

## FIN 468 SYLLABUS—SUMMER 2008

COURSE NUMBER: FIN 468W.01

COURSE TITLE: Commercial Banking

INSTRUCTOR: Dr. James B. Bexley, Chair, Smith-Hutson Endowed Chair of Banking

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OFFICE: BA 101

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OFFICE HOURS: Monday thru Thursday 10:00 - 11:00 a.m.  
Other times by appointment.

TEXT: *Bank Management, Text and Cases, Fifth Edition,*  
George H. Hempel & Donald G. Simonson

SUPPLEMENTAL TEXTS: Free Lecture Powerpoint Lectures on Blackboard

DESCRIPTION OF COURSE: Operation of commercial banks, trust companies, Federal Reserve Banks, and other credit institutions. Federal Reserve Board and its function, rediscounting, open market operations, types of notes issued, and their relation to the Federal Reserve System are stressed. Special attention is given to recent bank legislation. Cases will be used to amplify text materials and make a practical application.

OBJECTIVES: The major objectives of this course are:

1. To acquaint students with the roles of banks in the financial services industry.
2. To introduce students to banking theory and bank management.
3. To introduce students to specific aspects of the financial services industry.

PREREQUISITES: FIN 334 and FIN 367.

CLASS MEETINGS: Classroom BA 106 (Banking Center) Beginning on Tuesday, June 3rd, with meetings Monday thru Friday, 8:00 a.m. to 9:50 a.m. thru Monday, June 30th and the final exam on Tuesday, July 1st from 8:00 a.m. to 9:50 a.m\*. (\*See University calendar.)

TEACHING METHOD: The teaching methods utilized will be lecture, class discussion, problem analysis, case study, class research and presentations. To introduce an element of practicality into the learning experience, the class will be divided into groups for cases, research papers, and presentations. Students will be allowed to select topics, subject to approval of the professor. A written paper and an oral presentation will be required of each student in the group. You should dress for business when doing your oral presentation.

**COURSE EVALUATION PROCESS:** There will be three unit examinations and a final examination. In addition there will be outside assignments, a research paper to turn-in and an oral presentation to be made on the research paper. Grade weighting will be as follows:

Examination #1	15%
Examination #2	15%
Examination #3	15%
Case preparation and presentation	15% (1 <sup>st</sup> & 2 <sup>nd</sup> Case-5%, 3 <sup>rd</sup> Case 10%)
Research paper/oral presentation	20%
Final Examination**	20%

\*\*A student may elect to have the average of Exam #1, #2, and #3 to replace the final exam grade.

Course grades are determined by applying the following scale to a student's weighted average:

90 and above	A
80 to 89	B
70 to 79	C
60 to 69	D
Below 60	F

**MISSED EXAM/LATE ASSIGNMENTS:** No makeup exam will be given. If an exam is missed, a grade of zero (0) will be assigned for the exam. Each student will be allowed to drop the lowest exam grade (Exam #1 or #2 or #3) provided that they take all three exams. If only one of the three above exams is not taken, then the weight of that exam will be added to the weight of the final exam. If more than one exam is missed, a score of zero (0) will be retained for those missed exams above and exceeding one.

**Assignments must be turned in by the beginning of class on the date due. No late assignments will be accepted for credit.**

**RELIGIOUS HOLY DAYS POLICY:** Students who are absent from class for observance of a religious holy day will be allowed to take an examination or turn-in an assignment schedule for that day prior to the absence. The student, **not later than June 6th**, must notify the professor in writing of each scheduled class day that he/she will be absent for a religious holy day.

**HANDICAPPED STUDENT POLICY:** It is the policy of Sam Houston State University that no otherwise qualified disabled individual shall, solely by reason of his/her handicap, be excluded from the participation in, be denied the benefits of, or be subjected to discrimination under any academic, Student Life program, or activity. Handicapped students may request academic assistance when needed from a Committee for Continuing Academic Assistance for Disabled Students by visiting the Director of the Counseling Center in the Lee Drain Building Annex, or by calling extension 4-1720.

**ATTENDANCE:** Class attendance will be checked for each scheduled class. Perfect attendance will earn 3 bonus points added to the final grade computation described above. Two class hours (1 class) can be missed without penalty, except examination days and presentation days. For each hour missed from the third through the seventh, 1 point will be subtracted from the final grade for each hour missed. **Absences totaling more than eight hours (4 classes) will result in a grade of F for the course. Three late class arrivals will be treated like one hour's absence, and one point will be deducted from the final average.**

**GENERAL ADMINISTRATION:** No food and drink is allowed in the classroom. No headphones allowed. All cell phones and text devices must be turned-off in class. No hats or headgear will be worn in the classroom.

**TENTATIVE SCHEDULE:** Set out below is a tentative schedule that is subject to change:

<u>DATES</u>	<u>SUBJECT</u>
June 3rd	Course Introduction, Introduction to Banking
June 4th	<b>Turn in Topics by e-mail</b> , Chapter 1 The Changing Nature of Banking in the U.S. & Chapter 2 Understanding a Bank's Financial Statements & <b>Case #1</b>
June 5th	Chapter 3 Evaluating a Bank's Returns, Risks, & Overall Performance, Chapter 4 Foundations of Value in Banking & <b>Case #2</b>
June 6th	Chapter 5 Asset & Liability Management & The Yield Curve & <b>Exam #1 (Chapters 1-5, notes &amp; lecture) &amp; Case #3</b>
June 9th	Chapter 6 The Acquisition & Cost of Bank Funds, Chapter 7 Measuring & Providing Reserves & Liquidity & <b>Case #5</b>
June 10th	Chapter 8 Managing The Security Portfolio, Chapter 9 Managing Bank Capital & <b>Case #6</b>
June 11th	Library Research Project
June 12th	Chapter 10 The Bank Credit Organization & <b>Case #7</b>
June 13th	<b>Written Reports Due &amp;</b> Chapter 11 Credit Selection, Underwriting & Portfolio Diversification & <b>Case #8</b>
June 16th	<b>Oral Presentations</b>
June 17th	<b>Oral Presentations (Continued)</b>
June 18th	<b>Exam #2 (Chapters 6-10, notes &amp; lecture)</b>
June 19th	Commercial Lending & Chapter 12 Consumer Lending & <b>Case #9</b>
June 20th	<b>First State Bank Case (Presented by all groups)</b>
June 23rd	Chapter 16 International Banking, Directors' Duties & Conduct of the Board Meeting & <b>Case #10</b>
June 24th	Marketing the Bank's Services & Delivering Service Quality & <b>Case #11</b>
June 25th	Bank Mergers and Acquisitions & <b>Case #12</b>
June 26th	Strategic Planning & <b>Case #13 &amp; Case #14</b>
June 27th	<b>Exam #3 (Chapters 11-12,16, "Bank Directors Duties", Marketing the Bank's Services, Delivering Service Quality, Bank Mergers &amp; Acquisitions, Strategic Planning)</b>
June 30 <sup>th</sup>	Bank Comparative Study
July 1st	<b>FINAL EXAMINATION-All Previous Materials (8 a.m. to 9:50 a.m.)</b> <b>Term Paper Instructions</b>

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Each student will make a written and an oral presentation at the time determined by the topic number. The subjects for all topics must turned-in by **June 4th by e-mail to [jbbexley@shsu.edu](mailto:jbbexley@shsu.edu)**, and the turn-in date for the written research paper is **June 13th** and the days for oral presentations to be made, are **June 16th & 17th**. Any paper turned-in late will receive a grade of F. Following-up on the oral instructions given you in class, this set of instructions will give you firm, written directions concerning the written and oral assignments.

1. The term papers should be written in good manuscript form, utilizing proper grammar, spelling and punctuation. The topics are to be pre-approved by the instructor.
2. Your paper should be double-spaced with a normal margin and be a minimum of **eight** typewritten pages and a maximum of **twelve** typewritten pages in 12 point times or times roman type font.
3. There must be a minimum of two research references, not including the FIN 468 text, and only one may be from the Internet.
4. **On the date your research paper is due, you will turn-in your research paper in hard copy (paper), and by Midnight June 12th before your research paper is due on June 13th,** you will e-mail your oral presentation to [jbbexley@shsu.edu](mailto:jbbexley@shsu.edu) with a title of 468(Your Last Name).ppt and then you will deliver your oral presentation of the term paper to the class on the assigned day **using Powerpoint**. The oral presentation will be no less than four minutes nor more than five minutes. This presentation should clearly and concisely present the concepts advanced in your written presentation.
5. As you know, the combination of the term paper and the oral presentation will count 20% of your total final grade.
6. The following topics will be utilized unless the professor approves another topic in advance:
  1. The Role of the Debit Card In the Bank of the Future.
  2. The Importance of Strategic Planning in the Bank's Performance.
  3. Risk Management As A Regulatory Tool.
  4. The Role of Consumer Lending In Banking.
  5. The Role of Commercial Lending In Banking.
  6. The Role of Mortgage Lending In Banking.
  7. Asset/Liability Management in the Bank.
  8. The Future of Community Banking.
  9. The Relationship of Management and the Board of Directors in the Bank.
  10. The Impact of Sarbane-Oxley on Community Bank Governance.
  11. The Changing Role of Marketing in Banking.
  12. Advantages of the Bank Holding Company.
  13. Differences Between Credit Unions and Commercial Banks.
  14. Methods of Efficiently Generating Funds To Loan To Bank Customers.
  15. The Role That Capital Plays in the Functioning of the Bank.

16. Why Have Bank Mergers Become So Attractive?
17. Market Research Methods/Techniques for Commercial Banks
18. The Benefits of Internships to Banks and Students
19. Credit Analysis and Its Role In The Commercial Loan Approval Process.
20. Using Focus Groups To Help Establish The Bank's Marketing Thrust.
21. The Importance of Customer Service In A Bank.
22. The Status of DeNovo Bank Chartering in the U.S.
23. Bank Expansion—Is Branching or Buying Best?
24. The Impact of Inflation On Bank Profits
25. The Effect of Corporate Paper on Commercial Banks
26. The Use of Unconventional Products In Banks
27. Fee Income's Impact On The "Bottom-line"
28. The Federal Reserve Bank's Role In Bank Holding Companies
29. State Non-Member Bank Regulation of Commercial Banks By The Federal Deposit Insurance Corporation and State Regulators
30. State Member Bank Regulation of Commercial Banks By The Federal Reserve Bank and State Regulators
31. National Bank Regulation of Commercial Banks By The Office of the Comptroller of the Currency
32. Has Credit Quality Diminished In Bank Lending?
33. The Future of the Dual Banking System In The U.S.
34. Is a Single Bank Regulator System Likely In The U.S.?
35. How Banks Can Achieve High Performance Banking
36. The Future of International Banking In a Global Economy
37. The Role of the Investment Portfolio in the Bank
38. Has the Repeal of the Glass-Steagall Act Hurt Community Banking
39. The Impact Basel Accord or Agreement Will Have on U. S. Bank Capital
40. The Impact of the USA Patriot Act on Banks
41. "Payday Lending" and Sub-prime Lending in Banking
42. The Role of Deposit Pricing and Loan Pricing in Bank Profitability
43. Comparing Judgmental Credit Practices to Credit Scoring Practices
44. The Universal Bank Model
45. Can Community Banks Compete with Investment Firms?
46. Enterprise Risk Management In Banks
47. Activity Based Cost Accounting for Banks
48. How Customers Perceive E-Commerce In Banking
49. How Banks Blend High Tech with High Touch
50. How Service Quality Impacts Banks
51. Comparing Performance Trends in Community Banks
52. Banking In the U. S. Compared To European Banking

### **Case Presentation Instructions**

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The class will be divided into groups of three or four individuals to prepare and present three cases to the class. Two cases will be from the text and one will be **First State Bank Case** presented by all groups on **June 19th**.

The purpose of these group sessions is to develop a team solution approach similar to what would be encountered in the actual workplace. Grading for each of the cases will be based upon the following:

Analysis of the problem	1/3rd
Answers to the case questions	1/3rd
Oral presentation	1/3rd

The total grade for the cases will count 15% of their final course grade.

The due date for your cases is shown on the syllabus and must be turned-in on that date or a grade of "0" will be assigned for the case. **More than one person should be able to present the case in the unfortunate event that the presenter does not make it to class. Failure to turn-in and present the case will result in a grade of "0" for all team members.**

In preparing your cases for the class, they should be typed, double-spaced. They should state or analyze the problem presented, give a brief summary of the case and facts, and answer the questions presented with the case (**See How to Present Case Below**). Normally 15 minutes will be allowed for the oral presentation of each case. **The presentation should be in Power Point format and e-mailed to [jbbexley@shsu.edu](mailto:jbbexley@shsu.edu) twenty-four hours before the case is due to be presented. It should be titled 468-Case#\_\_.ppt (your case # goes in the blank.) For Community Bank Case it should be titled 468cb-bb-group#\_\_.ppt (your group # goes in the blank.)**

**HOW TO PRESENT YOUR CASE SOLUTION**

**XYZ Bank Case #5**

**John Doe, Mary Smith, & Tom Adams**

**Case Description:** In this area you should describe the subject matter for the case and any secondary issues that arise. As an example here is a sample case description for a case relating to a revolving line of credit-----*The primary subject matter for this case concerns the viability of making a revolving line of credit to an established company. Secondary issues involved in this case turn on analyzing credit issues such as evaluating ratios, evaluating strengths and weaknesses, proposing loan covenants, calculating eligible accounts receivable and inventory.*

**Problems Presented in the Case:** In this area you should address specific problems that you detect in the case. For example, in a case with credit quality issues you might say the following---*The case as presented shows a general weakness in the credit quality. Such items as the ratios are weak, earnings are not consistent, and there does not appear to be enough cash flow to pay existing debt as now structured.*

**General Discussion of the Case:** Here you should discuss the impact of risk, competition, profitability, or the other issues raised in the case. This should be approximately 2-3 pages.

# First State Bank

**Authored by: Dr. James B. Bexley, Smith-Hutson Endowed Chair of Banking,  
Sam Houston State University, Huntsville, Texas**

## **GENERAL INFORMATION**

What had been rumored for some time became more official today, when the local newspaper and the radio stations chronicled the announcement that City National Bank was being acquired by Pennsylvania Bank & Trust, a regional banking corporation that had been paying high multiples and acquiring every available bank that it could. Your bank (First State Bank) and City National Bank have been very competitive for the past 25 years, sharing approximately 80% of the county's market share (First State Bank controls 45% of the market share and City National Bank controls 35% of the market share).

## **OFFICIAL ANNOUNCEMENT**

Frank Evans, CEO of Pennsylvania Bank & Trust (acquiring bank) made the following statement concerning the acquisition of City National Bank (acquired bank):

“We have been talking with City National Bank for some time, and it is my pleasure to announce that we have reached an agreement to acquire City National Bank upon final approval by the regulatory authorities. It has become clear to the shareholders of City National Bank that it is very difficult for it to effectively compete in the marketplace with the regional banks. It is our belief that there is an economy of scale afforded by merging City National Bank into a friendly, large regional bank.

The customers of City National Bank will notice very little change, and in fact will have the benefits of a large banking company serving their small communities. All of City National Bank's offices will become branches of Pennsylvania Bank & Trust. Service charges and other fees will not be reviewed and changed until some six months after the acquisition. It is anticipated that the acquisition will be finalized in the next ninety days.”

## **INFORMATION ON PENNSYLVANIA BANK & TRUST**

Pennsylvania Bank & Trust is a four billion dollar banking organization operating throughout the Commonwealth of Pennsylvania. It has over 150 branches with its greatest concentrations of business in the two largest cities--Pittsburgh and Philadelphia. It has had a difficult time growing its branches outside the two large metropolitan areas. One of the bank's chief competitors has commented that the difficulty with the bank's growth outside of the two large cities is the concentration of loan and management authority in those two regions, with very little authority or autonomy allowed in the smaller communities.

Pennsylvania Bank & Trust has seen very little growth in its own assets rather its growth has been realized through purchase of other banks' assets. It has made a concerted effort to concentrate on mortgage loans and home improvement loans. The bank has not been aggressive in the small

business area, and in fact, other than some large commercial credits in the metro areas, there has been no major thrust into the commercial business area.

Pennsylvania Bank & Trust's pattern of marketing in an area after acquisition of a bank such as City National Bank has taken several approaches. In most cases, it comes into the new area with about one month of print and television media blitzes assuring the community that it will get even better service from a bank with substantially more resources than their City National Bank had. There is generally a scenario of denying that jobs will be lost, followed by moving all of the "backroom operations" to a centralized operations center in either of the two big cities. Then, the City National Bank is reduced to mostly tellers and customer service representatives, with a "floating" loan officer to serve several branches. Management is usually retained in an advisory or goodwill role under contract for a year or two. Pennsylvania National Bank has had a pattern of retaining the acquired bank's board in an "advisory capacity" with no authority. Some six months after the acquisition, fees are raised to meet Pennsylvania Bank & Trust schedule, which has been an irritant for the acquired bank's customers.

### **INFORMATION ON CITY NATIONAL BANK**

City National Bank, with assets of \$110 million, has six branches through out the county, and it has been a bank that had a reasonable amount of commercial small business accounts, but most of its emphasis has been on the consumer market. It prided itself on "no service charge checking" for its consumer customers. The bank's emphasis in its marketing effort was direct car loans and mortgage loans.

City National Bank has been competitive, but was never very aggressive in calling on businesses or establishing a major marketing effort. In fact, the last two years, the bank has taken a "hold on to the business we have" attitude, launching no new marketing programs.

### **INFORMATION ON FIRST STATE BANK**

First State Bank is a locally owned and operated community bank with \$125 million in deposits that has focused on small businesses and professional-executives markets. They welcome consumer business, but their main marketing thrust is focused upon small businesses and professional-executives. The bank has five branches spread throughout their market. Currently, the hours of operation for the bank are from 9 a.m. to 3 p.m. on Monday through Thursday and 9 a.m. to 5 p.m. on Friday. The bank is closed on Saturdays and Sundays, but have ATMs at each branch.

### **QUESTIONS**

1. First State Bank is \$125 million in deposits and controls the largest market (45%). What impact will Pennsylvania Bank & Trust's acquisition of City National Bank have on the bank's ability to compete?
2. In light of the announced acquisition, what action do you (First State Bank) propose to take before acquisition is completed?
3. What will be your strategy to market your bank (First State Bank) in light of the need be able to compete with a large regional bank with substantial resources?



4. With the large regional bank increasing City National Bank's hours, it will be staying open from 9am to 5pm weekdays and closing on Saturdays altogether, what will you (First State Bank) do about your hours of operation?
5. Rumor has it that Pennsylvania Bank & Trust will eliminate some of its newly acquired City National Bank branches in the area and replace them with ATM's. In light of this, what will you (First State Bank) do with your five branches?
6. Does the issue of service quality and customer service play a major role in your ability (First State Bank) to compete with the large, regional bank? If so, how?
7. What are some of the other issues that have not been mentioned that you believe will impact your bank (First State Bank) unfavorably?
8. What are some of the other issues that have not been mentioned that you believe will impact your bank (First State Bank) favorably?