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### FIN 450.01: Banking

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The University of Montana  
School of Business Administration

**Fin 450: Banking**

Course Outline  
Spring 2003

Professor: Tony Crawford  
Course: Fin 450: Banking  
Location: Section01: MWF 11:10-12:00 GBB L11  
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Office Phone: 243-2557  
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**General Information:**

This is an advanced course in Finance; therefore, much of the responsibility for a successful course rests with you. You are expected to prepare to contribute to the class every period and thereby realize the greatest benefit from the course.

**Course Materials:**

**Required:**

Koch, and McDonald 2003, Bank Management, 5<sup>th</sup> edition, Thomson South-Western.

**Other:**

Business Press: The Wall Street Journal  
American Banker

**Course Objective:**

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. The Financial Services Modernization Act of 1999 allows banks, securities firms, and insurance companies to merge. Ultimately some banks will position themselves to become one stop financial services supermarkets. This is a dramatic change from the pre 1980's banking industry that was heavily regulated. Bank Management has always been synonymous with risk management, however the nature of risk has changed tremendously with the changing regulatory environment.

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.

### **Course Homework, Quizzes, and Exams (Preliminary):**

Exams (4)	60% (Equally Weighted)
Class Participation	10% (Details TBA)
Cases and HW	<u>30%</u>
Attendance	See Below

### **Exam**

For now the exam format is for four non-cumulative mid-terms. Exams will be in class and consist of multiple-choice, short answer and problems.

### **General Homework**

These are questions and problems from the text that I think you should be able to complete for test purposes. Some may be covered in lectures while others will not. Problems will not be collected but answers are posted on my web site.

### **Attendance**

Class attendance is required. If you have more than five unexcused absences I will drop your final grade by one letter. When you don't attend class, you miss out and others miss out on your contributions, regardless of your other scores. Moreover, each succeeding three absences will result in a drop of one additional letter grade. Work, transportation and vacation will not normally result in an excused absence. Documented emergency situations will normally be excused, but they must be cleared as soon as possible. Don't use up your absences on frivolous reasons! I may count leaving class early without permission or not having the assigned notes with you as an unexcused absence.

### **Cases and Homework (for Grades):**

**Cases:** We will complete several mini case studies or homeworks during the semester. Most cases are brief and require fairly brief write-ups (about 1-2 pages). I will pair students into groups of two for those wanting to work together. The cases will be discussed in class and students will be asked at random to present the answers to their specific questions.

All answers must be typed!!! Handwritten responses will not be accepted. Answers must be well organized. I reserve the right to reject any assignments that are disorganized or sloppy. Staple or bind loose pages (Do not fold or tear corners).

One of the most important skills you can gain is the ability to write accurate and well-organized reports or responses. In business sloppiness will not be tolerated. **I will deduct up to 25% for disorganized and sloppy responses.**

The double-spaced original copy of your case solution is due at the beginning of class the day the case is assigned. Late papers, if accepted, will be penalized a minimum of 20%. Any cases not submitted will receive a failing grade.

**Homework:** On occasion I may assign problems for students to complete and submit. These assignments will be made in class at least a week before they are due. Students are responsible for getting these assignments in class.

**Extra Credit:**

Students can earn up to 5% extra credit by finding current news articles pertaining to topics in this class. Wall Street Journal articles or other popular business outlets can be used. Students must write a brief (1/2 page synopsis) and present the information in class for discussion. If interested you must arrange this with me prior to the last two weeks of instruction.

Articles can be used only once in class. Once an article is submitted it will not be accepted from any other students (except for students that provide write-ups in the same class period).

**Web Page:**

My web page contains notes outlines for use in lecture. The notes will be published in advance of class and you are strongly encouraged to have them for class. The notes will contain tables and other information that will facilitate note taking in class. To save money it wouldn't be a bad idea to pair up with students and take turns printing off the files. It is cheaper to copy then to print in the labs.

The web site will also contain homework solutions to assigned questions and problems so that you can check your progress. However, I strongly encourage you to attempt the problems without solutions first. This will prepare you for exams. It is amazing how much easier the problems seem when you have the answer in front of you.

**Course Outline:**

**Section 1: Course Material**

Part I: Overview of the Banking Industry

- Chapter 1: Fundamental Forces of Change  
Questions: all
- Chapter 2: Bank Organization and Change  
Questions: all

Part II: Evaluating bank Performance

- Chapter 3: Analyzing Bank Performance using the UBPR  
Questions: TBA  
Problems: TBA
- Chapter 4: Alternative models of Bank Performance  
Questions: TBA  
Problems: TBA
- Chapter 5: Managing Noninterest Income and Noninterest Expense  
Questions: TBA  
Problems: TBA

Part III: Managing Interest Rate Risk

- Chapter 6: Pricing Fixed Income Securities (Mostly Review)  
Questions: TBA  
Problems: TBA
- Chapter 7: The Determinants of Interest Rates  
Questions: TBA  
Problems: TBA
- Chapter 8: Managing Interest Rate Risk: GAP  
Questions: TBA  
Problems: TBA
- Chapter 9: Managing Interest Rate Risk: Duration GAP  
Questions: TBA  
Problems: TBA
- Chapter 10: Financial Futures, Forward Agreements and Interest Rate Swaps  
Questions: TBA  
Problems: TBA
- Chapter 11: Options, Caps, Floors and More Complex Swaps (Time Permitting)  
Questions: TBA  
Problems: TBA

Part IV: Managing the Cost of Funds Bank Capital and Liquidity

Chapter 12: Managing Liabilities and the Cost of Funds

Questions: TBA

Problems: TBA

Chapter 13 The Effective Use of Capital

Questions: TBA

Problems: TBA

Chapter 14: Liquidity Planning and Managing Cash Assets

Questions: TBA

Problems: TBA

Part V Extending Credit to Business and Individuals (We'll See)