FINC 313: Management of Financial Institutions  
Fall 2018

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Office Hours: TTH 6:00-8:00am, 10:00am-12:00pm; MW 1:00-2:00pm, or by appointment  
Section 01: TTH 8:00-9:15am, BCTR 115

NOTE: It is your responsibility to read, understand and abide by all 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 Failure to do so could result in you failing this course or being withdrawn from this course by your instructor or by the Finance Department.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 all questions that may arise concerning the administration of the class.

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

Catalog Description  
Course objectives are two-fold. First, this course is designed to give the student an understanding of the types and functions of financial institutions, the financial markets which those institutions operate, and the financial instruments traded in those markets. Second, the course focuses on the theory and practice of bank management. The fundamental principles underlying the management of bank assets are emphasized. Attention is devoted to the allocation of funds among various classes of investments and banking operating costs and to changing bank practice.

Course Overview  
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 (5 C’s of Credit) 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.

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 was slow, and unemployment was high. While the largest institutions 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?

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 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

3. Selected articles and cases
4. The Wall Street Journal
5. Business Calculator

Additional 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

STUDENT RESPONSIBILITY:
Textbook chapters should be read before the topic is covered in class. The textbook has been designed as a self-directed learning guide and it is the responsibility of the student to know how to solve all assignments and problems listed in the course outline before each scheduled exam. Daily assignments will be made at the end of each class. Typical assignments include background readings and selected problems or a case study. Regular participation is an integral part of this class. Each student is expected to contribute by answering questions and presenting data analysis in class. It is expected that each student come to class prepared to participate and present his or her analysis. Questions at the end of each chapter will be used as a basis for discussion.

ATTENDANCE:
Attendance is in accordance with the College’s attendance policy. Each student is expected to attend ALL scheduled classes for the entire duration of the class meeting. (See the note on academic honesty below) An absence from class for any reason (job conflict, illness, appearance in court, transportation problems, travel, athletic event, etc.), even if permitted and/or excused by your instructor, will count as a class absence. 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 School of Business 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.

STUDENTS ELIGIBLE FOR SNAP ACCOMMODATION:
The College will make reasonable accommodations for persons with documented disabilities. Students should apply at the Center for Disability Services / SNAP, located on the first floor of the Lightsey Center, Suite 104. Students approved for accommodations are responsibility for notifying me as soon as possible and for contacting me one week before accommodation is needed.
MAKE UP EXAM POLICY:
Make-up exams will not be normally given except where appropriate. **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.

GRADING:

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<td>Homework and Participation</td>
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<tr>
<td>Exam 1</td>
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<td>Bank Analysis:</td>
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<td>Legislation Paper</td>
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<td>Strategic Analysis</td>
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<td>Historical/Statistical Analysis</td>
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<td><strong>Total</strong></td>
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*Students cannot earn ‘credit’ beyond what is available. Be diligent in your preparation, class participation, and performance on the exams and quizzes. Bring a calculator and 5 sheets of paper with you to all test days.*

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

Helpful tips for doing well in this class:
- Read the material for the next day’s class prior to class. While you are reading take good notes and write down any questions you might have on the material.
- Do all the homework
- Use your in-class notes to amplify the notes you took while doing the reading. Does it all make sense? If it doesn’t, be sure to ask me.
- The exams are essay based, be prepared to give a complete answer. (Bring 5 sheets of paper, stapled, to each exam day)
- You will be required to perform some calculations on your examinations. Be prepared to discuss what you have just calculated.
- Use the tutor for this class. Tutoring hours will be posted at the beginning of the semester. Bring your textbook and notes.
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<tr>
<th>Part 1: Overview &amp; Asset Liability Management</th>
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<td>8/21</td>
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| 8/23  | Government Policies and Regulation (Chapter 2 Koch)  
Homework* Due for Chapter 1 (Koch) |
| 8/28  | Sovereign and Country Risks (Chapter 1 Ganguin)  
Homework* Due for Chapter 2 (Koch) |
| 8/30  | Industry Risks (Chapter 2 Ganguin) |
| 9/4   | Company-Specific Risks (Chapter 3 Ganguin) |
| 9/6   | Evaluating Management (Chapter 4 Ganguin) |
| 9/6   | **Paper Due on a Specific Regulation** |
| **9/11** | EXAM 1 |
| **9/13** | EXAM 1 |

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<th>Part 2: Profitability and Financial Analysis of Banks and Financial Institutions</th>
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| 9/25  | Effective Use of Bank Capital (Chapter 12 Koch)  
Homework* Due for Chapter 3 (Koch) |
| 9/27  | Managing Noninterest Income/Expense (Chapter 4 Koch)  
Homework* Due for Chapter 12 (Koch) |
| 10/4  | Managing Noninterest Income/Expense (Chapter 4 Koch)  
Homework* Due for Chapter 4 (Koch) |
| **10/1&2** | **Guest Speaker-FDIC** |
| **10/9** | EXAM 2 |
| **10/11** | EXAM 2 (FMA) |
| **10/16** | The Performance of Nontraditional Companies (Chapter 5 Koch) |

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<th>Part Three: Managing Interest Rate Risk</th>
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| 10/18 | **Strategic Analysis Paper Due**  
Pricing Fixed Income Securities (Chapter 6 Koch)  
Homework* Due for Chapter 5 |
| 10/23 | Interest Rate Risk: GAP and Earnings Sensitivity (Chapter 7 Koch)  
Homework* Due for Chapter 6 |
| 10/25 | Interest Rate Risk: Duration Gap and Economic Value of Equity (Chapter 8 Koch)  
Homework* Due for Chapter 7 |
| 10/30 | Using Derivatives to Manage Interest Rate Risk (Chapter 9 Koch)  
Homework* Due for Chapter 8 |
| **11/1** | **Statistical/Historical Analysis Due** |
| **11/6** | Fall Break |
| **11/6** | Using Derivatives to Manage Interest Rate Risk (Chapter 9 Koch) |
| **11/8** | Homework* Due for Chapter 9 |
| **11/8** | Overview Chapters 5,6,7,8,9 |
| **11/13** | **Continued** |
| **11/15** | Speaker (SFA) |
| **11/20** | Chapter |
| **11/22** | Thanksgiving |
| **11/27** | EXAM 3 |
| **11/29** | EXAM 3 |
| **12/4** | Bank Analysis Due |

*Homework includes all questions, problems, and activities for that chapter.*
Bank Analysis Project

*You must pick a Bank that has been publicly traded for at least 5 years.
*E-mail as well as turn in a hard copy of all work.

Paper on a specific regulation

1. Choose a recent legislation during the last 10 years
2. Discuss the impetus for the legislation/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 various 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. How will the new laws change regulation by the Federal Reserve, FDIC, OCC and other agencies?
9. What financial institutions are affected by this legislation?
10. What is the ethical consideration from different stakeholders’ perspectives?

If you get hired as a technical consultant for the banking and financial industries, what are the key issues that you would work on based upon the change in legislation that you chose?

Beginning of Strategic Analysis Paper

I. Executive Summary: Provide a summary of your findings and a recommendation.
   a. Introduction and Overview
      i. National, Regional, State, or Local Bank. What is their Charter? Who regulates them? Are they TBTF?
      ii. Geographic Area
      iii. Where are they in the industry? (large box investment, small private etc.)
   b. MOAT, Competitive advantage. Explain the products and services that the institution offers. Do they have any innovations?
      i. Stated vs Actual Mission
      ii. What is special about your financial institution?
      iii. How do they protect themselves?
   c. Competitors: Describe who their competitors are and how your institution compares to them.
   d. Regulations: What regulations that affect your institution. How?
   e. SWOT: Provide a SWOT matrix describing your institution.
   f. Balanced Scorecard: Grade your institution.
   g. Porters 5 Forces: Explain how it affects your institution
   h. Economic Forecast: How will the economic forecast affect profitability?
      i. CAMELS: From a regulators point of view, how would you score them? Are they a risky institution?
         i. Capital Adequacy
         ii. Asset Quality
         iii. Management Quality
         iv. Earnings/Profitability
         v. Liquidity
         vi. Sensitivity to market risk
   j. Mergers, Distributions, Buybacks: List and describe any in the last 5 years.
k. Current events and Legal Matters: Lawsuits, fines, TARP, ethical problems
l. Management Team Critique, Company and CEO History, CEO Compensation.
m. Questions? There must be some unanswered questions that you have after doing this analysis.

End of Strategic Analysis Paper

II. Statistical and Historical Analysis: It is important to understand how banks trade profitability for risk. As a result, ratios are needed to estimate profitability and the 6 types of risk. You will need to create an Excel spreadsheet that facilitates flexibility and you should set up your model so that the inputs can be changed, and the calculations automatically adjust.

a. Find the last 5 years of financial statements from your intuition and 4 of its competitors. They can be found on the Securities and Exchange Commission’s website under “Filings”. Go to “Company filing search” to get data.

b. Use this data to calculate the following ratios:
   i. ROE
   ii. ROA
   iii. NIM
   iv. Equity Multiplier
   v. Burdon
   vi. Spread
   vii. Earnings Base
   viii. Total Asset Turnover
   ix. Efficiency Ratio
   x. Allowance for Loan Losses/Provision for Loan Losses
   xi. Recoveries/Charge offs
   xii. Cash/TA
   xiii. Personnel Expense Ratio
   xiv. Assets/Employee
   xv. Net Income/Employee

c. Use the calculated ratios to answer the following questions:
   i. How well are they:
      1. Maximizing shareholder wealth?
      2. Controlling:
         a. Interest rate risk?
         b. Market risk?
         c. Credit risk (defaults)?
         d. Liquidity risk?
         e. Regulatory Risk?
         f. Operational Risk?
   ii. Are there any trends?
   iii. Are there any issues with the composition of their loans?

d. Use the calculated ratios to add to and enhance your strategic analysis paper.

e. You will combine your legislation, strategic, and statistical analysis papers and submit them as one product.

f. You will also need to submit your completed Excel spreadsheet.