FINC 313-02  
Management of Financial Institutions  
*Commercial Bank Credit Analysis and Policy*  
Spring 2019

Professor: Dean Smith  
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e-mail: smithdt2@cofc.edu  
Office Hours: By appointment  
Class: M 4:00-6:45 pm., Long Building 219

**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 Failure to do so could result in you failing this course or being withdrawn from this course by your instructor or by the Finance Department.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; changes may be made in the instructor’s discretion.

**Course Description**  
This course is designed to give the student an understanding of the types and functions of financial institutions, the financial markets in which those institutions operate, and the financial instruments traded in those markets. 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.

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

**Course Overview**  
Management of Financial Institutions 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, credit policy, and money management services. Trends such as consolidation, technological innovation, globalization are also addressed.

The financial crisis that began in 2007 dramatically altered global financial institutions and markets. A vast new regulatory framework was imposed on the entire financial sector, and has affected firms of all sizes and in all sectors from commercial banking, to investment banking, insurance, and consumer lending. Significant industry consolidation has also occurred since the crisis.

At the core of the financial crisis was a broad decline in credit discipline. This course is structured around the theme of credit analysis and risk management in banking. The premise is that commercial credit underwriting supports prudent lending activity which in turn helps to drive sustainable economic growth. We 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.

This is a largely practical course intended to provide the student with a framework to understand and analyze the problems confronting managers of commercial banks and, to a lesser extent, other types of financial institutions. The course materials do not materially address financial or economic theories. It is assumed that the student comprehends the basic theoretical concepts of corporate finance, monetary economics, 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. Understand how banks underwrite loan applications, including important elements such as credit analysis, collateral valuation and loan documentation
2. Evaluate the impact of regulation and competition and how they affect bank lending practices and risk management
3. Explore the legal and ethical framework of banks and other financial market participants and how their behavior affects the economy and society, including issues such as fairness, discrimination and economic inequality
4. Understand how international factors affect bank practices and performance
5. Develop understanding of and expertise in the use of analytical techniques regarding: bank financial reports; significant risk dimensions such as liquidity, credit, duration, and gap management; securitization; and capital management.

**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, via written and spoken word, the ability to communicate, 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**

2. *The Wall Street Journal*
3. Microsoft Excel

A highly discounted student online subscription to *WSJ* can be obtained at [www.wsj.com](http://www.wsj.com).

**Laptop Computers** – We will use computers in this class to create spreadsheets and perform a range of analytic tasks on financial data for real and hypothetical businesses. It would be ideal if students bring a laptop to each class.

**Recommended Materials** – If you intend to make a career in finance, and have not already done so, you should make it a lifelong habit to keep up with current news regarding financial markets and the economy. We will be discussing current events, taken from the following sources, during the class. Make it a habit to look at the following information sources regularly:

1. Bloomberg.com
3. *The Economist*
4. *The Financial Times*
5. *American Banker*

Bloomberg.com has recently gone behind a paywall, but 10 articles per month can be read online for free. The other periodicals are available at discounted student rates or can be found in the Addlestone Library.

**Student Responsibility**

Because this class meets only once per week, there will be a greater than typical amount of reading between classes. All students are expected to have completed all the assigned readings and exercises before the next class meeting. Specific readings and exercises for the next class meeting will be posted on the class webpage immediately following each class.

Students are also expected to regularly check the class webpage for updates or changes to the class plan. In addition, the instructor may wish to discuss actual events in financial markets, and
will use the class webpage to direct students to newspapers or other sources that students should read and be prepared to discuss in the next upcoming class.

**Attendance**
Students are strongly encouraged to attend all scheduled classes. Class participation will count materially toward your final grade, and it will not be possible to obtain your best grade if you miss classes. In addition, the course material is cumulative, with each class building upon skills and knowledge obtained in prior classes. Absences will make it very difficult to catch up. We will also have occasion to incorporate contemporaneous news and events in financial markets and regulatory policy. Some of this information may be included in exams or quizzes. Finally, there will be one or more group projects, and if you miss class, it places an unfair burden on the other members of your group.

If the instructor feels any student has had excessive absences, one warning will be given, and any future un-excused absences may result in a grade of WF being assigned.

**Class Format**
The class format will include classroom lectures and discussions of assigned reading material, group projects/case studies and computer lab sessions devoted to the development of financial models in Excel. Both the classroom lectures and the computer lab sessions will be conducted in the assigned classroom.

**Course Grading**
The grading weights are provided below. Make-up exams are not normally allowed, but, where appropriate, its 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.

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<thead>
<tr>
<th>Factor</th>
<th>Contribution to Final Grade</th>
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<tbody>
<tr>
<td>Homework Exercises</td>
<td>20%</td>
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<tr>
<td>Mid-Term Exam</td>
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<td>Group Project</td>
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<tr>
<td>Research Paper</td>
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<tr>
<td>Final Exam</td>
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**Assignments & Class Participation**
Homework assignments will be given following each class meeting. Typical assignments will include multiple choice and short essay questions. From time to time, case studies or analytical problems will be presented. Homework assignments will generally be due before the start of the next class. 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.

**College of Charleston Honor Code and Academic Integrity**

Lying, cheating, attempted cheating and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The intervention, submitted by form and signed both by the instructor and the student, will be forwarded to the Dean of Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Students. A student found responsible by the Honor Board for academic dishonesty will receive a XF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the X to be expunged. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.

Students should be aware that unauthorized collaboration--working together without permission--is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information via a cell phone or computer), copying from other students’ exams, fabricating data and giving unauthorized assistance.

Research conducted and/or papers written for other classes cannot be used in whole or in part for any assignment in this class without obtaining prior permission from the instructor.

Students can find the complete Honor Code and all related processes in the Student Handbook at [http://studentaffairs.cofc.edu/honor-system/studenthandbook/index.php](http://studentaffairs.cofc.edu/honor-system/studenthandbook/index.php)

**Students Eligible for SNAP Accommodation**

Any student in the class who has a documented disability and has been approved to receive accommodations through the Center for Disability Services / SNAP, please come and discuss this with me during my office hours.