



**BUSFIN 4265 –FINANCIAL INSTITUTIONS**  
**Professor Isil Erel**  
**Spring 2024**

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**Meeting Times and Classrooms:**

*Section 1 (4915):* TuTh 12:45PM - 2:05PM, Schoenbaum Hall 220

*Section 2 (5184):* TuTh 2:45PM - 4:05PM, Gerlach Hall 305

**Professor:**

Isil Erel ([erel@fisher.osu.edu](mailto: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>

832 Fisher Hall (office)

**Office Hours:** Mondays 2:00PM-3:00PM (or 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**

1. Course Packet [*referred to as “CP” below*], available at HBS Publishing. Please follow this link <https://hbsp.harvard.edu/import/1129046> and follow the instructions to register and download it.

2. Saunders and Cornett [*referred to as “SC” below*], *Financial Institutions Management: A Risk Management Approach*, 11<sup>th</sup> edition, McGraw-Hill. Please visit the McGraw Hill website below to view a selection of options available for rent or purchase:

[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, except for one lecture (on January 16<sup>th</sup>), which will be prerecorded and posted on the course website. Moreover, two exams will be online, and you can take them from home as well (anywhere you can use the Proctorio will be OK). 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 (it varied between 3.3 and 3.6 in the last 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 ("GE and the Shadow Banking Landscape," "Deutsche Bank and the Road to Basel III," and "Chase Manhattan Corporation: The Making of America's Largest Bank") are available in the course packet and the last one will be assigned for formal case write-up (executive summary). Detailed instructions on the case write-up will be available on the course website at Canvas.

***Students are required to form study groups to work on the cases that are assigned in the course.*** A study group may consist of ***up to 5 students***. You must email me a list of your group members before the first exam, and the groups may not be changed without my permission. You will have the (OPTIONAL!) opportunity to evaluate your team members at the end of the quarter. 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. You may request an in-person proctoring alternative to Proctorio or other 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.

### **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.*

### **Additional University Policies and Resources**

You can find a list of university policies and resources at [go.osu.edu/UPolicies](http://go.osu.edu/UPolicies), but here are a few important ones.

#### **Academic Misconduct**

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](#), 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. You can also review these resources:

[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)

## **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. 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](https://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](https://suicidepreventionlifeline.org) (suicidepreventionlifeline.org) or by calling [1-800-273-8255\(TALK\)](tel:1-800-273-8255). [The Ohio State Wellness app](https://go.osu.edu/wellnessapp) (go.osu.edu/wellnessapp) is also a great resource.

## **Disability Statement (with Accommodations for COVID)**

The university strives to maintain a healthy and accessible environment to support student learning in and out of the classroom. If you anticipate or experience academic barriers based on your disability (including mental health, chronic, or temporary medical conditions), please let me know immediately so that we can privately discuss options. To establish reasonable accommodations, I request that you register with Student Life Disability Services. After registration, make arrangements with me as soon as possible to discuss your accommodations so that they may be implemented in a timely fashion. You can connect with them at [slds@osu.edu](mailto:slds@osu.edu); 614-292-3307; or [slds.osu.edu](https://slds.osu.edu). or in person at 98 Baker Hall, 113 W. 12<sup>th</sup> Ave.

If you are isolating while waiting for a COVID-19 test result, please let me know immediately. Those testing positive for COVID-19 should refer to the Safe and Healthy Buckeyes site for resources. Beyond five days of the required COVID-19 isolation period, I may rely on Student Life Disability Services to establish further reasonable accommodations.

## **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 [equity.osu.edu](https://equity.osu.edu), Call 614-247-5838 or TTY 614-688-8605,

Or email [equity@osu.edu](mailto: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:

All university employees, except those exempted by legal privilege of confidentiality or expressly identified as a confidential reporter, have an obligation to report incidents of sexual assault immediately.

The following employees have an obligation to report all other forms of sexual misconduct as soon as practicable but at most within five workdays of becoming aware of such information: 1. Any human resource professional (HRP); 2. Anyone who supervises faculty, staff, students, or volunteers; 3. Chair/director; and 4. Faculty member.

## 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

**Jan 9**

**Topics:**            Course Organization and Requirements

Classes 2&3    Introductions to Financial Institutions, Depository Institutions (Commercial Banks)

**Jan 11 & 16**

**Note: We will have an in-person class on January 11, but the class on January 16 will be pre-recorded and posted on Zoom (so, no in-person class on January 16!)**

**Topics:**            Introduction to Financial Institutions  
                          Functioning of the Commercial Banks

**Required Readings:**

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

**Supplemental Readings:**

**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.

Class 4            Commercial Banks (Cont.)

**January 18**

**Topics:**            Financial Statements and Analysis  
                          Governance of Commercial Banks

**Required Readings:**

S&C Appendix 2A, and Appendix 2B

**Supplemental Readings:**

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.

Classes 5&6 Bank Regulation (Deposit Insurance & Capital Requirements)  
**January 23 & January 25**

**Topics:** Creation of FDIC  
Moral Hazard due to Deposit Insurance  
Savings and Loan Crisis  
Capital Requirements (Basel Capital Accords)

**Required 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 7 A Case on Basel III

**January 30**

**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 8 Other Lending Institutions

**February 1**

**Topics:** Saving Institutions  
Credit Unions  
Finance Companies

**Required Readings:**

S&C Ch. 2 and Ch.3

**Supplemental Readings:**

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

Class 9 Shadow Banking

**February 6**

**Note: The Case “GE and the Shadow Banking Landscape Case” is a must-read before class (no write-up necessary)!**

**Required Readings:**

Case: GE and the Shadow Banking Landscape [CP]

S&C Ch. 18

**Supplemental Readings:**

Why Do Firms Borrow Directly from Nonbanks? (Chernenko, Sergey and Erel, Isil and Prilmeier, Robert), 2020, Fisher College of Business Working Paper

Thinking Critically about Nonbank Financial Intermediation, The Brookings Institution, 2015 [CW]

Class 10 Consumer Lending from Practitioners' Perspective

**February 8**

**Guest Speaker: Monique Riccobelli and Steve Walsh, Senior Vice President, Huntington Bank.**

**Supplemental Readings:**

Dodd-Frank Act Stress Test [CW]

Classes 11&12 Off-Balance-Sheet Banking & Loan Securitization

**February 13 & February 15**

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

**Required 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]

Classes 13 Federal Reserve System

**February 20**

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

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

Class 14 Review Session

**February 22**

Review Past Midterms

**Class 15 Exam 1**

**February 27 – ONLINE (you will pick a 1.5 hr. window between 9am-9pm)**

Classes 16&17 Measuring Interest Rate Risk

**February 29 & March 5**

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

**Required Readings:**

S&C Ch. 8&9

**Supplemental Readings:**

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

Classes 18 Mutual Funds, Hedge Funds, Private Equity

**March 7**

**Required Readings:**

S&C Ch. 5

**Supplemental Readings:**

Investment Company Fact Book, *Investment Company Institute [CW]*

**SPRING BREAK WEEK – no classes!**

Class 19 Pension Funds

**March 19**

**Guest Lecturer: Brian Grinnell, Chief Actuary, STRS Ohio**

Classes 20&21 Measuring Credit Risk

**March 21&26**

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

**Required 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 22 Credit Risk from a Practitioner's Perspective

**March 28**

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

Class 23 Investment Banks

**April 2**

**Topics:** Investment Banks and Securities Firms  
Securities Underwriting  
Book building  
Underpricing of IPOs

**Required 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 24 Insurance Companies

**April 4**

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

**Topics:** Risk and Insurance

**Required Readings:**

S&C Ch. 6

**Supplemental Readings:**

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

Class 25 Review Session

**April 9**

**Review of the past exams**

**Class 26 Exam 2**

**April 11 - ONLINE (you will pick a 1.5 hr. window between 9:00am-9:00pm)**

Class 27 Trends and Challenges in the Insurance Industry

**April 16**

**Guest Speaker: Klaus Diem, Senior Vice President, Chief Risk Officer, Nationwide**

Class 28 Case Discussion: Chase Manhattan Corporation

**April 18**

**Note: Case write-up is due at the beginning of the class!**

**Topics:** Bank Mergers  
Value Creation in Corporate Restructurings

**Required Reading:**

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