Borrow costs on the short side

> **STOCK BORROW**
>
> The loan of shares that makes a short sale deliverable: sold shares must be borrowed, the lender charges a fee, and the fee floats with scarcity - from a fraction of a percent a year on liquid names to double digits on crowded ones. Borrow can also be recalled, forcing a buy-back on the lender's schedule rather than the trader's.

Every prior track sold short by pressing the other button. Equities is different: selling something first requires having it, so the short side runs on borrowed shares - and borrowed anything has a landlord.

The mechanics, briefly

A short sale delivers shares the seller does not own, so shares are borrowed - located, lent against collateral, and charged for at an annualised rate. On liquid large-caps the rate is trivial: general collateral, a fraction of a percent. On names where many want the same short - after bad news, in crowded trades - the rate goes 'special': multiple percent, occasionally tens of percent annualised. A CFD short outsources the mechanics but not the bill: the borrow cost passes through in the financing line, and hard-to-borrow names carry it visibly.

What the short side pays that the long never does

The borrow fee: a running cost the long side simply does not have, scaling with exactly the crowded-ness that made the short attractive - the market charging rent on popular opinions.The recall: lenders can call shares back, forcing a close at the lender's moment - a risk without a long-side twin, sharpest where borrow is tightest.The dividend: a short position over an ex-date owes the dividend to the lender - lesson 7's subject, priced into every short held across one.

The reading before the trade

Borrow rate and availability are checkable before entry - brokers publish indicative rates per name - and the standing habit follows the whole platform's pattern: the fee belongs in the idea's cost line before the idea is judged. A short thesis paying 20% annualised borrow needs the stock to fall 20% a year to break even on the borrow alone; plenty of correct short ideas are uneconomic at their borrow, and finding out before entry is the entire point of this module.

Check your understanding

1. Why do borrow fees rise exactly when a short looks most attractive?

a. Regulators discourage shorting after bad news

b. Scarcity pricing: many wanting the same borrow bids up its rate - the market charges rent on crowded opinions

c. Lenders fear price falls

Answer: b. The fee floats with demand for the borrow. Obvious short cases attract company, and the company sets the price - a cost that grows with the thesis's popularity.

2. What is recall risk?

a. The broker recalling CFD leverage

b. The share lender calling borrowed stock back, forcing the short to close on the lender's schedule - a risk with no long-side equivalent

c. The exchange cancelling short sales

Answer: b. Borrowed shares belong to someone who can want them back. The forced buy-back lands whenever the lender chooses - sharpest in exactly the tight-borrow names where shorts crowd.