FINC 313-01
Management of Financial Institutions
Commercial Bank Credit Analysis and Policy
Fall 2017

Professor: Jocelyn Evans
Office: Beatty 403, School of Business
Phone/Voice Mail: 843-953-6405/678-438-7775
e-mail: evansj@cofc.edu
Office Hours: TR 10:00 a.m.-12:00 p.m.; W 1:00-3:00 p.m.; optional hours: 6:00-8:00 a.m. and by appointment
Class: TR 8:00-9:15 a.m., Beatty Center 115 (Wells Fargo Auditorium)

NOTE: It is your responsibility to read, understand and abide by all of the course information and policies listed below. Failure to do so could result in you failing this course or being withdrawn from this course by your instructor or by the Finance Department. The course syllabus provides a general plan for the course; deviations may be necessary.

IMPORTANT RULES, GUIDELINES AND OTHER INFORMATION

NOTE:
I apologize in advance for the official/legal tone of the rules and guidelines that follow. I do not wish to be impersonal, demeaning or harsh. These policies have evolved over many years and hopefully cover any and all questions that may arise concerning the administration of the class.

Prerequisite
Junior standing; ACCT 203, ACCT 204, FINC 303, ECON 200, ECON 201, MATH 104 or MATH 250

Course Overview
Commercial Banking is a comprehensive study of commercial banks and their role in the economy. The course emphasizes the practical application of business and economic principles as they relate to bank management and regulatory policy. Topics covered include banking history and regulation, consumer and commercial credit analysis, asset and liability management, risk management, loan policy, and money management services. Trends such as consolidation, on-line banking, internationalization, and project-line expansion are also addressed.

The financial crisis that appeared in 2007 has dramatically altered global financial institutions and markets. It continues to create macroeconomic problems despite the regulatory reforms that have been implemented. Economic growth is slow and unemployment is high. While the largest institutions have survived and are regaining profitability, many smaller institutions are struggling, in part, because they haven’t had the same access to government guarantees. What does the future hold?

This course is structured around the theme of credit analysis and risk management in banking. The premise is that commercial credit underwriting supports lending activity drives economic growth. You will examine how banking institutions generate earnings and assess the risks assumed in their operations. Topics to be covered include performance analysis, capital management, interest rate risk management, credit analysis and resolving asset quality problems,
liquidity planning, investment portfolio analysis, the use of off-balance sheet instruments and activities, and industry consolidation associated with failures and acquisitions. Content and discussion will cover both domestic and international banking activities.

The objective of this course is to also provide the student with the conceptual framework necessary to analyze and comprehend the current problems confronting managers of commercial banks and other depository institutions. The course materials do not dwell on the development of financial theories. It is assumed that the student comprehends the basic theoretical concepts of corporation finance, monetary theory, and financial accounting. Each class session will be structured to include lecture, discussion, and problem/case analysis. Text reading assignments are described in the attached materials. Specific dates at which assignments are due will be indicated in class.

Course Objectives
1. To provide an understanding of how a loan is graded from a credit perspective based upon financial statements and other information
2. To provide an in-depth review of credit analysis and loan documentation
3. To provide an understanding of the evaluation of collateral risk
4. Evaluate the legal and ethical issues surrounding the financial industry and the crisis that affect decision-making in banking organizations
5. The course provides a framework within which key financial decisions and risks relating to banking within the international environment are analyzed.
6. Analytical techniques such as financial analysis of banking data, duration, gap management, securitization, key elements relating to bank capital management, and analysis of various different risks faced by the banking organization are considered.

Course Learning Outcomes
1. Demonstrate a practical understanding of loan underwriting by completing a credit analysis for a financial institution and a non-financial firm
2. Understand the eligibility criteria for loans
3. Understand the role of covenants
4. Apply basic quantitative skills to banking issues
5. Develop the ability to read and analyze bank financial statements

School of Business Learning Goals
1. Communication Skills: students will demonstrate the ability to communicate, via both written and spoken word, to effectively present, critique, and defend ideas in a cogent, persuasive manner
2. Quantitative Fluency: Students will demonstrate competency in logical reasoning and data analysis skills.
3. Global and Civic Responsibility: Students will be able to identify and define social, ethical, and economic challenges at local, national and international bank organizations.
4. Intellectual Innovation and Creativity: Students will be able to demonstrate their resourcefulness and originality in addressing extemporaneous problems such as the role of credit underwriting in the recent financial crisis.
5. Synthesis: Students will demonstrate the ability to integrate knowledge from multiple disciplines incorporating learning from both classroom and non-classroom settings in the completion of complex and comprehensive risk management tasks.

Required Course Materials
1. Koch, Timothy and S. Scott MacDonald, Bank Management, Thomson Southwestern,
2. Selected articles and cases
3. The Wall Street Journal
4. Business Calculator

Recommended Materials
1. Bloomberg Business Week
2. Fortune
3. Economist
4. American Banker
5. Financial Times
6. ABA Banking Journal
7. The RMA Journal
8. Forbes

The Wall Street Journal, Business Week, and Fortune can be obtained at reduced student rates by completing the subscription forms circulated in class. The current banking periodicals listed are available in the Moore School library.

STUDENT RESPONSIBILITY:
Textbook chapters to read before the day that topic is covered in class, are listed in the course outline. Be sure to refer to the outline that corresponds to the class days for the course you attend. The Textbook has been designed as a self-directed learning guide. It is the responsibility of each student to know and understand the subject matter covered in each Textbook chapter whether or not the specific material is covered in class. Additionally, each student is responsible to know how to solve, before each scheduled exam, all of the assignments and problems listed in the course outline for all of the chapters covered in that exam.

ATTENDANCE:
Each student is expected to attend ALL scheduled class meetings for the entire duration of the class meeting. Each student may have three unexcused absences. An absence from class for any reason (job conflict, illness, appearance in court, transportation problems, travel, athletic event, etc.) will count as one of those absences. If a student is withdrawn for excessive absences, a final grade of WF will be assigned. There will be no exceptions to this policy!!!

ACADEMIC HONESTY:
The College of Business Administration adheres strictly to the University’s policy on academic honesty as contained in the Academic Regulations section of the College of Charleston Honor Code in the Student Handbook. Any student found copying during exams or quizzes, signing someone else’s name to the attendance list, using stored formulas in programmable calculators, using non-authorized formula sheets or other notes during exams, collaborating on and/or copying the course project (including from students in prior classes), or the like will receive an F for the course and possibly be subject to additional University disciplinary action.

Course Grading: Assessment
The grading weights are provided below. Make-up exams are not normally allowed, but, where appropriate, it’s weight will be added to the final at the end of the semester. You must notify me before a test begins to qualify for consideration regarding a make-up. Contact me directly via my email. All exams will be problem-oriented and/or short-answer (key concept) in form. If you do not take a test, a score of 0 will be assigned.
The course is also designed to provide an introduction to loan underwriting based upon the five C’s of credit. Profitability and various risk criteria will be reviewed in addition to collateral quality.

<table>
<thead>
<tr>
<th>Grading</th>
<th>Total points possible</th>
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<tbody>
<tr>
<td>Questions and Problems</td>
<td>10%</td>
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<tr>
<td>Exam 1</td>
<td>15%</td>
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<tr>
<td>Exam 2</td>
<td>15%</td>
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<td>Exam 3</td>
<td>15%</td>
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<tr>
<td>Exam 4</td>
<td>15%</td>
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<tr>
<td>Bank Credit Analysis</td>
<td>30%</td>
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<td>Total Points</td>
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Paper (see handout)
I. Executive Summary (Evaluate the organizational chart for the number and range of bank and non-bank subsidiaries.)
II. Banks Mission and Focus (Size and Scope)
III. Industry Performance and Analysis over the last 10 years
IV. Regulatory Changes over the last 10 years
V. CAMEL
VI. SWOT and Balanced Score Card
VII. Profitability Ratios and Market Value Ratios
VIII. Liquidity Ratios, Default Ratios, Interest Rate Risk Ratios, TARP
IX. Summary and Investment Decision Conclusion

Assignments & Class Participation

Daily assignments will be made at the end of each class. Typical assignments include background readings and selected problems or a case. Regular participation is an integral part of this class. Each student is expected to contribute by answering questions and presenting data analysis in class. During each session students will be selected to respond to questions. It is expected that each student come to class prepared to participate in class discussion and present his or her analysis. Questions at the end of each chapter will be used as a basis for discussion.

*Students cannot earn ‘credit’ beyond what is available with the tests and quizzes. Be diligent in your preparation, class participation, and performance on the exams and quizzes. Bring a calculator and blue book with you to all tests.*

Cases/Projects: For Discussion Purposes and Written Assignment

See Corporate Credit Analysis text book

**Course Outline: Bank Management**

A. Part One: Overview & Asset Liability Management
   1. Banking & Financial Services Industry (Chapter 1 Koch) 8-22-17
   2. Questions Due for Chapter 1 (Koch) 8-24-17
   3. Government Policies and Regulation 8-24-17
   4. Questions Due for Chapter 2 (Koch) 8-29-17
   5. Sovereign and Country Risks (Chapter 1 Ganguin) 8-29-17
   6. **Paper Due on a Specific Regulation** 8-31-17
   7. Industry Risks (Chapter 2 Ganguin) 8-31-17
8. Company-Specific Risks (Chapter 3 Ganguin) 9-5-17
9. Continued 9-7-17
10. Evaluating Management (Chapter 4 Ganguin) 9-12-17
11. Continued 9-14-17
12. EXAM 1 9/19/21-17

B. Part Two: Profitability Financial Analysis of Banks and Financial Institutions
1. Analyzing Bank Performance (Chapter 3 Koch) 9-26-17
2. Questions and Problems Due for Chapter 3 (Koch) 9-28-17
3. Effective Use of Bank Capital (Chapter 12 Koch) 9-28-17
4. Questions and Problems Due for Chapter 12 (Koch) 10-3-17
5. Managing Noninterest Income/Expense (Chapter 4 Koch) 10-3-17
6. Questions and Problems Due for Chapter 4 (Koch) 10-5-17
6. EXAM 2 10-10/12-17
7. Fall break 10-17-17

C. Part Three: Managing Interest Rate Risk
1. The Performance of Nontraditional Companies (Chapter 5 Koch) 10-19-17
2. Questions and Problems Due for Chapter 5 (Koch) 10-24-17
3. Pricing Fixed Income Securities (Chapter 6 Koch) 10-24-17
4. Questions and Problems Due for Chapter 6 (Koch) 10-26-17
5. Managing Interest Rate Risk (Chapter 7 Koch) 10-26-17
6. Questions and Problems Due for Chapter 7 (Koch) 10-31-17
7. Managing Interest Rate Risk (Chapter 8 Koch) 10-31-17
8. Questions and Problems Due for Chapter 8 (Koch) 11-2-17
9. Paper 3 11/7/17
9. EXAM 3 11-9/14-17

D. Part Two: Managing Liquidity & Bank Lending and Credit Analysis
1. Using Derivatives to Manage Interest Rate Risk (Chapter 9 Koch) 4-16/21-17
2. Questions and Problems Due for Chapter 9 (Koch) 4-21-17
3. Repayment analysis: PSOR Primary source of repayment and SSOR Secondary source of repayment
CCA Chapter 6: Cash Flow Forecasting and Modeling 11-28/30-17

E Final Exam Due-Commercial Bank Financial Analysis 12-4-17

Helpful Reading for Paper in Ganguin and Bilardello
H. Loan Structuring
1. Matching loan purpose to loan structure: asset based lending, term loans, lines of credit and loan funding (sources and uses)
CCA Chapter 8: Insolvency and Debt Structures
CCA Chapter 9: Estimating Recovery Prospects
2. Evaluating collateral
3. Evaluating guarantors
3. The role of loan agreements
CCA Chapter 7: Debt Instruments and Documentation
1. Pricing-fixed versus variable
CCA Chapter 11: Measuring Credit Risk-Pricing and Credit Risk Management
CCA Chapter 10: Putting It All Together-Credit Ranking
I. Paper on New Legislation During the last 10 years

In addition, you are required to complete a written report. In this report, you are to do the following:

   a. Write a brief introduction detailing the change in legislation you chose and, more the completed paper will be graded both on content and exposition.
   b. Write a paper with the following components.

1. Choose a recent legislation during the last 10 years
2. Discuss the impetus for the change in legislation, regulation and supervision related to the legislation that you chose
3. Provide a detailed description of the legislation
4. How did it protect consumers and investors from financial abuse?
5. How did different aspects of the market affect different financial markets? (e.g., TARP)
6. How will the new laws change regulation by the Federal Reserve, FDIC, OCC and other agencies? Does it represent continuous improvement?
7. How did domestic and international standards change?
8. What financial institutions are affected by this legislation?
9. What is the ethical consideration from different stakeholders’ perspectives?
10. If you get hired as a technical consultant for the banking and financial industries, what are the major issues that you would work on based upon the change in legislation that you chose?

Bank Analysis Project

I. Much of your work, including virtually all of the calculations, need to be done in Excel. More specifically, they need to be done in a manner that facilitates flexibility. You should set up your model so that the inputs can be changed and the calculations automatically adjust. You should turn in the completed Excel sheet in an OAKS dropbox. The completed sheet will be graded both on accuracy and ease of use/appearance.

II. Each student must submit a financial analysis report or a specific bank (must be approved by me in advance) including the following:
   a. Title Page with name, date, course, etc.
   b. A synthesis of financial statistics for your bank and four competitors
   c. A summary that consists of the following:
      Section 1: Strategy
         i. What are you looking for in a portfolio in broad terms?
         ii. What mixture of asset types would you like in your portfolio?
         iii. How do you then pick individual investments?
      Section 2: Portfolio
         i. Characteristics of the individual investments.
         ii. Characteristics of the loan portfolio.
         iii. Does the financial performance coincide with the strategy in Section 1?
      Section 3: Performance
         i. Individual bank performance.
         ii. Overall portfolio performance.
      Section 4: What have you learned?
Details of Paper

I. Executive Summary

II. Introduction and Overview
   A. National, Regional, State or Local Bank
   B. Geographic Areas
   C. Management Team Critique - Company and CEO History
   D. Innovations, Strengths, Weaknesses
   E. Industry Analysis and Relevant Competition
   F. Bank Organization
   G. Economic Outlook
   H. Current Events

III. CAMELS-Historical Analysis (Last Five Years)
   A. Capital Adequacy - Risk Based Equity
   B. Asset Quality - Credit Risk
   C. Management Quality
   D. Earnings - Profitability {End Of Paper I}
   E. Liquidity
   F. Interest Rate Sensitivity {End Of Paper II}

IV. Market Ratios

V. Summary Analysis {Final}