- In many markets, traders can buy securities by borrowing some of the purchase price. The borrowed money is called the *margin loan*, and they are said to *buy on margin*.
- The interest rate that the buyers pay for their margin loan is called the *call money rate*.
- The *initial margin requirement* is the minimum fraction of the purchase price that must be trader's equity.
- The *maintenance margin requirement* protects the broker from the investor's stock position being worth less than the loan owed to the broker.
- If the value of equity falls below the maintenance margin requirement, the investor will receive a *margin call*. If the investor does not deposit additional equity with the broker in a timely manner, the broker will close the position to prevent further losses and thereby secure repayment of the margin loan.
- The *leverage ratio* is the ratio of the value of the position to the value of the equity investment in it. The maximum leverage ratio is one divided by the minimum margin requirement. If the requirement is 40 percent, then the maximum leverage ratio is $1 \div 0.40 = 2.5$.