MANAGING THE FINANCIAL FIRM
Spring Term 2017

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CONTENT

A large volume of research shows that a healthy financial system is critical for economic growth. If there is too little finance, firms can't innovate and invest efficiently and households can't save, borrow and share risk efficiently. Too much finance leads to bubbles and crashes, with long lasting implications for economic growth and household wealth.

This course is about the critical roles that financial institutions and the government play in our financial system. We will be looking at a variety of financial institutions including banks (community banks, regional banks, global banks, and investment banks); insurance companies; and "shadow banks" – entities that don't have bank charters but provide banking services. This last category arguably includes finance companies, hedge funds, money market funds, and online lending platforms. What we'll see is that the activities of these institutions are shaped by government policies, whether directly through explicit regulation (e.g., bank capital rules) or indirectly through the government's role in financial markets (e.g. mortgage guarantees provided by Fannie Mae and Freddie Mac). Mainly, we will be looking at decisions through the lens of private financial institutions with government policy as an important factor in the background, but for some of the course we will look at issue through the government's public policy lens.

The course is divided into three basic modules and one concluding module. In the first module, we'll study the basic business model of banking. Unlike most firms, banks actually make money on both sides of their balance sheets, and we'll study why and how, and the challenges they face in doing so. In the second module, we'll study the spectacular failure of the banking system during the financial crisis – how banks mismanaged both sides of their balance sheets – and the unprecedented response of the government to stabilize the financial system. We will also look at the regulations that have been put in place to achieve longer-term financial stability. In the third module, we study non-bank financial intermediaries, some of which grew or morphed in response to the financial crisis and new regulations. This module includes discussion of fintech companies, finance companies, securitization entities, and insurance.

About 2/3 of the class sessions will be traditional HBS cases, almost all of which are set in the last five years. The rest of the class sessions will be devoted to discussion of academic articles or policy memos that I have prepared.

For a good part of the latter half of the course we will be joined by Paul Tucker, a Fellow at Harvard Kennedy School of Government and Chair of the Systemic Risk Council. Mr. Tucker spent over 30 years at the Bank of England, most recently as the Deputy Governor for Financial Stability. He was also a member of the G20 Financial Stability Board Steering Committee. In these positions, he played a very important role in the short-term response to the financial crisis and in financial regulatory reform.

ADMINISTRATION

Assignments will typically be posted by Thursday of the week prior to the class, if not sooner.

Your course grade will be based on class participation (50%) and the final exam (50%). Evaluation of your class participation will be based on both the frequency and the quality of your comments, with more weight being placed on the latter criterion. The format of the final exam will be electronic and self-scheduled, and will consist of a series of questions (some possibly based on "mini-cases") that test your understanding of the course material. Students are asked to attend class only if they are fully prepared to participate in the discussion, and not to arrive late or leave early. If you must be absent from class, please notify me in advance via the absence notification system. Under the new MBA program policy, you will have two job search vouchers that you can use for scheduled interviews. You are required to submit a 1-2 page analysis of the case (plus exhibits as appropriate) before class. These will be excused absences, but the quality of the writeup will be factored into your grade. You will also be required to submit a writeup before class for any unexcused absence. Not submitting a writeup for an unexcused absence will be treated more negatively in grading.

I will be available to meet with students by appointment. When possible, I will try to reserve time at the end of the day our course meets for these appointments. To schedule an appointment please contact Peggy Moreland (Email: pmoreland@hbs.edu or Tel: 617-495-6882).

RESOURCES

SNL is a great resource for doing research on the banking industry as it collects information from a variety of sources and packages them in a convenient way to use in analysis. It is also great resource to stay informed about what is going on in the banking industry. You can set up your account through the Databases section of the Baker Library website. If you want, you can receive daily emails with industry news.

Another good resource is the daily periodical, American Banker, http://www.americanbanker.com. The full articles are not available on the website without an expensive subscription, but they are available online through Baker Library via EBSCO in the e-journals section of the website. You can, however, sign up for a free trial subscription and you will receive daily emails with the articles appearing that day.

If you want to know more about what is going on in the regulatory arena, some good sites to check are Better Markets (www.bettermarkets.com), The Clearinghouse (www.theclearinghouse.org) and SIFMA (www.sifma.org). Better Markets advocates for financial reform. The other two organizations provide industry perspectives. A legal perspective is provided on a blog by the law firm, Davis Polk (http://www.finregreform.com). You can also subscribe to their newsletter.

SCHEDULE

Class #	Date	Day	Case
			Module 1: Banking Basics
1	Jan 23	Mon	The Case of the Unidentified Financial Firms and Introduction
2	Jan 25	Wed	Leader Bank, N.A.
3	Jan 30	Mon	Leader Bank, N.A.
4	Jan 31	Tue	Introduction to Bank Valuation
5	Feb 6	Mon	The Proposed Merger of M&T and Hudson City
6	Feb 7	Tue	Bidding for Finansbank
7	Feb 13	Mon	"Fair Play" at Huntington Bancshares
8	Feb 14	Tues	BancOne Corporation: Asset and Liability Management
9	Feb 15	Wed	Novantas and Deposit Funding at First Regional Bank
10	Feb 21	Tue	Perspectives on Banking
			Module 2: The Financial Crisis and Government Response
11	Feb 22	Wed	Long-Term Capital Management
12	Feb 27	Mon	The Failure of Bear Stearns and Lehman
13	Feb 28	Tues	The Aftermath of Lehman's Failure
14	Mar 6	Mon	The Government to the Rescue: Fiscal Policy, LOLR, and QE
15	Mar 7	Tues	Regulation: Capital and Liquidity
16	Mar 8	Wed	Regulation: TBTF
			Module 3: Non-Bank Financial Intermediation
17	Mar 20	Mon	Oaktree and the Restructuring of CIT Group
18	Mar 21	Tues	Lending Club: Time to Join?
19	Mar 27	Mon	OnDeck Capital, Inc.
20	Mar 28	Tues	Sankaty Advisors: Race Point IV CLO
21	Apr 3	Mon	Housing Finance: What Next?
22	Apr 4	Tues	ABRY Partners and NSM Insurance
23	Apr 10	Mon	USAA: Catastrophe Risk Financing
24	Apr 11	Tues	GE Capital After the Crisis
			Course Conclusion
25	Apr 18	Tues	No Class
26	Apr 19	Wed	FirstBank of Puerto Rico and the Fiscal Crisis
27	Apr 24	Mon	Future of Finance?
28	Apr 25	Tues	Wrap-up