



BUSFIN 4265 –FINANCIAL INSTITUTIONS

Professor Isil Erel

Spring 2022

Meeting Times and Classrooms:

Section 1 (4269): TuTh 9:35AM - 10:55AM, Schoenbaum Hall 230

Section 2 (4340): TuTh 11:10AM - 12:30PM, Schoenbaum Hall 230

Professor:

Isil Erel (erel@fisher.osu.edu)

Professor of Finance, David A. Rismiller Chair in Finance,
Academic Director of the Risk Institute

<https://fisher.osu.edu/people/erel-koksal.1>

842 Fisher Hall (office)

Office Hours: by appointment

Course Webpage: on CarmenCanvas (*Note: you might be seeing a different section number than your registered one as both sections are combined on Carmen*).

Course Description

This course will introduce students to financial institutions and their important economic functions. We will examine the structure and operation of financial institutions in the U.S., with particular attention paid to the various risks and complex challenges facing these institutions. While there are no easy solutions to the challenges and problems faced by financial institutions, we will cover these issues in depth, with the objective of developing a solid understanding of them.

Required Readings

Course Packet [*referred to as “CP” below*], available at HBS Publishing. Please follow this link <https://hbsp.harvard.edu/import/1373209> and follow the instructions to register and download it. It includes only two cases.

Highly Recommended Readings

Saunders and Cornett [*referred to as “SC” below*], *Financial Institutions Management: A Risk Management Approach*, 11th edition, McGraw-Hill. Please visit the McGraw Hill website below to view a selection of options available for rent or purchase. Note that you can use the copies in reserves in the Thompson library if you do not want to buy/rent the book.

[Financial Institutions Management: A Risk Management Approach, 11th Edition](#)

Supplemental Readings

Articles are available on the course webpage, *referred to as “CW” in the tentative course outline below*. Also, note that these readings are OPTIONAL. Also, students are strongly encouraged to read financial press to reinforce the applicability of the topics that we cover in class.

Pedagogy

The course will be structured as a combination of lectures, discussions, and cases. **All classes will be in person. However, two exams will be online, and you can take them from home as well (anywhere you can use the proctoring software Honorlock). Please note these dates on your calendar and do not show up in the classroom!**

I will post my PowerPoint slides on the course website on Canvas before each class to help you follow the lectures and take notes. Please remember that posted slides are not complete. For completeness, you should attend the lectures. Please also note that we will have a few guest lecturers throughout the semester. Please see the *tentative course outline* below for their names and affiliations.

Should in-person classes be canceled, I will notify you as to which alternative methods of teaching will be offered to ensure continuity of instruction for this class. Communication will be via email.

Grading

The final course grade will be allocated as follows:

Individual Class Participation	10%
Two Individual Assignments	10% (5% each)
One Case Write-up (due last class)	10%
Exam 1	30%
Exam 2	40%

Please, note that I will assign the final course grade based on the final class curve, including both sections. The course grade average can vary across years (varied between 3.3 and 3.6 in the past few years)!

Class Participation: Unless excused due to medical or other valid reasons, students are expected to attend each class in a timely fashion and take part in discussions. Class participation will be graded based on my assessment of both the quantity and quality of an individual's contribution to in-class discussions. **Participation grades will not be shared. I will use them only to increase the final course grade when appropriate.**

Please choose a seat for the entire term, no later than the second-class session. This makes it easier for you to interact during class discussions and easier for me to facilitate grading for class participation.

Case Write-ups: Three cases ("Deutsche Bank and the Road to Basel III," "Upstart's Upshot: Is Fintech Lending Fair?" and "Chase Manhattan Corporation: The Making of America's Largest Bank") are available in the course packet and only one of them --the Chase-merger case-- will be assigned for formal case write-up (executive summary). Detailed instructions on the case write-up will be available on the course website on Carmen. **Students are required to form study groups to work on this merger case that is assigned for write-up (due last week of the course).** A study group may consist of 2-5 students. **You can have team members from the other section of the class. You must create your team/group on Carmen before the SPRING BREAK:** Please sign up for a group on Carmen (under "People-Groups" tab). Select one group of the ones created and notify your group members of the chosen group number for them to sign up. At the end of the quarter, you will have the (OPTIONAL!) opportunity to evaluate your team members. An evaluation sheet with a detailed explanation is posted on Canvas.

Individual Assignments: There will be two individual assignments. They will be posted on the course website on Canvas. **It is very important that you complete the assignment individually**, as they will help you prepare for the exams. I will also post sample problems from the textbook with solutions on Canvas.

Exams: There will be two exams. Dates are provided in the tentative course outline. All exams will be comprehensive in scope, including material from every part of the course. All exams will be closed book! You can use nonprogrammable functions of a calculator. You will be provided one page of formulas (so there is no need to memorize any formula!!!).

Exams will be online (but proctored with **Honorlock**). You may request an in-person proctoring alternative to online proctoring tools by contacting the instructor or the TA as soon as possible to coordinate the accommodation. You will not be permitted to take remotely proctored exams in your home or residence hall unless you are willing to conduct a room scan. By choosing to take the exam in your home or residence hall, you are consenting to the room scan of the area in which they take the exam.

Use of Artificial Intelligence (AI)

Unless we specifically mention otherwise (and in writing), the use of any AI-generated content in any deliverables in this course will be considered [Academic Misconduct](#) and will be acted on as such. Writing assignments will be turned in online and I will be using Turnitin and other applications that have AI detection algorithms. You need to complete the assignments using your own brain and your own thinking...which will lead to more of your own learning!

Absences and Late Assignments

Absence from the exam or assignments will not be excused, except for the most serious circumstances. Such circumstances must be validated in writing by an appropriately accredited professional (e.g., a medical doctor). *Any unexcused absence from an exam will result in a grade of zero.* Late assignments will not be accepted for credit, except for the most serious reasons as described above. As a matter of professional courtesy, please notify me *in advance* if you are unable to attend a particular class.

Regrading Policy

Grading errors will be corrected. All regrade appeals must be submitted within *one week after the graded test or assignment is returned.*

Academic Integrity

All students enrolled in this course are responsible for abiding by the guidelines set by the **Ohio State's Academic Integrity Policy:** Academic integrity is essential to maintaining an environment that fosters excellence in teaching, research, and other educational and scholarly activities. Thus, The Ohio State University and the Committee on Academic Misconduct (COAM) expect that all students have read and understand the university's [Code of Student Conduct](#) (studentconduct.osu.edu), and that all students will complete all academic and scholarly assignments with fairness and honesty. Students must recognize that failure to follow the rules and guidelines established in the university's *Code of Student Conduct* and this syllabus may constitute "Academic Misconduct."

The Ohio State University's *Code of Student Conduct* (Section 3335-23-04) defines academic misconduct as: "Any activity that tends to compromise the academic integrity of the university or subvert the educational process." Examples of academic misconduct include (but are not limited to) plagiarism, collusion (unauthorized collaboration), copying the work of another student, and possession of unauthorized materials during an examination. Ignorance of the university's *Code of Student Conduct* is never considered an excuse for academic misconduct, so I recommend that you review the *Code of Student Conduct* and, specifically, the sections dealing with academic misconduct.

If I suspect that a student has committed academic misconduct in this course, I am obligated by university rules to report my suspicions to the Committee on Academic Misconduct. If COAM determines that you have violated the university's Code of Student Conduct (i.e., committed academic misconduct), the sanctions for the misconduct could include a failing grade in this course and suspension or dismissal from the university. If you have any questions about the above policy or what constitutes

academic misconduct in this course, please contact me. Other sources of information on academic misconduct (integrity) to which you can refer include:

[Committee on Academic Misconduct](http://go.osu.edu/coam) (go.osu.edu/coam)

[Ten Suggestions for Preserving Academic Integrity](http://go.osu.edu/ten-suggestions) (go.osu.edu/ten-suggestions)

[Eight Cardinal Rules of Academic Integrity](http://go.osu.edu/cardinal-rules) (go.osu.edu/cardinal-rules)

Additional University Policies and Resources:

Copyright for Instructional Materials

The materials used in connection with this course may be subject to copyright protection and are only for the use of students officially enrolled in the course for the educational purposes associated with the course. Copyright law must be considered before copying, retaining, or disseminating materials outside of the course.

Creating an Environment Free from Harassment, Discrimination, and Sexual Misconduct

The Ohio State University is committed to building and maintaining a community to reflect diversity and to improve opportunities for all. All Buckeyes have the right to be free from harassment, discrimination, and sexual misconduct. Ohio State does not discriminate on the basis of age, ancestry, color, disability, ethnicity, gender, gender identity or expression, genetic information, HIV/AIDS status, military status, national origin, pregnancy (childbirth, false pregnancy, termination of pregnancy, or recovery therefrom), race, religion, sex, sexual orientation, or protected veteran status, or any other bases under the law, in its activities, academic programs, admission, and employment. Members of the university community also have the right to be free from all forms of sexual misconduct: sexual harassment, sexual assault, relationship violence, stalking, and sexual exploitation.

To report harassment, discrimination, sexual misconduct, or retaliation and/or seek confidential and non-confidential resources and supportive measures, contact the Office of Institutional Equity:

Online reporting form at <http://civilrights.osu.edu/>,

Call 614-247-5838 or TTY 614-688-8605,

Or email equity@osu.edu

The university is committed to stopping sexual misconduct, preventing its recurrence, eliminating any hostile environment, and remedying its discriminatory effects. All university employees have reporting responsibilities to the Office of Institutional Equity to ensure the university can take appropriate action.

Your Mental Health

As a student you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance or reduce a student's ability to participate in daily activities. No matter where you are engaged in distance learning, The Ohio State University's Student Life Counseling and Consultation Service (CCS) is here to support you. If you find yourself feeling isolated, anxious or overwhelmed, [on-demand mental health resources](http://go.osu.edu/ccsondemand) (go.osu.edu/ccsondemand) are available. You can reach an on-call counselor when CCS is closed at [614- 292-5766](tel:614-292-5766). **24-hour emergency help** is available through the [National Suicide Prevention Lifeline website](http://suicidepreventionlifeline.org) (suicidepreventionlifeline.org) or by calling [1-800-273-8255\(TALK\)](tel:1-800-273-8255). [The Ohio State Wellness app](http://go.osu.edu/wellnessapp) (go.osu.edu/wellnessapp) is also a great resource.

Religious Accommodations

Ohio State has had a longstanding practice of making reasonable academic accommodations for students' religious beliefs and practices in accordance with applicable law. In 2023, Ohio State updated its practice to align with new state legislation. Under this new provision, students must be in early communication with their instructors regarding any known accommodation requests for religious beliefs and practices, providing notice of specific dates for which they request alternative accommodations within 14 days after the first

instructional day of the course. Instructors in turn shall not question the sincerity of a student's religious or spiritual belief system in reviewing such requests and shall keep requests for accommodations confidential.

With sufficient notice, instructors will provide students with reasonable alternative accommodations with regard to examinations and other academic requirements with respect to students' sincerely held religious beliefs and practices by allowing up to three absences each semester for the student to attend or participate in religious activities. Examples of religious accommodations can include, but are not limited to, rescheduling an exam, altering the time of a student's presentation, allowing make-up assignments to substitute for missed class work, or flexibility in due dates or research responsibilities. If concerns arise about a requested accommodation, instructors are to consult their tenure initiating unit head for assistance.

A student's request for time off shall be provided if the student's sincerely held religious belief or practice severely affects the student's ability to take an exam or meet an academic requirement and the student has notified their instructor, in writing during the first 14 days after the course begins, of the date of each absence. Although students are required to provide notice within the first 14 days after a course begins, instructors are strongly encouraged to work with the student to provide a reasonable accommodation if a request is made outside the notice period. A student may not be penalized for an absence approved under this policy. If students have questions or disputes related to academic accommodations, they should contact their course instructor, and then their department or college office. For questions or to report discrimination or harassment based on religion, individuals should contact the [**Civil Rights Compliance Office**](#).

CarmenCanvas Access

You will need to use [**BuckeyePass**](#) (buckeyepass.osu.edu) multi-factor authentication to access your courses in Carmen. To ensure that you are able to connect to Carmen at all times, it is recommended that you do each of the following:

Register multiple devices in case something happens to your primary device. Visit the [**BuckeyePass - Adding a Device**](#) (go.osu.edu/add-device) help article for step-by-step instructions.

Request passcodes to keep as a backup authentication option. When you see the Duo login screen on your computer, click **Enter a Passcode** and then click the **Text me new codes** button that appears. This will text you ten passcodes good for 365 days that can each be used once.

[**Install the Duo Mobile application**](#) (go.osu.edu/install-duo) on all of your registered devices for the ability to generate one-time codes in the event that you lose cell, data, or Wi-Fi service.

If none of these options will meet the needs of your situation, you can contact the IT Service Desk at [**614-688-4357 \(HELP\)**](#) and IT support staff will work out a solution with you.

Technology Skills Needed for This Course:

Basic computer and web-browsing skills

[**Navigating CarmenCanvas**](#) (go.osu.edu/canvasstudent)

[**CarmenZoom virtual meetings**](#) (go.osu.edu/zoom-meetings)

[**Recording a slide presentation with audio narration and recording, editing and uploading video**](#) (go.osu.edu/video-assignment-guide)

Technology Support

For help with your password, university email, CarmenCanvas, or any other technology issues, questions or requests, contact the IT Service Desk, which offers 24-hour support, seven days a week.

Self Service and Chat: go.osu.edu/it; **Phone:** [614-688-4357 \(HELP\)](tel:614-688-4357); **Email:** servicedesk@osu.edu

Tentative Course Outline

This outline is tentative and subject to changes. Please refer to the course website on Carmen for updates on readings, sample problems, and case assignments. It is the students' responsibility to check the course website for updates and announcements.

Class 1 Course Overview and Introductions to Financial Institutions

Jan 13

Topics: Course Organization and Requirements; Why do we have Banks?

Classes 2&3 Depository Institutions (Commercial Banks)

Jan 15&20

Topics: Part 1: Introduction to Financial Institutions

Functioning of the Commercial Banks

Part 2: Financial Statements and Analysis

Governance of Commercial Banks

Recommended Readings:

Saunders & Cornett: *Financial Markets and Institutions*: A Risk Management Approach ("S&C") Ch. 1-2

Part 2: S&C Appendix 2A, and Appendix 2B

Supplemental Readings (Optional):

Some examples of recent academic research, on Canvas course website [CW]:

Does FinTech Substitute for Banks? Evidence from the Paycheck Protection Program (Isil Erel and Jack Liebersohn), 2020, NBER Working Paper.

A Theory of Risk Capital (Isil Erel, Stewart Myers, and James Read, Jr.), 2015, Journal of Financial Economics, 118/3, 620-635.

Why did Holdings of Highly-Rated Securitization Tranches Differ So Much Across Banks? 2014, (Isil Erel, Taylor Nadauld, and Rene Stulz), 2014, Review of Financial Studies, 27/2, pages 404-453.

Governance, Risk Management, and Risk-Taking in Banks (Rene Stulz), 2014, Ohio State University Working Paper.

Additional (optional) Readings for Part 2:

A Syndicated Loan Primer [CW]

How do Banks Manage Liquidity Risk? [CW]

Lessons from the Great Credit Crisis, S&P [CW]

Corporate Governance and Banks: What Have We Learned from the Financial Crisis? (Hamid Mehran Alan Morrison Joel Shapiro), 2011, Working Paper. [CW]

Classes 4&5 Bank Regulation (Deposit Insurance & Capital Requirements)

January 22&27

Topics: Creation of FDIC

Moral Hazard due to Deposit Insurance

Savings and Loan Crisis

Capital Requirements (Basel Capital Accords)

Recommended Readings:

S&C Ch. 20 and Ch. 21

Supplemental Readings:

Basel “IV”: What’s next for banks? *McKinsey&Company Global Risk Practice, April 2017 [CW]*

Class 6 A Case on Basel III

January 29

Note: The Case “Deutsche Bank and the Road to Basel III” is a must-read before class (no write-up necessary)!

Required Readings:

Case: Deutsche Bank and the Road to Basel III [CP]

Supplemental Readings:

Deutsche Bank: Still Struggling on Capital, *WSJ [CW]*

Deutsche Bank: What to Know, *WSJ [CW]*

Class 7 Other Lending Institutions

February 3

Topics: Saving Institutions
Credit Unions
Finance Companies

Recommended Readings:

S&C Ch. 2 and Ch.3

Supplemental Readings:

Savings and Loan Crisis (Ely), *The Concise Encyclopedia of Economics [CW]*

Classes 8 Federal Reserve System

February 5

Guest Speaker: Mark Meder, First Vice President and Chief Operating Officer, Federal Reserve Bank of Cleveland

Classes 9 Shadow Banking

February 10

Recommended Readings:

S&C Ch. 18

Why Do Firms Borrow Directly from Nonbanks? (Chernenko, Sergey and Erel, Isil and Prilmeier, Robert), 2020, NBER Paper.

Classes 10 AI & Banking

February 12

Note: The Case “Upstart’s Upshot: Is Fintech Lending Fair” is a must-read before class (no write-up necessary)!

Recommended Readings:

S&C Ch. 18

Classes 11&12 Measuring Interest Rate Risk

February 17&February 19

Topics: The Case of Homeside Lending
Repricing GAP
Duration and Convexity

Recommended Readings:

S&C Ch. 8&9

Supplemental Readings:

NAB Lesson in How to Burn \$3 billion (Hooper), *Radio National*, 2001 [CW]

Class 13 Review Session

Note: First Individual Assignment is due at the beginning of the class!

February 24

Review Interest Rate Risk and Past Midterms

Class 14 Exam 1

February 26– ONLINE (you will pick a 1.5 hr. window between 9am-9pm)

Classes 15&16 Off-Balance-Sheet Banking & Loan Securitization

March 3&5

Topics: Off-Balance-Sheet Assets/Liabilities
Loan Commitments
Securitization of Mortgages
Fannie Mae and Freddie Mac

Recommended Readings:

S&C Ch. 16 and Ch. 26-27 (*skim through*)

Supplemental Readings:

The Economics of Structured Finance (Coval, Jurek, and Stafford), 2009 [CW]

Understanding the Securitization of Subprime Mortgage Credit (Ashcraft and Schuermann), 2008 [CW]

Fussing and Fuming over Fannie and Freddie: How Much Smoke, How Much Fire? (Frame and White), 2005 [CW]

Class 17 Consumer Lending from Practitioners' Perspective

March 10

Guest Speaker: Monique Riccobelli, Huntington Bank.

Class 18 Current State of Banking with Fintech/Private Bank Disruption

March 12

Guest Speaker: Tayfun Tuzun, Former CFO (Fifth Third and Bank of Montreal).

Spring Break: No classes

Classes 19&20 Measuring Credit Risk
March 24&March 26

Topics: Calculating Return on a Loan
CreditMetrics of JP Morgan (VaR)
RAROC Models

Recommended Readings:

S&C Ch. 10 and Chapter 11 (only the VaR calculation)

Supplemental Readings:

Cycles and the Credit Culture (Henry Mueller) *[CW]*

Optional Reading:

If you want to learn about Moody's KMV, which is not covered in this class: Modeling Default Risk (Crosbie and Bohn), *Moody's KMV*, 2003 *[CW]*

Class 21 Credit Risk from a Practitioner's Perspective

March 31

Guest Speaker: Jeff Weaver, EVP & Director Qualitative Risk Assessment, KeyBank

Supplemental Readings:

Stress Test Results *[CW]*

Classes 22 Investment Banks

April 2

Topics: Securities Underwriting
Book building
Underpricing of IPOs

Recommended Readings:

S&C Ch. 4

(Skim Through) Role of the Investment Bank (Connelly, Fox, and Klausner), UBS, 2005 *[CW]*

(Skim Through) Initial Public Offerings: Going by the Book (Benveniste and Wilhelm), *Journal of Applied Corporate Finance*, 1997 *[CW]*

Optional Readings:

IPO Statistics (Ritter) *[CW]*

Secondary Market Stabilization of IPOs (Wilhelm), *Journal of Applied Corporate Finance*, 1999 *[CW]*

Class 23 Insurance Companies

April 7

Topics: Risk and Insurance
Pension Funds

Recommended Readings:

S&C Ch. 6

Supplemental Readings:

A Lively Market in 'Death Bonds' (Pleven and McDonald), *WSJ*, 2007 *[CW]*

Classes 24 Funds (Mutual Funds & Hedge Funds)
April 9

Topics: Funds and Investor Protection

Recommended Readings:
S&C Ch. 5

Optional Readings:
Investment Company Fact Book, *Investment Company Institute* [CW]
IPO Statistics (Ritter) [CW]

Class 25 Review Session

Note: Second Individual Assignment is due at the beginning of the class!

April 14

Review of the past exams

Class 26 Exam 2

April 16 - ONLINE (you will pick a 1.5 hr. window between 9:00am-9:00pm)

Class 27 Case Discussion (M&As in Banking): Chase Manhattan Corporation

April 21

Note: Case write-up is due at the beginning of the FIRST class at 9:35am!

Topics: Bank Mergers
 Value Creation in Corporate Restructurings

Required Reading:

Case: Chase Manhattan Corporation: The Making of America's Largest Bank [CP]

Class 28 Trends and Challenges in the Pension Funds Industry

April 23

Guest Lecturer: Donald Schley, Chief Actuary, STRS Ohio