PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIADIO
SCHOOL OF BUSINESS AND MANAGEMENT

JOHN K. PAGLIA, Ph.D., FRM, PRM, CFM
MANAGEMENT OF FINANCIAL INSTITUTIONS
MBAM 622.12
FALL 2003, Session B
TUESDAYS: 6:00 P.M. – 10:00 P.M.
MALIBU CAMPUS

SYLLABUS
Introduction

Welcome to MBAM 622! This course is designed to acquaint students with the fundamental issues surrounding financial institutions management. Various types of risks affecting financial institutions will also be discussed along with the risk management strategies used to mitigate those risks.

Course Description

This course is designed to be useful to managers of firms such as banks, savings and loans, credit unions, finance companies, and insurance companies. Emphasis is placed on asset and liability risk management, capital adequacy, credit evaluation, and appropriate levels of service. Critical examination of the changing regulatory environment provides strategic perspective on the evolution of financial institutions and the competitive balance of respective project and service markets.
**Prerequisite:** This is an elective class and requires at least one prerequisite. Please see catalog for details.

**Texts and Course Materials**

Required Texts:

1) Saunders, Anthony and Marsha Cornett  
*Financial Institutions Management,*  

2) Packet of case studies

**Grading**

The grade description and weighting method are given as follows:

<table>
<thead>
<tr>
<th>Grade distribution</th>
<th>Assignment weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>A  = 93% - 100%</td>
<td>Case presentation</td>
</tr>
<tr>
<td>A - = 90% - 93%</td>
<td>Case write-up</td>
</tr>
<tr>
<td>B+ = 87% - 90%</td>
<td>Final Exam</td>
</tr>
<tr>
<td>B  = 83% - 87%</td>
<td></td>
</tr>
<tr>
<td>B- = 80% - 83%</td>
<td></td>
</tr>
<tr>
<td>C+ = 77% - 80%</td>
<td></td>
</tr>
<tr>
<td>C  = 73% - 77%</td>
<td></td>
</tr>
<tr>
<td>C- = 70% - 73%</td>
<td></td>
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<tr>
<td>F  = Below 70%</td>
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</tbody>
</table>

**Total:** 200 points

NOTE: I reserve the right to curve final grades in order to approximate a normal distribution.

A brief description of each of the assignments is given below:

1) **Cases:** Each case will be presented to the class by a group of three to five students. The presentation should not exceed 45 minutes. The group assigned to the presentation of a case is also required to e-mail their typed analysis (maximum of 5 typed pages) no later than one day prior to the presentation. Those students who are not members of the presenting group are expected to read the case and be prepared to contribute to the class discussion. Please e-mail me with a request for the “guiding questions” that are helpful to plan your case presentations.

2) **Exam:** There will be one final exam given during the course. Due to the nature of the material we are studying, concepts introduced early in the course will be an integral part of topics covered later in the course. Therefore, the final exam will be comprehensive. For the examination, you may bring one sheet of 8 ½” x 11” paper on which you may write appropriate formulae.
Attendance Policy
Attendance for the first class is mandatory. Without advance written notice, missing the first class meeting will result in your being dropped from the class in order to make seats available for those who wish to add the class. Attendance is not explicitly computed in the course grade, but it is expected that students will only miss class under extenuating circumstances (working out of town, attending weddings/funerals, etc.). Prior written notice of expected absences is highly encouraged.

Office Hours and How to Contact Me
In general, I will be available before and after each class for at least one hour but I will be happy to arrange meetings outside of these times on request. The best way to contact me personally is through e-mail at my University e-mail address (see above) although you can also call me at the phone number above. I check my e-mail regularly and will respond to messages as quickly as possible - often within 15 minutes.
Conduct

“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

• Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
• Forgery, alteration, or misuse of University documents, records, or identification.
• Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
• Interference with the academic or administrative process of the University or any of the approved activities.
• Otherwise unprotected behavior that disrupts the classroom environment.
• Theft or damage to property.
• Violation of civil or criminal codes of local, state, or federal governments.
• Unauthorized use of or entry into University facilities.
• Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

Dismissal – separation of the student from the University on a permanent basis.

Suspension – separation of the student from the University for a specified length of time.

Probation – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.” GSBM Catalog, pgs. 192-193.

Policy on Disabilities

Assistance for Students with Disabilities

“Students with disabilities, whether mental or physical, are encouraged to contact the Equal Opportunity Office before the academic year begins or soon after classes are in session. This office will assist each student by providing general information about campus facilities and available resources. The office will assist in providing reasonable accommodation to students with disabilities pursuant to applicable laws. Inquiries should be directed to equal opportunity officer, Dr. Calvin H. Bowers, (310) 456-4208. (Students who wish to file a formal grievance should refer to the “Nondiscrimination Policy,” which is listed in the “Legal Notices” section of this catalog.)” GSBM Catalog, pg. 31.
## Schedule of Classes

MBAM 622.12 - Fall 2003

### Outline of Study

<table>
<thead>
<tr>
<th>Class</th>
<th>Text Readings</th>
<th>Comments</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chapters 1, 7, 8, 8A, 9, 9A</td>
<td>Introduction; Risks of financial intermediation; Interest rate risks</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Chapters 10, 11, 11A, 12</td>
<td>Market risk; Credit risk; Loan portfolio risk</td>
<td>CASE: Pilgrim Bank A, B, C, and D</td>
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<tr>
<td>3</td>
<td>Chapters 13, 14, 15, 17</td>
<td>Off-balance sheet activities; Technology risk; Foreign exchange risk;</td>
<td>CASE: Chase’s Strategy for Syndicating the Hong Kong Disneyland Loan (A)</td>
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<tr>
<td></td>
<td></td>
<td>Liquidity risk</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Chapters 18, 19, 20, 20A</td>
<td>Liability and liquidity management; Deposit insurance; Capital Adequacy</td>
<td>CASE: Bank One Corporation: Asset and Liability Management</td>
</tr>
<tr>
<td>5</td>
<td>Chapters 21, 22, 24, 24A</td>
<td>Product and Geographic diversification; Futures and forwards</td>
<td>CASE: Basle II: Assessing the Default and Loss Characteristics of Project Finance Loans</td>
</tr>
<tr>
<td>6</td>
<td>Chapters 25, 25A, 26</td>
<td>Options, caps, floors, and collars; Swaps</td>
<td>CASE: First American Bank: Credit default swaps</td>
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</tbody>
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