LEN RUSHFIELD

FINC 622

MANAGEMENT OF FINANCIAL INSTITUTIONS

SUMMER 2015. Session B
MONDAY: 1:00 – 5:00 or
TUESDAY: 1:00 – 5:00 PM

MALIBU CAMPUS

SYLLABUS
Management of Financial Institutions
FINC 622
SUMMER 2015, Session B, Malibu Campus
Monday or Tuesday, 1-5PM

Len Rushfield
Drescher Graduate Campus
Telephone: (310) 562-2204
leonard.rushfield@pepperdine.edu/ asiaptner@gmail.com

Course Objectives

The continuing financial crisis has focused attention on the key roles of financial institutions and the critical aspects of their sound management. FINC 622 is intended to provide the foundation for understanding the issues in the management of financial institutions and the principal options for managers within these institutions. Intensive reading will establish the basis of information on financial institution structure, processes and techniques. Cases will identify important real issues and provide experience in understanding alternative solutions and developing methods to reach these solutions.

Course Description

The course is designed to be useful to managers of firms such as banks, savings and loans, credit unions, finance companies, and insurance companies. Emphasis is placed on asset and liability risk management, capital adequacy, credit evaluation and appropriate levels of service. Critical examination of the changing regulatory environment provides strategic perspective on the evolution of financial institutions and the relative balance of respective project and service markets.

Texts and Course Materials

Required Text:
Harvard collection of financial institution cases (digital edition). This can be obtained through the website – https://cb.hbsp.harvard.edu/cbmp/access/36059365
Log-in will be necessary and payment through a credit card. The title is “Management of Financial Institutions.”

Special Resource: FDIC Education Program – for use in course cases and discussions
- Director Responsibilities (09:20)
- Fiduciary Duties (05:46)
- Acting in the Best Interest of the Bank (03:56)
- Overview of the FDIC Examination Process (10:15)
- Risk Management Examinations (11:09)
- Compliance and Community Reinvestment Act Examinations (10:02)
1. Interest Rate Risk (28:16)
2. Third-Party Risk (29:45)
3. Corporate Governance (21:43)
4. The Community Reinvestment Act (30:14)
5. Information Technology (IT) (26:06)
6. The Bank Secrecy Act (31:34)

Course Expectations
Commitment to reading and understanding of text and other assigned materials.
Active and informed participation in class discussions.
Timely and thoughtful completion of assignments.
Energetic and effective involvement in team projects, especially the Major Bank Case Study.

Class discussion of assignments
A principal obligation is to keep up with the assigned chapters within the course study outline contained in this syllabus.
In addition, you should follow current financial institution issues in the press and on-line websites. Reading the Wall Street Journal (online) is strongly recommended. Class attendance is expected and participation (individually and in groups) will be evaluated in terms of the contribution to the learning process.

Financial Institution Case Studies – Individual Reports/Group Reports
The course will integrate conceptual studies with reality based approaches to dealing with important institutional strategic and financial issues. Cases will be assigned for analysis and reports. Cases will be found in the Harvard course casepack. The cases involving individual reports will be due in Sessions 5 and 6. Students will be responsible to submit one major individual report valued at 20% of the grade. Individual case reports should be 5 to 10 pages in length. This system will be discussed at session 1. Students will be expected to have a full understanding of all cases for class discussion irrespective of the decision to submit a written analysis.

Major Bank Case Study – Group Report
For the final report the class will be divided into working groups of at least 4 members. These working groups each will take responsibility for a comprehensive review of a major banking institution. Group reports will include a lengthy written analysis and an in-class presentation. The analysis should be 10 to 15 pages in length. The in-class report will include a visual presentation and discussion. 30 minutes will be allocated for each group. The report will be valued in total as 30% of the grade. These reports will be due in Session 7.
Superior Bank Group Analysis Cycle
The Harvard Case “The Failure of Superior Bank” will be the subject of a continuous review of major considerations on a group basis in weeks 3, 4, 5 and 6. More information will be provided in class about the assignments and the expectations for the report.

Redhook Ale Brewery Case for Analysis and Negotiation
In Session 5 this case will provide the opportunity for extensive analysis of a bank loan proposal and for the experience of negotiating the terms of the loan between the bank and its corporate client. This will be done on a group basis and will require a written outline of major observations for use in conducting the negotiations.

Prior to the first session it would be helpful for students to establish the membership of their working groups. In principle Groups should have membership of 4 or 5 students. Students wishing guidance in connecting to a working group should contact the instructor.

Grading

NUMBER/LETTER GRADING RELATIONSHIP

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>95% - 100%</td>
</tr>
<tr>
<td>A-</td>
<td>90% - 94%</td>
</tr>
<tr>
<td>B+</td>
<td>87% - 89%</td>
</tr>
<tr>
<td>B</td>
<td>83% - 86%</td>
</tr>
<tr>
<td>B-</td>
<td>80% - 82%</td>
</tr>
<tr>
<td>C+</td>
<td>77% - 79%</td>
</tr>
<tr>
<td>C</td>
<td>73% - 76%</td>
</tr>
<tr>
<td>C-</td>
<td>70% - 72%</td>
</tr>
<tr>
<td>D+</td>
<td>67% - 69%</td>
</tr>
<tr>
<td>D</td>
<td>63% - 66%</td>
</tr>
<tr>
<td>D-</td>
<td>60% - 62%</td>
</tr>
<tr>
<td>F</td>
<td>below 60%</td>
</tr>
</tbody>
</table>

Final grades will be based on the following weighted factors.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in discussions</td>
<td>10</td>
</tr>
<tr>
<td>Superior Bank Group Analysis Cycle (5% x 4)</td>
<td>20</td>
</tr>
<tr>
<td>Individual Case – Silicon Valley Bank/ Hong Kong Disney</td>
<td>20</td>
</tr>
<tr>
<td>Redhook Case Group Analysis and Negotiation</td>
<td>20</td>
</tr>
<tr>
<td>Major Bank Report -- Group Grade</td>
<td>30</td>
</tr>
</tbody>
</table>

Total                                             100
CONDUCT

“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.
- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

**Dismissal** – separation of the student from the University on a permanent basis.

**Suspension** – separation of the student from the University for a specified length of time.

**Probation** – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.”  

GSBM Catalog, pgs. 207-208.
<table>
<thead>
<tr>
<th>Week</th>
<th>Topics</th>
<th>Readings/Sources</th>
<th>Activities</th>
</tr>
</thead>
</table>
| 1    | **Financial Institutions** *-- Risks and Rewards*  
Market Structure, Purposes and Institutions | Harvard Cases:  
“History of investment Banking”  
“Note on the Banking Industry”  
“Citigroup’s Strategy --Too Big to Fail?”  
Harvard Cases:  
“History of investment Banking”  
“Note on the Banking Industry”  
“Citigroup’s Strategy --Too Big to Fail?” | First session Discussions:  
Course expectations; Syllabus Sakai site  
Case Discussions  
FDIC video – “Director Responsibilities”  
FDIC video – “Fiduciary Responsibilities” |
| 2    | **Depository Institutions**  
Regulation, Structure, Capital and Funding | Harvard Case:  
“ Bank Capital Structure”  
Bank Document:  
“Capital Policy” | Second session Case Discussion Assignment:  
“The Failure of Superior Bank” (materials for distribution) – explanation of ongoing analysis. |
| 3    | **Funding Risk**  
-- Interest Rates, Liabilities and Liquidity  
-Risks of Fund Management | Bank Documents:  
“Interest Rate Risk Policy”  
“Investment Policy”  
“Liquidity Policy” | Third session Case Discussion Assignments :  
“Bank One Corporation: Asset and Liability Management”  
FDIC video – Interest Rate Risk”  
Superior Bank analysis. |
| 4    | **Credit Risk**  
Exposures  
- Loan Risk Management | Harvard Cases:  
“Note on Bank Loans”  
“Note on Acquiring Bank Credit”  
“Fleet Managed Assets Division” | Fourth Session Case Discussion Assignment :  
FDIC video – “Third Party Risks”  
Case for discussion:  
“Redhook Ale Brewery”  
Superior Bank analysis |
| 5    | **Credit Risk**  
- Concentrations and Solutions  
-Effective Loan risk Management | Harvard Case:  
“Xedia and Silicon Valley Bank” | Fifth Session Case Report assignment :  
“Silicon Valley Bank”  
Case for Negotiation:  
Redhook Ale Brewery” – the Bank and the Company  
Superior Bank Analysis |
| 6    | **Management of Complex Risks** | Harvard Case:  
“Subprime Meltdown: American Housing and Global Financial Turmoil” | Sixth Session Case Discussion Assignments:  
“First American Bank: Credit Default Swaps”  
“Are Foreign Banks Sure Winners in China?” |
Session 7

**Final Evaluations – Focus on Banks in the Financial Crisis**

Harvard Cases:
“U.S. Subprime Mortgage Crisis – Policy Reactions”
“The 2007-2008 Financial Crisis: Causes and Impacts”
“The Dodd-Frank Act and Its impact”

**Group Reviews of a Major Bank in the Financial Crisis**

Harvard Cases:
“Bank of America in 2010 and the New Financial Landscape”
“Bank of America Acquires Merrill Lynch”
“JP Morgan and the Dodd-Frank Act”
“Tip of the Iceberg: JP Morgan Chase and Bear Stearns”
“What Happened at Citibank”
“The Southeast Bank of Texas in the Financial Crisis” (fictional case)

The schedule may be changed at any regularly scheduled class meeting depending on class requirements.