

**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:

- 1, A. Saunders and M. Cornett: *Financial Institutions Management*, 7th edition (SC)
2. A. Saunders and L. Allen: *Credit Risk Measurement* -- Chapter Handout (CRM)