BFIN 450.01: Banking

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University of Montana

BFIN 450: BANKING – SPRING 2024

Instructor: Dr. Robert Sonora
Room: GBB – Room L11, TR 0800 – 0920
Office: Gallagher Business 327
Office hours: Tuesday 0930-1100 and by appointment
Zoom: Zoom room is here . . .

Office Hours
I will hold office hours immediately after class. If that doesn’t work, we can do so by appointment, use email or talk after class to arrange, either in person, COVID permitting, or via Zoom.

College of Business Mission Statement and Assurance of Learning
The College of Business creates transformative, integrated, and student-centric learning experiences, propelling our students to make immediate and sustained impact on business and society. We nurture our students’ innate work ethic to develop confident problem solvers and ethical decision makers. We pursue thought leadership and collectively create opportunities for a better life for our students, faculty, and staff.

COB Core Values:
- Students first: We educate the whole person
- Experiential learning: We create experiences that matter
- Thought leadership: WE create rigorous and relevant knowledge
- Stewardship: We value people, planet, and profit

Learning Goals: As part of our assessment process and assurance-of-learning standards, the COB has adopted the following learning goals for our undergraduate students, COB graduates will:

Learning Goal 1: possess fundamental business knowledge in the core disciplines of Accounting, Finance, Management Information Systems, Management and Marketing.

Learning Goal 2: be able to integrate business knowledge.

Learning Goal 3: be effective communicators.

Learning Goal 4: possess problem-solving skills.

Course description
Banks have been at the heart of economic activity for over eight centuries, and they are still preeminent, even though other financial intermediaries are growing in importance. What constitutes “banking” has changed tremendously over the years and will continue to change into the future. Bank management has always been synonymous with risk management; however, the nature of risk has changed tremendously with the changing regulatory environment. From the 1980’s to 2005, the banking industry changed dramatically through deregulation. After the financial crisis of 2008 and beyond, the discussion turned back to the regulation of banks. These discussions ensure that the banking industry and the job of the bank manager will continue to evolve and change in the foreseeable future.
The Purpose of this course is to acquaint the student with the role of commercial banks in the capital market and to introduce and apply financial management concepts to the fundamental financial decisions that bank managers make. Attention will be focused on the ever-changing banking environment and regulations, the nature of risks faced by banks, asset/liability management, the investment decision (asset management), as well as the credit (credit management) and financing (liability management) decisions of commercial banks.

**Learning Outcomes**

After this course, students will . . .

1. understand the relationship between macroeconomic policy and the banking industry.
2. be able to recognize the threats and opportunities in the banking industry and understand the role of regulation in shaping the banking industry.
3. be able to evaluate bank financial statements, recognize strengths and weaknesses, and identify risks.
4. understand how changing interest rates impact bank profitability and stock price and will be able to identify procedures for reducing interest rate risk.
5. be able to apply financial management concepts to the fundamental financial decisions that bank managers make.
6. understand the process used by banks in making credit decisions and be able to evaluate and recommend action on a simple loan request.

Lectures will focus on deriving and discussing models as well as looking at data rather than definitions and narratives. Lecture notes will include topic not covered in class.

**Required textbooks**


**Other sources**

This class will frequently use the “ocular estimator” using data from the St. Louis Fed’s excellent FRED data webpage. We will also be looking at other types of financial information and data available from various sources, such as the FDIC, Yahoo! Finance and the CME Group. Students also will be expected to follow relevant political, economic, and financial market developments on a regular basis. For example, what are the impacts of FED policy on lending markets.

While this course will largely draw from the textbook above, some of you may find it useful to refresh yourself on the fundamentals of macroeconomics. This text can enhance your quality of understanding of the information presented throughout the course: *Principles of Macroeconomics*, free from OPENSTAX Access – In particular, Chapters 14 and 15.

**Grading**

**Exams**

Exam 3 will be cumulative, as you will be asked to use the tools/analysis from the course up to that point.
Reading check

Each week you will have a reading “SmartBook” mini-quiz. Make sure you complete them before class Thursday morning as when I lecture, I will assume you have already read the chapter and have gist of the topics discussed. I will accept late SmartBook exercises, but at a penalty of 5% per day. If you do them on time you get one point, one day late 0.95 points, etc. 0 points if you don’t do any given exercise.

Quizzes

Quizzes are unannounced and will be given during the class period and are closed book. Barring sickness or advance notice, there will be no make ups available.

In class presentation

Class presentations will be done the last 2 weeks of classes. Each presentation should be roughly 10 minutes and done by pairs of students. Details will be forthcoming the week before Spring break.

Grade distribution

<table>
<thead>
<tr>
<th>What graded</th>
<th>Grade weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quizzes (5)</td>
<td>20%</td>
</tr>
<tr>
<td>SmartBook reading exercises</td>
<td>10%</td>
</tr>
<tr>
<td>Class presentation</td>
<td>10%</td>
</tr>
<tr>
<td>Exam 1</td>
<td>20%</td>
</tr>
<tr>
<td>Exam 2</td>
<td>20%</td>
</tr>
<tr>
<td>Exam 3</td>
<td>20%</td>
</tr>
</tbody>
</table>

I grade on a slightly different distribution than the standard 90/80/70/…A/B/C/… scale. Historically, generally speaking the grade distribution has been:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A/A–</td>
<td>≥ 85</td>
</tr>
<tr>
<td>B+/B/B–</td>
<td>84 – 75</td>
</tr>
<tr>
<td>C+/C/C–</td>
<td>74 – 65</td>
</tr>
<tr>
<td>etc</td>
<td></td>
</tr>
</tbody>
</table>

This is generally how grades shake out, give or take a few points. As such, this distribution is not fixed and depends on how students perform over the semester.

Extra credit

There is enough credit available simply by doing the required classwork, none will be on offer.

Class Outline

Dates in Table 1 are not fixed in stone and are subject to change, which is likely, though I will try to keep as close to this schedule as possible.

Formula for Success

- Read the Materials ahead of class
- Come to every class, everything is testable materiel
<table>
<thead>
<tr>
<th>Week of</th>
<th>Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 15</td>
<td>Ch. 1 Introduction and Appendix 1A</td>
</tr>
<tr>
<td></td>
<td>Ch. 2: Determinants of Interest Rates</td>
</tr>
<tr>
<td>Jan 22</td>
<td>Ch. 3: Interest Rates and Security Valuation</td>
</tr>
<tr>
<td>Jan 29</td>
<td>Ch. 4 The FED, Monetary Policy, and Interest Rates</td>
</tr>
<tr>
<td>Feb 5</td>
<td>Ch. 5: Money Markets</td>
</tr>
<tr>
<td>Feb 12</td>
<td>Exam 1</td>
</tr>
<tr>
<td>Feb 19</td>
<td>Ch. 7: Mortgage Markets</td>
</tr>
<tr>
<td>Feb 26</td>
<td>Ch. 11: Commercial Banks</td>
</tr>
<tr>
<td>Mar 4</td>
<td>Ch. 12: Commercial Banks’ Financial Statements and Analysis</td>
</tr>
<tr>
<td>Mar 11</td>
<td>Ch. 13: Regulation of Commercial Banks</td>
</tr>
<tr>
<td>Mar 18</td>
<td>Spring Break</td>
</tr>
<tr>
<td>Mar 25</td>
<td>Exam 2</td>
</tr>
<tr>
<td>Apr 1</td>
<td>Ch. 20: Introduction to Financial Institution Risk</td>
</tr>
<tr>
<td>Apr 8</td>
<td>Ch. 21: Credit Risk &amp; App 21A</td>
</tr>
<tr>
<td>Apr 15</td>
<td>Ch. 22: Liquidity Risk</td>
</tr>
<tr>
<td>Apr 22</td>
<td>Ch. 23: Interest Rate and Insolvency Risk &amp; Presentations</td>
</tr>
<tr>
<td>Apr 29</td>
<td>Presentations</td>
</tr>
<tr>
<td>May 8</td>
<td>Final Exam week schedule</td>
</tr>
</tbody>
</table>

Reading questions are due at \( \leq 5 \text{pm on Friday; late reading assignments will be accepted for up to 3 days with a 5\% penalty per day.} \)

- Reading is *not* studying
- The best day to start studying for class work is *today*

**Student Conduct Code**

Professionalism and common courtesy are expected and students who are disruptive may be asked to leave. If you have questions as to proper classroom behavior, please ask the instructor.

The Student Conduct Code at the University of Montana embodies and promotes honesty, integrity, accountability, rights, and responsibilities associated with constructive citizenship in our academic community. This Code describes expected standards of behavior for all students, including academic conduct and general conduct, and it outlines students’ rights, responsibilities, and the campus processes for adjudicating alleged violations.

All students must practice academic honesty. Academic misconduct is subject to an academic penalty by the course instructor and/or a disciplinary sanction by the University. All students are expected to understand their rights and responsibilities provided under the Student Conduct Code

**Attendance**

Students are expected to attend all class meetings and complete all assignments. Students are responsible for anything, literally, discussed during class. Absences related to participation in a University sponsored activity will be excused as long as proper notification is provided (University sponsored activities include for example, field trips, ASUM service, music or drama performances, and intercollegiate athletics.). Excused absences also include military service or mandatory public service.
Email

According to University policy, faculty may only communicate with students regarding academic issues via official UM email accounts. Accordingly, students must use their GrizMail accounts (netid@grizmail.umt.edu or fname.lname@umontana.edu). Email from non-UM accounts will likely be flagged as spam and deleted without further response. To avoid violating the Family Educational Rights and Privacy Act, confidential information (including grades and course performance) will not be discussed via phone or email.

Course withdrawal and other important dates

Use this link for a list of official Dates and Deadlines for 2022 Spring Semester. Responsibility is upon the students to know the dates for withdrawal and other relevant registration issues.

COVID

For the most up-to-date COVID info see COVID-19 Information

- If you feel sick and/or are exhibiting COVID symptoms, please don’t come to class and contact the Curry Health Center at (406) 243-4330.
- If you are required to isolate or quarantine, you will receive support in the class to ensure continued academic progress. Please let me know ASAP and I will conduct a class via zoom to the best of my ability. NB: I will not “automatically” use Zoom in the classroom.
- UM recommends students get the COVID vaccine and booster. Please direct your questions or concerns about vaccines to the Curry Health Center.
- If the situation warrants, we will move classes to Zoom.

Disability modifications

The University of Montana assures equal access to instruction through collaboration between students with disabilities, instructors, and Disability Services for Students. If you think you may have a disability adversely affecting your academic performance, and you have not already registered with Disability Services, please contact Disability Services in Lommasson Center 154 or call 406.243.2243. I will work with you and Disability Services to provide an appropriate modification.