SYLLABUS

COMMERCIAL BANK MANAGEMENT

FINN 6156-001

Spring 2014

I. General Information

Time: Monday, 1730 hours—2015 hours

Location: Center City Building (CCB)

Instructor: C. William Sealey, PhD
The Torrence E. Hemby, Sr., Distinguished Professor in Banking
Department of Finance
University of North Carolina at Charlotte
Friday Building, Room 249-A

Office Hours: Monday, 1700 hours – 1730 hours in the faculty offices in the CCB, or other times

Phone Numbers:
Phone: UNC Charlotte: 704.687.7613
Email: cwsealey@uncc.edu
Home: 704.366.3652

II. Course Materials

III. Course Description:  MBAD 6156

**MBAD 6156. Commercial Bank Management. (3)** Techniques for the financial management of commercial banks. Topics of study include industry structure, administrative organization, management of assets, liabilities, capital, and financial analysis of the banking firm. Same as FINN 6156. Prerequisite: MBAD 6152

IV. College Mission

The vision of the **Belk College of Business** is to be a leading urban research business school. We are committed to creating an inclusive culture that inspires a passion for knowledge and intellectual growth as well as dedication to service. We engage in research that fosters innovative business theory, policy, and practice. In strategic partnership with the Greater Charlotte region, we educate our students to become leaders who are critical thinkers, ethically and globally aware. In carrying out our mission, the Belk College of Business is committed to the following shared values:

- **Integrity:** We embrace integrity as the fundamental basis for trust, leadership, and organizational culture.
- **Knowledge and Innovation:** We are dedicated to encouraging intellectual curiosity, advancing knowledge, and promoting innovation.
- **Excellence:** We have a passion for excellence in business, research, and education.
- **Diversity and Inclusion:** We foster an environment that is based on mutual respect, broadens understanding, and builds trust.
- **Global Citizenship:** We promote ethically principled and sustainable global practices that foster economic and social value.

IV. Course Objectives

The objectives of this course are to: (1) provide students with an introduction to the financial management of the commercial banking enterprise, (2) afford students with an understanding of the basic issues involved in value creation and risk management for banking firms, and (3) equip students with the technical and analytical tools, and strategic abilities necessary to understand the evolution and workings of the commercial banking industry.

---

1. Source: University of North Carolina at Charlotte, 2013—2014 Graduate Catalog
Our main attention will focus on managing risk and return in the modern banking firm. Specifically, we will focus on the following areas:

1. Identifying the distinguishing features of banks as financial intermediaries, their unique characteristics as businesses in our economy, and their sources of value-added in the economy;

2. Identifying and understanding the sources of risk in banking and how these risks interact to understand the overall risk level that banks face in today’s economic, financial, and regulatory environment;

3. Understanding how banks manage their risk exposure and the relationship of risk management to the creation of value for the bank;

4. Understanding how the economic and regulatory environments of the banks impact banks’ decision-making;

5. Developing technical, analytical and decision making skills in order to help understand managerial responsibility in the financial management of the banking firm; and finally,

6. Providing students with a foundation for more advanced academic and professional training and development in bank management.

V. Outline of Topics, Readings, and Method of Coverage

In keeping with the main outline of the textbook, the topics covered will be divided into three major categories. These categories are in turn divided into a number of chapters. The outline of topics for class coverage, and the corresponding readings, is shown below. Although I have retained the three-section approach of the textbook authors, note that I have changed the names and order of the sections in places. Also, please note that additional readings may be assigned from time to time to cover relevant current topics and events.

Your textbook is composed of twenty-six chapters and a number of appendices. Although all the materials in the text are included for a purpose and all are important, it is not possible to give attention to all chapters equally. Hence, I have divided the chapters into three groups corresponding to the attention that will be given to these chapters in class. The three groups will be designated as follows:

- Topics marked with a triple asterisk, ***, indicates those topics that I believe are of utmost importance in a course on bank financial management. You should read and study these chapters thoroughly!
• Topics marked with a double asterisk, **, are topics of importance but are often largely descriptive and self explanatory. In class, they will be covered only briefly as time permits; however, students should peruse these chapters.

• Topics marked with a single asterisk, *, are topics that, although important, are not necessarily critical to the main goals of the course. Given the quantity of material and our limited time, these topics will not likely be covered in class except in passing. Students should at least skim these materials.

Also note the following:

• Sections within chapters that deal specifically with non-depository institutions, e.g., insurance companies, finance companies, etc., fall into the latter category, i.e., single asterisk.

• Unless otherwise noted in the outline below, material in the appendices can be skipped.

The primary method of instruction in this course will be lectures. If there is something you don’t understand in my lectures, please interrupt (politely as possible) to ask for further explanation. If I cannot fully explain the issue to your satisfaction or if it will take too long to provide a complete explanation, I may ask you to hold off until the end of the lecture or come to see me during my office hours.

Students will be expected to actively participate in classroom discussions, and read and solve problems out of class. It is expected that you come to class prepared – that is, you have read the assigned chapter(s) prior to class. It is also expected that you to keep up with current financial events related to banking. It is difficult for anyone to be informed about every detail that is relevant to our topics; however, students should regularly review current business events, especially those that involve financial markets and the financial services industry. The best way to develop an awareness of current financial events is by reading The Wall Street Journal, The Economist, Barons, etc., as well as similar publications. Checking finance/business websites (such as Yahoo Finance) can also be very helpful.

It would be of great help if you bring a financial calculator to class to help solve problems. PLEASE, I ask that you turn off your cell phone and any other electronic device before the start of class.

Finally, specific dates for coverage of specific materials are not given in the outline because I have found that the specific dates are either seldom followed, or they force important material into an arbitrary time period that presents a hindrance to learning. For example, important material may take longer in one class as opposed to another. In my view, learning does not take place on a precise time table. This is my own opinion and is by no means the opinion of all professors, or the policy of the College or University.
I will always try to briefly mention the materials to be covered in the next class. If a student wants to read ahead, which is a very good idea, the outline shows the topics I deem most important. In my view, the most important goal of this class is to cover the most important material thoroughly, and we will pace our class to achieve this goal. Any extra class time will be devoted to material that is important, but may not be of the first-order. Please remember that materials covered in this class are cumulative, i.e., material covered in earlier parts of the class will be used as the basis of our studies later. Thus, please strive not to get behind.

1. **Introduction to the Characteristic and Sources of Value-Added in Commercial Banking**

*** (a) Why are Financial Institutions Special
Saunders and Cornett, Chapter 1

*** (b) Depository Financial Institutions
Saunders and Cornett, Chapter 2,

* (c) Non-Depository Financial Institutions
Saunders and Cornett, Chapters 3, 4, 5 & 6

2. **The Sources of Risk in Banking**

*** (a) Overview of Sources of Risk
Saunders and Cornett, Chapter 7

** (b) Interest Rate Risk: Part I
Saunders and Cornett, Chapters 8

*** Chapter 8: Appendix 8B, Term Structure of Interest Rates

*** (c) Interest Rate Risk: Part II
Saunders and Cornett, Chapters 9

*** (d) Credit Risk
3. Managing Bank Risks

** (a) Managing Liability and Liquidity Risk
Saunders and Cornett, Chapter 18

*** (b) Deposit Insurance, Bank Capital, and Capital Regulation
Saunders and Cornett, Chapters 19 & 20

* (c) Managing Risk via Products and Markets
Saunders and Cornett, Chapters 21

*** (d) Managing Risk with Derivative Products
Saunders and Cornett, Chapter 22, 23, & 24
VI. University Catalogue (2013—2014): University Regulation of Student Conduct and Other Important Issues

1. Academic Integrity

All students are required to be familiar with and conduct themselves in accordance with the following codes defined in the 2007-2009 Undergraduate Catalog (University Regulation of Student Conduct (2013-2014 UNC-Charlotte Graduate Catalogue) and to conduct themselves in accordance with those standards:

A. The UNC-Charlotte code of Student Responsibility (Policy Statement 104, which can be found at www.legal.uncc.edu/policies/#student); and

B. The UNC-Charlotte code of Student Academic Integrity (Policy Statement 105, which can be found at www.legal.uncc.edu/policies/#student).

2. Diversity

The Belk College of Business strives to create an inclusive academic climate in which the dignity of all individuals is respected and maintained. Therefore, we celebrate diversity that includes, but is not limited to, ability/disability, age, culture, ethnicity, gender, language, race, religion, sexual orientation, and socio-economic status.

3. Adverse Weather

If the University is closed, there will be no class. If the Charlotte-Mecklenburg School system is closed, there will be no class. If you commute in from outside the county and there is adverse weather there (but not in Mecklenburg County), make your own decision to attend or not, but remember I do not want you to endanger your life just to get to class. If adverse weather closes the University or shuts down CMS on a scheduled examination date, I will reschedule the examination for the next class meeting.

4. Attendance
I do not take attendance. You are adults and can evaluate the costs and benefits of attendance vs. non-attendance. I strongly believe that attendance has a large benefit for students who attend class regularly. My experience has indicated that the more successful students attend class regularly. The material presented in class and the input of other students cannot but further your understanding of the material covered in this class.

VII. Helpful Notes

1. This course is an applications-oriented course. Lectures are based on the material in the text, and other material if assigned, and will be related to current events as much as possible where appropriate. Throughout the semester we will relate the textbook material to real financial problems in banking in an effort to understand and evaluate current events occurring with financial markets and the financial services industry. As we all know, financial markets, and banking in particular, have been experiencing a deep and prolonged period of disruption. One need only look at the deeply disruptive impact that financial panics can bring about to see the importance of financial markets and banking to our own economy and that of the world.

2. As noted above, given the limited number of hours allocated for class meetings, class time is not sufficient to cover all of the material in the assigned readings. However, students should prioritize their reading according to level of importance as indicated in the outline above. Class time will be devoted to discussions of the more difficult conceptual material contained in the readings, and its applications. The more descriptive material contained in the course readings can be assimilated easily by students outside the classroom; therefore, this material may be discussed in class in a cursory fashion.

VIII. Examinations and Grading

1. Examinations

   a) Examinations will cover the assigned reading materials, lectures, and topics discussed in class. Exam questions will take a variety of forms including, but not limited to, essay questions, short answer questions, objective questions and problem solving opportunities.

   b) Two examinations will be given in this course: a midterm exam, tentatively scheduled for March 17, 2014, and a comprehensive final exam at the regularly scheduled exam date.

   c) A group project will be required where each student will be a member of a group and will be expected to do his/her share of the work. My suggested topic is an analysis of the
2007-2009 worldwide financial crises. The parameters that apply to this assignment will be discussed in class.

2. Grading

Final course grades will be determined according to the following weighting scheme.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Possible Points</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midterm Examination</td>
<td>100</td>
<td>30%</td>
</tr>
<tr>
<td>Final Examination</td>
<td>100</td>
<td>50%</td>
</tr>
<tr>
<td>Term paper</td>
<td>100</td>
<td>20%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>300</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Final grades will be assigned on the basis of the following point ranges. While the point ranges may be subject to downward revision, they will not be increased.

<table>
<thead>
<tr>
<th>Weighted Total Points</th>
<th>Course Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>90-100</td>
<td>A</td>
</tr>
<tr>
<td>80-89</td>
<td>B</td>
</tr>
<tr>
<td>70-79</td>
<td>C</td>
</tr>
<tr>
<td>Below 70</td>
<td>U</td>
</tr>
</tbody>
</table>