throughout the life of the trade. First off, a broker cannot extend any credit to accounts with less than $2,000 in cash or securities. Second, the initial margin of 50% is required for a trade to be entered. Finally, the maintenance margin says that an equity level of at least 25% must be maintained. The investor will be hit with a margin call if the value of securities falls below the maintenance margin.

Maintenance Margin Basics

A margin account is an account with a brokerage firm that allows an investor to buy securities, be they stocks, bonds or options, with cash loaned by the broker. Trading on margin is used to increase the purchasing power of investors so that they can buy more stock without paying for it entirely out of pocket. Buying more stocks that then increase in

For this reason, all margin accounts, or purchasing securities on margin, have strict rules and regulations. The maintenance margin is one such rule, and it stipulates the minimum amount of equity that must be in a margin account at all times. Equity, in the context of margin trading, is the total value of securities in the margin account minus what has been borrowed from the brokerage firm.

Margin trading is regulated by the federal government and other self-regulatory agencies in an effort to mitigate potentially crippling losses for both investors and brokerages. There are multiple regulators of margin trading, the most important of which are the Federal Reserve Board, the New York Stock Exchange (NYSE) and the Financial Industry Regulatory Authority (FINRA).

Maintenance Margins: A Walk-Through & Context

To fully understand maintenance margins one has to understand margin accounts. Before an investor opens up a margin account, the brokerage firm must obtain that investor's signature on a margin agreement. This margin agreement must meet the minimum requirements of the regulations set forth by the Federal Reserve Board, NYSE and FINRA, but the exact terms and conditions, such as the interest rate on the account and repayment terms, vary depending on the individual broker firm's policy. Generally, the securities purchased on the account serve as collateral. It is important to note that not all securities can be bought on margin, which requires extensive trading knowledge.

After the margin agreement is signed, FINRA requires that a minimum margin be met before an investor can trade on the account. The minimum or initial margin must be at least $2,000 in cash or securities. The Federal Reserve Board's Regulation T, or Reg T, mandates a limit on how much an investor can borrow, which is up to 50% of the price of the security purchased. Some brokerage firms require more than a 50% deposit from the investor.

Once an investor buys a security on margin, the maintenance margin goes into effect with FINRA requiring that at least 25% of the total market value of the securities be in the account at all times. Still, many brokers can require more as stipulated in the margin agreement.

If the equity in a margin account falls below the maintenance margin, the broker will issue a margin call, which requires that the investor deposit more cash into the margin account to bring the level of funds up to the maintenance margin, or liquidate securities in order to fulfill the maintenance amount. The broker reserves the right to sell the securities in a