

**BUSFIN 4265 –FINANCIAL INSTITUTIONS**  
**Professor Thomas Flanagan**  
**Fall 2023**

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**Meeting Times:** *Section 1* (4975): TuTh 3:55PM – 5:15PM, SB 305; *Section 3* (5062): TuTh 2:20PM - 3:40PM, SB 230

**Professor:**

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Assistant Professor of Finance,  
<https://fisher.osu.edu/people/flanagan.224>  
814 Fisher Hall (office)

**Office Hours on Zoom:** Tuesdays 9:30AM-11:00AM. Click [here](#) to schedule an office hours meeting (this link may not work well on mobile devices).

**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. The course 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/1072974> and follow the instructions to register, purchase, 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:  
**11<sup>th</sup> edition:** [Financial Institutions Management: A Risk Management Approach, 11th Edition](#)  
**10<sup>th</sup> edition:** [Financial Institutions Management: A Risk Management Approach, 10th 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.

### Help Sessions

In addition to weekly office hours, I will offer two help sessions on zoom to go over solutions to the individual assignments and answer student questions about the solutions. Date & time to be determined.

### Pedagogy

The course will be structured as a combination of lectures, discussions, and cases. **All classes will be in person.**

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.***

***Class Participation:*** 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.***

***Case Write-ups:*** Four cases ("GE and the Shadow Banking Landscape," "Deutsche Bank and the Road to Basel III," "Crypto Winter Buries Celsius Network and Batters Defi", 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.

***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.

*Exams will take place in class via Carmen/Proctorio, and you will have access to certain applications such as Excel.*

### **Absences and Late Assignments**

*Absence from the exams 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.

What you don't need to do:

Ask for permission to miss lectures. On occasion, you will miss a class because you have a commitment or individual circumstances you cannot move. Use your judgment about what is a valid reason for missing class. Although a few instances are fine, excessive class absences may reflect in your in-class participation grade.

### **Regrading Policy**

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

### **Safety and health requirements:**

All teaching staff and students are required to comply with and stay up to date on all [University safety and health guidance](#).

### **Academic Integrity Policy**

All students are expected to abide 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 understood the university's [Code of Student Conduct](#) ([studentconduct.osu.edu](http://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: <https://trustees.osu.edu/code-student-conduct/3335-23-04>. **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: <https://oaa.osu.edu/academic-integrity-and-misconduct>.

### **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 [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)

### **Religious Accommodations:**

Our inclusive environment allows for religious expression. Students requesting accommodations based on faith, religious or a spiritual belief system in regard to examinations, other academic requirements or absences, are required to provide the instructor with written notice of specific dates for which the student requests alternative accommodations at the earliest possible date. For more information about religious accommodations at Ohio State, visit [odi.osu.edu/religious-accommodations](https://odi.osu.edu/religious-accommodations).

### **Disability Services:**

The university strives to make all learning experiences as accessible as possible. 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, you should register with Student Life Disability Services (<https://slds.osu.edu>). After registration, please contact me as soon as possible to discuss your accommodations so that they may be implemented in a timely fashion.

### **Accessibility of Course Technology**

This online course requires use of CarmenCanvas (Ohio State's learning management system) and other online communication and multimedia tools. If you need additional services to use these technologies, please request accommodations as early as possible (<https://it.osu.edu/help>)

## **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. This document is NOT updated after the beginning of the course, so please use the Canvas website to keep track of the (updated) course schedule.

### Class 1            Course Overview

**Aug 22**

**Topics:**            Course Organization and Requirements

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

**Aug 24 & 29**

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

**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]:**

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

### Class 4            Commercial Banks (Cont.)

**Aug 31**

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

**Required Readings:**

S&C Appendix 2A, and Appendix 2B

**Supplemental Readings:**

How do Banks Manage Liquidity Risk? [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)

**Sept 5 & Sept 7**

**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:**

“Regulators announce ‘Basel III endgame’ rules for large US banks”, Financial Times

Class 7                    A Case on Basel III

**Sept 12**

**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

**Sept 14**

**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]

Classes 9                    Guest Speaker TBD (Federal Reserve System/Bank Regulation)

**Sept 19**

**Note:** *First Individual Assignment is due!*

**Guest Speaker:** TBD

Class 10&11            Shadow Banking

**Sept 21 & Sept 26**

**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 12                    Review Session

**Sept 28**

Review Past Midterms

**Class 13      Exam 1**  
**Oct 3 – IN PERSON**

**Classes 14&15 Off-Balance-Sheet Banking & Loan Securitization**  
**Oct 5 & Oct 10**

**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]

**Classes 16&17 Measuring Interest Rate Risk**  
**Oct 17 & Oct 19**

**Topics:**            Interest Rate Risk  
                      Repricing GAP  
                      Duration and Convexity

**Required Readings:**

S&C Ch. 8&9

**Supplemental Readings:**

Re: Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank [CW]

Monetary Tightening and U.S. Bank Fragility in 2023: Mark-to-Market Losses and Uninsured Depositor Runs?

**Class 18      Investment Banks**  
**Oct 24**

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

**Required Readings:**

S&C Ch. 4

**Supplement Readings:**

Role of the Investment Bank (Connelly, Fox, and Klausner), UBS, 2005 [CW] ) Initial Public Offerings:

Going by the Book (Benveniste and Wilhelm), *Journal of Applied Corporate Finance*, 1997 [CW]

IPO Statistics (Ritter) [CW]

Classes 19&20 Measuring Credit Risk  
***Oct 26 & Oct 31***

**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:**  
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 Guest Speaker – Asset Recovery  
***Nov 2***

**Guest Lecturer: Rob Mace**, Huntington National Bank, Executive Managing Director and Group Head, Financial Recovery Group

Class 22 Mutual Funds, Pension Funds  
***Nov 7***

**Required Readings:**

S&C Ch. 5

**Supplemental Readings:**  
Investment Company Fact Book, *Investment Company Institute* [CW]

Class 23 Stablecoins & Decentralized Intermediation  
***Nov 9***

**Read “Crypto Winter Buries Celsius Network and Batters Defi” before class (no write-up necessary)**

**Supplemental Readings:**  
Leverage and Stablecoin Pegs (Gorton, Klee, Ross, Ross, Vardoulakis)

Class 24 Insurance Companies  
***Nov 14***

***Note: Second Individual Assignment is due!***

**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  
***Nov 16***

**Review of the past exams**



**Class 26      Exam 2**  
**Nov 21 – IN PERSON**

Class 28      Hold For Adjusting Schedule As Needed  
***Nov 30***

Class 29      Case Discussion: Chase Manhattan Corporation (Last class)  
***Dec 5***

***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]