

**FINA 465: Commercial Bank Practice and Policy
Spring 2019**

MW 2:20 – 3:35 Section 001 DMSB 109
MW 3:55 – 5:10 Section 002 DMSB 109

Professor: Dr. Allen N. Berger
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Phone: (803) 576-8440
Email: aberger@moore.sc.edu
Office Hours: MW 9:00 AM – 10:30 AM; and by appointment
Extra office hours will be available before each of the three tests.

Course Overview:

This course is structured around the theme of risk management in banking. You will examine how banking institutions generate earnings and the nature of risks assumed in their operations. The focus of the subject matter is risk management. Topics to be covered: Why are financial intermediaries special? the role of depository institutions; financial crisis; risk of financial intermediation including interest rate risk, credit risk, off-balance sheet risk, liquidity risk; management of risks including liquid asset management and liability management, deposit insurance and other liability guarantees, capital adequacy, product and geographic diversification, and loan sales.

The objective of this course is to provide the student with the conceptual framework necessary to analyze and comprehend the current problems confronting managers and regulators 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 corporate finance, monetary theory, and financial accounting. Each class session will be structured to include lecture and discussion.

This class is fundamentally a RISK MANAGEMENT class that applies primarily to financial institutions and banks in particular. Risk management is the process by which managers identify, assess, monitor, and control risks associated with a financial institution's activities.

Lecture Notes:

In order to reduce your note taking, lecture notes on the book chapters and the financial crisis are currently available for the entire semester on Blackboard. Wall Street Journal (WSJ) notes will be posted after each class in which the WSJ is discussed.

Required Reading Materials:

Financial Institution Management: A Risk Management Approach, Saunders, Anthony and Marcia Millon Cornett, 9th Edition, 2017. Chapters covered include: 1, 2, 7, 8, 9, 10, 11, 16, 12, 18, 19, 20, 21, and 25. No appendices are required. You may also skip descriptions of financial institutions other than depository institutions. Please read the appropriate chapter **before** it is covered in class.

The Wall Street Journal. Please read financial institutions articles by subscribing to the Wall Street Journal. There is generally a substantially discounted digital student subscription available for one semester for a small fee, the information for which is at the following address: <https://buy.wsj.com>

Recommended Materials:

- The Oxford Handbook of Banking, Second Edition, edited by Allen N. Berger, Philip Molyneux, and John O.S. Wilson, Oxford University Press, 2015.
- Bank Liquidity Creation and Financial Crises 1st Edition by Allen N. Berger and Christa H.S. Bouwman, Elsevier, 2016.
- The Courage to Act: A Memoir of a Crisis and Its Aftermath 1st Edition, by Ben S. Bernanke, W.W. Norton & Company, 2015.
- Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System--and Themselves, by Andrew Ross Sorkin, Penguin Books, 2010.
- Business Week
- Fortune
- Forbes
- American Banker
- ABA Banking Journal
- The Economist
- Financial Times
- Banking Strategies
- The Journal of Lending & Credit and Risk Management

Relevant Web Sites:

- Textbook Website www.mhhe.com/saunders9e
- The Federal Reserve www.federalreserve.gov/
- Federal Deposit Insurance Corporation www.fdic.gov/

Final Grade Computation:

Test 1	150 pts
Test 2	150 pts
Test 3	150 pts
<hr/> TOTAL	450 pts

Tests are non-cumulative.

Tests will cover materials covered in class, the textbook, and the Wall Street Journal.

A review session will be held for each test in the class period before the test. Sample test questions will be reviewed, and the questions and answers will be posted on BlackBoard before each review session.

Tests consist primarily of short-answer questions.

Test 2 will include computations and students **are required to bring their own calculators (smartphones are not allowed).**

Formula sheet (which is currently available on BlackBoard) will be provided at the time of the test (do not bring formula sheet to the test).

All tests are closed book.

There is no final exam.

Test 3 will be held on Saturday May 4th at 7:30PM in DMSB 136. This is a joint session for both classes.

If there is a conflict with the last test, accommodations will be made.

Minimum grade distribution

90%-100%	A
88%-89%	B+
80%-87%	B
78%-79%	C+
70%-77%	C
68%-69%	D+
60%-67%	D
0%-59%	F

Professor may be slightly more generous and grade on a curve, but will not go below the minimum grade distribution.

NO EXTRA CREDIT AVAILABLE!!!

This means that your grade is based only on the test scores and you may not write any additional paper or perform any other additional task to raise your grade.

Class Evaluations:

Class evaluations will be on line. Class time will be provided to complete the evaluations. Please bring your laptop or smartphone to class on Wednesday, April 19th to complete them.

Learning Outcomes:

The students are expected to become knowledgeable regarding financial intermediary specialness; the roles of depository institutions; the financial crisis; the risks of financial intermediation including interest rate risk, credit risk, off-balance sheet risk, and liquidity risk; the management of risks including liquid asset management and liability management, deposit insurance and other liability guarantees, capital adequacy, product and geographic diversification, and loan sales, and to demonstrate this knowledge on class examinations.

READ THIS: DO NOT email or phone the professor questions or inquiries about grades. Any questions or comments regarding grades must be done in person. Before, during, or after class and all office hours are appropriate times to discuss grades. Emails and phone calls are inappropriate venues by which to discuss such subjects.

Policies:

Students are expected to follow the Code of Student Conduct for Undergraduate Students for the Moore School and the University of South Carolina Honor Code, both of which are detailed below.

Darla Moore School of Business Code of Student Conduct for Undergraduate Students

The Darla Moore School of Business is recognized globally for educating students who are prepared to become responsible business and civic leaders. An effective learning environment where students and faculty value integrity, professionalism and diligence is foundational to this mission.

Consistent with these values, the Student Leadership Council and the faculty of the Darla Moore School of Business expect students to:

- spend a minimum of two hours outside of class studying for each hour of classroom time;
- exhibit classroom behavior that is respectful to faculty and fellow students;
- refrain from the use of phones and other electronic equipment during class, unless permitted by the instructor;
- arrive at class on time, actively participate in class, and not leave class early;
- keep up with assigned readings and complete assignments on time;
- contribute fully to team assignments;
- respect the university's staff and be responsible stewards of its facilities; and
- abide by the University of South Carolina Honor Code

University of South Carolina Honor Code

It is the responsibility of every student at the University of South Carolina Columbia to adhere steadfastly to truthfulness and to avoid dishonesty, fraud, or deceit of any type in connection with any academic program. Any student who violates this Honor Code or who knowingly assists another to violate this Honor Code shall be subject to discipline.

The Honor Code is intended to prohibit all forms of academic dishonesty and should be interpreted broadly to carry out that purpose. The following examples illustrate conduct that violates this Honor Code, but this list is not intended to be an exhaustive compilation of conduct prohibited by the Honor Code:

1. Giving or receiving unauthorized assistance, or attempting to give or receive such assistance, in connection with the performance of any academic work.
2. Unauthorized use of materials or information of any type or the unauthorized use of any electronic or mechanical device in connection with the completion of any academic work.
3. Access to the contents of any test or examination or the purchase, sale, or theft of any test or examination prior to its administration.
4. Use of another person's work or ideas without proper acknowledgment of source.
5. Intentional misrepresentation by word or action of any situation of fact, or intentional omission of material fact, so as to mislead any person in connection with any academic work (including, without limitation, the scheduling, completion, performance, or submission of any such work).
6. Offering or giving any favor or thing of value for the purpose of influencing improperly a grade or other evaluation of a student in an academic program.
7. Conduct intended to interfere with an instructor's ability to evaluate accurately a student's competency or performance in an academic program.

Whenever a student is uncertain as to whether conduct would violate this Honor Code, it is the responsibility of the student to seek clarification from the appropriate faculty member or instructor of record prior to engaging in such conduct.

Contribution: Contribution is a necessary and essential ingredient in the real business community. Contribution includes comments, questions, and article discussions.

Academic Honesty: All college and department policies on academic honesty will be strictly enforced. The [Student Handbook and Policy Guide](#) establishes rights to which the student is entitled and the responsibilities, which the student must assume. Along with preparing for and attending class, each student has the responsibility of promoting high academic standards. Academic dishonesty includes: (a) cheating, (b) fabrications and falsifications, (c) multiple submissions, (d) plagiarism, (e) complicity in academic dishonesty. Inappropriate classroom behavior may result in the student being withdrawn from the class.

Attendance: Consistent with University Policy as stated in the [Student Handbook](#). Each student is allowed three (3) unexcused absences from class period. Each absence in excess of three will result in a one-letter grade reduction in the final grade. Think of this class as your job – arrive on time and be prepared to participate. All student activities associated with university events

(sports absences, student activities requiring absence from the university, etc.) are considered excused, but **MUST** be cleared with the professor **PRIOR** to their occurrence.

Americans With Disability Act: Every reasonable attempt will be made to remove any physical barrier, which may hamper the ability of an individual to learn in this classroom. Anyone who has a physical or learning limitation that would impact attendance, preparation, participation, or timely completion of assignments should feel welcome to discuss this limitation with the professor at the beginning of the semester.

Dropping the Course: College policies will be followed. Please consult the schedule for exact dates for dropping a course without penalty.

SPRING 2019 Schedule	
January 14, Mon.	Classes begin, course overview
January 16, Wed.	Chapter 1: Why are Financial Intermediaries Special?
<i>January 21, Mon.</i>	<i>Dr. Martin Luther King, Jr. Service Day - no classes</i>
<i>January 22, Tues.</i>	<i>Last day to change a course schedule or drop a course without a grade of "W" being recorded</i>
January 23, Wed.	Chapter 1 cont'd
January 28, Mon.	Chapter 2: Depository Institutions
January 30, Wed.	Chapter 2 cont'd
February 4, Mon.	Financial Crisis
February 6, Wed.	Financial Crisis cont'd
February 11, Mon.	Chapter 7: Risks of Financial Intermediation
February 13, Wed.	Review
February 18, Mon.	Test 1
February 20, Wed.	Go over Test 1
February 25, Mon.	Chapter 8: Interest Rate Risk I
February 27, Wed.	Chapter 9: Interest Rate Risk II
March 4, Mon.	Chapter 10: Credit Risk: Individual Loan Risk
<i>March 4, Mon.</i>	<i>Last day to drop course or withdraw without a grade of "WF" being recorded</i>
March 6, Wed.	Chapter 11: Credit Risk: Loan Portfolio & Concentration Risk
<i>March 11, Mon.</i>	<i>Spring break - no class</i>
<i>March 13, Wed.</i>	<i>Spring break - no class</i>
March 18, Mon.	Chapter 16: Off-Balance Sheet Risk
March 20, Wed.	Chapter 12: Liquidity Risk
March 25, Mon.	Review
<i>March 27, Wed.</i>	<i>Professor has conflict with conference – no class</i>
April 1, Mon.	Test 2
April 3, Wed.	Go over Test 2

<p>April 8, Mon. April 10, Wed.</p> <p>April 15, Mon. April 17, Wed. April 22, Mon. April 24, Wed.</p> <p>April 29, Mon. May 4, Sat.</p>	<p>Chapter 18: Liability and Liquidity Management Chapter 19: Deposit Insurance and Other Liability Guarantees Chapter 20: Capital Adequacy Chapter 21: Product and Geographic Diversification Chapter 21 cont'd Class Evaluations, Chapter 25: Loan Sales (and FinTech) Review Test 3 @ 7:30 pm in DMSB 136</p>
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BIOGRAPHICAL SUMMARY

Allen N. Berger

Allen N. Berger is the H. Montague Osteen, Jr., Professor in Banking and Finance and Ph.D. coordinator of the Finance Department, Darla Moore School of Business; Carolina Distinguished Professor, University of South Carolina; Senior Fellow, Wharton Financial Institutions Center; and Fellow, European Banking Center. He also currently serves on the editorial boards of seven professional finance and economics journals. Professor Berger was editor of the *Journal of Money, Credit, and Banking* from 1994-2001 and has co-edited seven special issues of various professional journals. He also co-edited all three editions of the *Oxford Handbook of Banking*. His research covers a variety of topics related to financial institutions. He is co-author of *Bank Liquidity Creation and Financial Crises* (2016, Elsevier) and is currently co-authoring *TARP and other Bank Bailouts and Bail-Ins around the World: Connecting Wall Street, Main Street, and the Financial System* (2019, Elsevier).

He has published well over 100 professional articles in refereed journals, including papers in top finance journals, *Journal of Finance*, *Journal of Financial Economics*, *Review of Financial Studies*, *Journal of Financial and Quantitative Analysis*, *Review of Finance*, and *Journal of Financial Intermediation*; top economics journals, *Journal of Political Economy*, *American Economic Review*, *Review of Economics and Statistics*, and *Journal of Monetary Economics*; other top professional business journals, *Management Science* and *Journal of Business*; and several dozen other non-refereed publications. His research has been cited over 70,000 times according to Google Scholar, and he has given invited keynote addresses on five continents.

Professor Berger received the University of South Carolina Educational Foundation Award for Research in Professional Schools for 2018, was named Professor of the Year for 2015-2016 by the Darla Moore School of Business Doctoral Students Association, has received several best paper awards for journals and conferences. He was also Secretary/Treasurer, Financial Intermediation Research Society from 2008-2016; and Senior Economist from 1989 to 2008 and Economist from 1982-1989 at the Board of Governors of the Federal Reserve System. He received a Ph.D. in Economics from the University of California, Berkeley in 1983, and a B.A. in Economics from Northwestern University in 1976.