

Boston College
Carroll School of Management
MF 820: Management of Financial Institutions
T, ??, 7-930pm
Spring 2008

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Office Hours: Tuesday, 430-6pm, Thursday, 1pm - 3pm, or by appointment

Course Description

This course explores the role of financial institutions in the financial system. We will begin by looking at the role of financial institutions in helping non-financial businesses raise capital. Next, we will explore risk management at financial institutions. The last part of the class describes the evolution of the financial services industry, and the response of regulations, over the past two decades. An overarching theme of the class will be how financial services firms can profit in an environment characterized by rapid regulatory & technological innovation.

The course will be structured as a combination of lectures, discussion and case study. I will be circulating lecture notes designed to help you follow the structure of the material that I will be talking about in class, and to help you understand which issues I consider most important. But please remember that these are just notes. That means that they may not be complete. For completeness, you have the textbook.

The lecture notes also contain many **questions** and **examples**, which we will discuss in class. These discussions will be much more fruitful if you prepare for class by *reading the notes (and other readings) in advance!* Also, I make no guarantee that we will cover all of the questions.

The lecture notes, along with all other handouts, old exams, and additional readings, etc., will be available at the course website, located at the following address:

<http://www2.bc.edu/~strahan>

All handouts will be distributed via the website. Therefore, it is your responsibility to check the website frequently for additional material. All files will be in PDF format or Microsoft Word, so hopefully everyone will be able to read the files. However, if you have any trouble reading a file on the course website, please let me know ASAP so that I can fix it!!

Cases:

There will be five cases that we will cover in class. The cases are to be written up, and you are encouraged to prepare the written analysis in teams. Each team must write up four of the five cases; these write-ups (one per team) are due at the beginning of class on the day that we cover the case. If you write up all five, I will drop your lowest grade. Each individual must be prepared to discuss all of the cases in class. Case discussions are very important and will only succeed if you put in a good effort.

Prerequisites: I will assume that you understand the basic concepts of asset pricing (investments), corporate finance, and accounting.

Readings:

- 1) *Financial Institutions Management: A Risk Management Approach*, Anthony Saunders & Marcia Millon Cornett, McGraw Hill, 6th Edition.
- 2) Course packet of readings and cases.
- 3) Lecture notes (to be posted to the course website).

NB: I recommend that you purchase the textbook, but in the past a few students have commented that the textbook is not necessary. Hence, you may be able to get by without it. Also, at least one copy of the text is on reserve in the O'Neill Library.

Grades:

Class participation	25%
Midterm	20%
Case write-ups	25%
Final	30%

Course Outline

1. An overview of the financial system and the role of financial institutions (Class 1)

Lecture Notes (website)

Readings: Saunders & Cornett (S&C), Chapters 1-7

2. Banking & Syndicated Lending (Classes 2 & 3)

Lecture Notes (website)

CP: "A Note on Bank Loans"

S&P Guide to the Syndicated Loan Market (website)

S&C, Chapters 13, 26 & 27

Hong Kong Syndicated Lending Case, (**third class**)

3. Interest Rate Risk & Market Risk (Classes 4 & 5)

Lecture Notes (website - 2 sets of notes!)

S&C Chapters 8-10, 23-25

4. Small business finance (Class 6)

Lecture Notes (website)

Article on Relationship Lending (website)

CP: Contracting and Control in Venture Capital

Circle Lending / Prosper Case (**sixth class**)

MIDTERM EXAM (February 26)

5. Credit Risk (Classes 8 & 9)

Lecture Notes (website)

S&C, Chapters 11-12

Bistro Trust Case (**ninth class**)

6. Liquidity Risk (Classes 10 & 11)

Lecture Notes (website)
S&C, Chapters 17-18
CP: Edwards article on LTCM
LTCM Case, (eleventh class)

7. Universal Banking (Class 12)

ABN Amro Case (class twelve)
S&C, Chapters 21

8. The Sub-prime Mortgage Debacle (Class 13)

Understanding the Securitization of Subprime Mortgage Credit (website)

9. Course Review

Optional class - April 29

10. Final Exam

In Class - May 6