

IV. COURSE CONTENTS

A. Introduction to Commercial Banking

1. Historical background of modern Commercial Banking (Chp.1)
2. Commercial Banking principal activities (Chp. 2)
 - a. Commercial Loans
 - b. Mortgage Loans
 - c. Consumer Loans
 - d. Investment Portfolio
 - e. Deposits
3. Commercial Bank legal framework (Chp.3)
 - a. Financial Institutions Recovery Act (FIRREA)
 - b. Riegle-Neal Interstate Banking and Branching Efficiency Act (IBBEA)
 - c. Glass- Steagall Act
4. Commercial Bank Regulatory Framework (Chp. 3)
 - a. Office of the Comptroller of the Currency (OCC)
 - b. Federal Reserve System
 - c. Federal Deposit Insurance Corporation (FDIC)
 - d. Commissioner of Financial Institutions
5. Emergence of Bank Holding Companies (BHC) and Entry into new lines of business (Chp. 4)
 - a. Insurance
 - b. Investment Banking
 - c. Mutual Funds

B. Evaluation of Bank Financial Performance

1. Commercial Bank Financial Statement Analysis (Chp. 5 y 6)
 - a. Segmentation of asset , liability , capital, revenue and expense accounts.
 - b. Financial ratio analysis
 - c. Risk Analysis
 - d. Regulatory Audits - FDIC
2. Optimum Capital Structure (Chp. 8)
 - a. Core Capital (Tier I) and Supplementary Capital (Tier 2)
 - b. Capital consumption by economic activity
 - c. Techniques to calculate optimum capital structure

C. Commercial Bank Macroeconomic Environment

1. Interest Rates, Exchange Rates and Inflation Rate Economic Theories (Chp. 15)
 - a. Loan Demand and Supply
 - b. Fisher effect
 - c. Interest Rate Parity
 - d. Purchasing Power Parity
 - e. Foreign Exchange Rates
2. Term Structure of Interest Rates (Chp. 15)
 - a. Expectations Theory
 - b. Segmented Markets Theory
 - c. Preferred Habitat Theory
3. Techniques for Managing Interest Rate Risk (Chp. 16)
 - a. Duration
 - b. Immunization
 - c. Duration Gap

D. Management of Bank Liabilities

1. Bank Liquidity Management (Chp. 19)
 - a. Minimum Reserves
 - b. Loans vs. Sale of Marketable Securities
 - b. Packaging Loans into Marketable Securities (Asset Securitization)
2. Management of a Bank's Investment Portfolio (Chp. 19)
3. Management of a Bank's Liability Structure (Chp. 20)
 - a. Fed Funds
 - b. Demand Deposits
 - c. Brokered Deposits
 - d. Eurodollars
 - e. Bank Notes

E. Management of Bank Assets

1. Management of Bank Credit (Chp. 21)
 - a. Background of most common Bank credit products : Commercial Loans, Mortgage Loans, Consumer Loans.
 - b. Key Lending criteria : Character, Capacity, Capital, Conditions and Collateral.
 - c. Key credit ratios : Loan to Value, Debt Service Coverage Ratio and credit scoring models

- d. Key loan terms and conditions

V. Activities

- A. Professor Lectures
- B. Power Point presentations
- C. Group Projects
- D. Presentations: Individual and Group
- E. Supplementary Readings
- F. Internet Searches
- G. Case Studies

VI. Evaluation Criteria

Exams: There will be three partial exams
First Partial Test : Chapters 1,2,3 and 4.
Second Partial Test : Chapters 5, 6 and 8.
Third Partial Test : Chapters 15, 16,19,20 and 21.

Case Study : There will be a project where a Commercial Bank will be analyzed. This will integrate all the course concepts.

Final Grade

First Partial Test	20%	100
Second Partial Test	20%	100
Third Partial Test	30%	100
Case Study	20%	100
Class participation	10%	100

VII. Special Notes

A. Special Accommodations

Students who require special accommodations must request these services at the beginning of the course as soon as they notice that they need help. Students can access this service with Professor Jose Rodriguez, Coordinator of Students with Special Needs at the Guidance and Counseling Office on the first floor at Metro's Student Center.

B. Plagiarism

Plagiarism, dishonesty, fraud and any other type of manipulation or inappropriate behavior related with academic performance are unacceptable in our institution. Disciplinary actions will be taken on students found guilty of such practice as established in Chapter V, Article 1, Section B.2 of the Student's Rules and Regulations handbook.

<http://metro.inter.edu/servicios/documentos/reglamentosestudiantes2006.pdf>

Inter has very strict regulations regarding plagiarism (using the ideas or words of others without giving proper credit), so it is important that you specifically read Chapter 5, Article 1, Section B.2c of the Student' Rules and Regulations Handbook. This section clearly explains what plagiarism is. In addition, it explains the types of sanctions students are exposed to when they commit it.

C. Use of Electronic Devices

Cellular (mobile) telephones and any other electronic device that could interrupt the teaching-learning process or disrupt a milieu favorable for academic excellence will be deactivated. Critical situations will be dealt with in an appropriate manner. The use of electronic devices that permit the accessing, storing or sending of data during tests or examinations is prohibited.

VIII. Educational Resources

A. Textbook :

Gardner, Mona J., et. al., Managing Financial Institutions, 5th Edition, 2005, Dryden Press, Florida.

B. Supplementary Readings :

Hempel, George H. and Donald G. Simmons, Bank Management: Text and Cases, 5th ed., Hoboken, N.J., John Wiley & Sons, 2008.

Hubbard, Glenn R., Money, The Financial System and the Economy, 6rd ed., Boston, Mass. Addison Wesley, 2007.

Kidwell, David S. et al., Financial Institutions, Markets and Money, 8th ed., Hoboken, N.J., John Wiley & Sons, 2005.

Koch, Timothy W. and S.S. MacDonald, Bank Management, Fort Worth: The Dryden Press, 2009.

Van Greuning, Hennie and Sonja Brajovic Bratonovic, Analyzing and Managing Risk: A Framework for Assessing Corporate Governance and Financial Risk, Washington, D.C., World Bank Publications, 2009

C. Internet Resources

May be found at the end of each chapter in the textbook.

IX. Bibliography:

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3. Buraschi, A., and D. Meninni. "Liquidity and Specialness." *Journal of Financial Economics* 64, no.2 (may 2002), pp.243-284.
4. Fabozzi, F.J., Securities Lending and Repurchase Agreements, Burr Ridge, Ill.: Irwin Professional Publishing, 1996.
5. Kirsch, Clifford E., The financial services revolution: Understanding the changing roles of Banks, Mutual Funds, and Insurance Companies, Burr Ridge, Ill.: Irwin Professional, 1997, pp.3-28.
6. Rose, Peter S. Banking across State Lines: Public and Private Consequences, Westport, Conn.: Quorum Books, 1997.
7. Berger, Allen N., and Loretta J. Mester. "Inside the Black Box: What Explains Differences in the Efficiencies of Financial Institutions?" *Journal of Banking and Finance* 21, no. 7 (July 1997): pp.895-947.
8. Davis, Donald and Kevin Lee. "A Practical Approach to Capital Structure for Banks." *Bank of America Journal of Applied Corporate Finance*, 10 (Spring 1997), pp. 33-34.
9. Kimball, Ralph C. "Economic Profit and Performance Measurement in Banking." *New England Economic Review: Federal Reserve Bank of Boston* (July/August 1998), pp. 35-53.
10. James C. Van Horne, Financial Market Rates and Flows, 6th ed., Upper Saddle River, NJ: Prentice-Hall, 2001.
11. Saunders, Anthony. Financial Institutions Management: A Modern Perspective, 2 ed. Burr Ridge.: Ill. Irwin (1997).
12. Ott, Robert A., Jr. "Duration Analysis and Minimizing Interest Rate Risk." In *Managing Interest Rate Risk: Selected Readings*. Atlanta: Federal Home Loan Bank of Atlanta, 1988, pp.31-34.
13. Neuberger, Jonathan A. "Bank Holding Company Stock Risk and the Composition of Bank Asset Portfolios." *Economic Review (Federal Reserve Bank of San Francisco)* 3 (1992), pp.53-62.
14. Luckett, Dudley G. "Approaches to Bank Liquidity Management." *Economic Review (Federal Reserve Bank of Kansas City)* 65 (March, 1980), pp. 11-27.
15. Rodrigues, Anthony P. "Government Investments of Commercial Banks." *Quarterly Review (Federal Reserve Bank of New York)* 18 (Summer, 1993), pp.39-53.
16. Stigum, Marcia. The Money Market, 3d ed., Homewood, Ill.: Dow Jones-Irwin. 1990.
17. Zimmerman, Gary C., and Jonathan A. Neuberger. "Interest Rate Competition." *Weekly Letter (Federal Reserve Bank of San Francisco)*

(July 27, 1990).

18. Gill, Edward G. Commercial Lending Basics. Reston, Va.: Reston Publishing Co., 1983.
19. Capon, Noel. "Credit Scoring Systems: A Critical Analysis." *Journal of Marketing* 46 (Spring 1982): pp. 801-824.
20. Edmister, Robert O. "Combining Human Credit Analysis and Numerical Credit Scoring for Business Failure Prediction." *Akron Business and Economic Review* 19 (Fall 1988), pp. 6-14.

Rev. 10/2009