NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

Risk Management in Financial Institutions
FINC-UB.0022.01, Spring 2012
MW 11:00 a.m. – 12:15 p.m

FINC-UB.0022.02, Spring 2012
MW 2:00 p.m. – 3:15 p.m.

Professor Anthony Saunders
Room 5-140

Course Description

This course focuses on risk management in financial institutions. The course begins with analysis of the specialness of FIs and the threats to the FI system by the current crisis. This is followed by an overview of the types, operations and regulatory structures of FIs today. A key feature of FIs is their exposure to risk. Consequently, the bulk of the course is spent in analyzing the nature of FI risk exposures and instruments and strategies to manage those risks. These risks include interest rate risk, market risk, credit risk, operational risk and liquidity risk. A key part of the course analyses the role of regulators in controlling such risks through mechanisms such as deposit insurance and capital requirements.

Course Evaluation

1. 10 surprise closed book short quizzes (1% each quiz x 10 = 10%)
2. Exam 1 on Wednesday, February 22, 25 %
3. Exam 2 on Monday, March 26, 25%
4. Exam 3 (Final) TBD (Exam Period), 40%

IMPORTANT

All quizzes and exams are totally closed book without exception.

All exams require a basic (non-programable calendar). If you don’t have one borrow one or buy one. Use of laptops or programable calculators will lead to immediate “F” grade.

Blackboard

- Course outline
- Course notes/slides

Office Hours

Monday/Wednesday 12:30 – 1:30 p.m. or by appointment
Schedule of Classes

1. Monday, January 23 - Overview of the course
   Why are financial intermediaries special?
   Readings: SC, Chapter 1

2. Wednesday, January 25 - Financial Intermediaries and the sub-prime crisis
   Readings: SC, Chapter 1

3. Monday, January 30 - Depository Institutions (Banks)
   Readings: SC, Chapter 2

4. Wednesday, February 1 - Depository Institutions (continued)
   Readings: SC, Chapter 2

5. Monday, February 6 - Insurance Companies
   Readings: SC, Chapter 3

6. Wednesday, February 8 - Securities Firms-Investment Banks and Finance Companies
   Readings: SC, Chapter 4

7. Monday, February 13 - Mutual Funds
   Readings: SC, Chapter 5

8. Wednesday, February 15 - Overview of Risks of Financial Institutions
   Readings: SC, Chapter 7

9. Monday, February 20 – Presidents’ Day (No Class)

10. Wednesday, February 22 - Exam 1 (Closed Book)

11. Monday, February 27 - Interest Rate Risk 1
    Readings: SC, Chapter 8

12. Wednesday, February 29 - Interest Rate Risk 2
    Readings: SC, Chapter 9

13. Monday, March 5 - Interest Rate Risk: From Theory to Practice 1
    Readings: SC, Chapter 22

14. Wednesday, March 7 - Interest Rate Risk: From Theory to Practice 2
    Readings: SC, Chapters 23-24
**SPRING BREAK (MARCH 12-18)**

15. Monday, March 19 - Market Risk: 1  
   Readings: SC, Chapter 10

16. Wednesday, March 21 - Market Risk: 2  
   Readings: SC, Chapter 10

17. **Monday, March 26 - Exam 2 (Closed Book)**

18. Wednesday, March 28 - Loan and Credit Risk  
   Readings: SC, Chapter 11  
   CRM, Chapter 2

19. Monday, April 2 - Loan and Credit Risk  
   Readings: SC, Chapter 11  
   CRM, Chapter 4

20. Wednesday, April 4 - Loan and Credit Risk  
   Readings: SC, Chapter 11  
   CRM, Chapter 6 pp. 84-97

21. Monday, April 9 - Loan Portfolio Selection and Risk Measurement  
   Readings: SC, Chapter 12, pp. 151-165

22. Wednesday, April 11 - Credit Derivatives  
   Readings: CRM, Chapter 15

23. Monday, April 16 - Liquidity Risk  
   Readings: SC, Chapter 17

24. Wednesday, April 18 - Operational Risk  
   Readings: SC, Chapter 16

25. Monday, April 23 - Capital Adequacy  
   Readings: SC, Chapter 20

26. Wednesday, April 25 - Capital Adequacy  
   Readings: SC, Chapter 20

27. Monday, April 30 - Capital Adequacy  
   Readings: SC, Chapter 20

28. Wednesday, May 2 - Securitization  
   Readings: SC, Chapter 26
29. Monday, May 7 - REVIEW

30. FINAL EXAM (Closed Book, TBD)

Readings

Books:

2. A. Saunders and L. Allen: *Credit Risk Measurement* -- Chapter Handout (CRM)