Faculty of Commerce and Economics
School of Banking and Finance

FINS5534
THE STRATEGIC MANAGEMENT OF CREDIT
AND LOAN POLICY

COURSE OUTLINE
SESSION 2, 2006
1. COURSE STAFF

Course co-ordinator and
Lecturer in Charge: Mr. Vic Edwards
Email address: v.edwards@unsw.edu.au
Location: Quad 3047
Lectures: For the whole course weeks 1 -14
Consultation: Wednesdays 17.00 – 18.00
Project tutor/consultant: TBA (Dependent on availability of funds)
Email address:
Weeks: 7 & 8 inclusive Consultation Time: TBA
Week : 11 Consultation Time: TBA

1.1 Communication with Staff
For enquiries about course administration or content, students are encouraged to:
• Check the WebCT site
• Email the lecturer or project consultant
• Contact the lecturer or project tutor after class or during their consultation hours.

2. INFORMATION ABOUT THE COURSE

2.1 Teaching time and Location
Wednesday 18.00 – 21.00 CLB.4

2.2 Units of Credit
This course has six units of credit and 3 contact hours per week.

2.2.1 Relationship of this course to other course offerings
This course includes lending theory, credit risk measurement and modelling, analysis of lending products, and managing the loan portfolio and problem loans. Advanced topics of securitisation and credit derivatives are also covered. It is the only course dealing specifically with credit and lending and is designed to combine theory with practice from a strategic view point. It is therefore essential for any career in the banking or credit risk management industries. The course is an elective in the banking specialisation.

2.2.2 The Financial Services Institute of Australasia (Finsia). Finsia is the principal professional association for the securities, banking and financial services industries in Australia. Being enrolled in the B.Com degree gives access to general membership of Finsia. Students wishing to join Finsia may do so by visiting the website: http://www.finsia.edu.au and following the prompts. Significant benefits are offered to members with a program of professional development and a social program for young members. Students are able to meet with young professionals in the industry and develop some networking skills. The School of Banking and Finance is currently working on a program with Finsia to assist students in professional jobsearch and the development of job interview skills. Membership of Finsia is highly recommended.

2.4 Assumed Knowledge

FINS3613 is to be taken as a prerequisite or co-requisite to develop a more complete understanding of the risk-return relationship and evaluate alternate investment strategies. The lending and credit analytic skills developed in this course
complement the study of investments and are essential building blocks of the study of finance. This course also assumes the student has some basic familiarity with financial instruments, institutions and market instruments in a modern capitalist economy.

2.5 Approach to learning and teaching

1. **Theory and knowledge that provides a lasting knowledge base.** A frequently asked question on this topic is “What is the difference between doing a TAFE course and a University course in a similar area”. The answer I use is from a former Vice Chancellor of Sydney University, Sir Hermann Black. He said, “A TAFE course is technique oriented and is designed to give you current skills and techniques that permit you to work immediately in the marketplace. A University course will give you the theory, the philosophy and the rationale to understand the topic area and the body of thought in such a way that it will give you a continuing or ongoing basis for understanding the subject area, but more importantly, it teaches you to keep abreast of the literature. It also trains you to be analytical and conceptual in your thinking so that you can always keep up with the topic or subject area even though the techniques of analysis change. A university education gives you an education that leads to a lasting and self perpetuating knowledge base.”

2. **Group based activities.** Much of research and project work is done in group based activities and both the mock boardroom presentations and the major project are based upon teamwork. This approach should cultivate opportunities to show initiative, leadership and teamwork as well as coping with the negative attributes of conflict and conflict resolution.

3. **This course is designed to foster technical skills and better written communication and oral presentation standards in finance.** The presentations and the major project are designed to develop better hands-on technical skills, oral and written communication skills respectively on financial topics. If students are to reach middle management levels and beyond in finance successfully, they will need these skills. The seminar/mock boardroom presentations and the major project, together with feedback provided by your lecturer/tutor will achieve this end.

4. **A standard of research and project work that meets current commercial standards.** The mock boardroom presentations and major project are judged by such standards. Feedback is given by the lecturer in the form of a written critique of assessment on each boardroom presentation. In a similar way, the major group project permits the student to experience commercial research and project type work and the presentation is in a form complying with an industry report. Guidance on standards is give through the project tutor and the lecturer.

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

My aim in teaching this course in addition to imparting the knowledge contained in print based materials is to impart my own commercial experience and get away from a mere textbook treatment of lending and credit analysis and to let students discover for themselves, real-life problems in lending and credit risk management. Mock boardroom presentations and the development of models using real-life data to undertake a task as advising whether a company is credit worthy or not.
3.2 Student Learning Outcomes

By the end of this course, you should be able to:

- Have a good appreciation of the credit and lending market basics from both consumers’ and financial institutions’ viewpoints.
- Be able to interpret and analyse the credit risk potential to an institution, starting with credit ratings and credit assessments, and finding strategic and innovative solutions.
- Know the consumer and real estate lending market including their regulatory regimes and be able to analyse and solve problems.
- Know both the domestic and international corporate and business credit and lending market and be able to analyse and solve problems.
- Overview the electronic banking and lending market including its potential, its problems and their solutions.
- Be confident that a strong basic theoretical and practical base of credit risk management knowledge has been gained.
- Be confident that you can meet both written and oral standards of commercial report writing and presentations on the subject matter of this course.

3.3 Teaching Strategies

The course consists of lectures, seminar/mock boardroom presentations of set problems (both practical and theoretical) and current issue topics. There is a major project to be undertaken as a group.

The lectures are to provide state-of-the-art theories plus basic and factual information as well as practical insights. For example, industry experts are invited to give their perspective on some important topics.

The seminar/mock boardroom presentations are designed to ensure that students know what industry standards apply to problem solving. It also serves to ensure that students are able to learn how to present both orally and in writing to a commercial standard in a friendly and encouraging environment. Surveys of graduate employment have shown that Australian University graduates to do not have good presentation skills though their numeracy and spread sheeting skills are very good. See URL: [http://www.detya.gov.au/highered/eippubs](http://www.detya.gov.au/highered/eippubs). In the feedback I give to each presentation – you will receive a 500 to 1000 word critique on the presentation’s strengths and weaknesses. See “Seminar/Mock Boardroom Program” on WebCT for more details.

The major group project is also designed to simulate a real-life commercial project. The group activity is also designed to provide experience in the development of leadership and teamwork skills. A graduate tutor will be available for you to discuss your problems and assist in finding solutions just as you may have a consultant in industry. The tutor is not a person that will do your project for you though – so please don’t try and use him/her in that way.
These teaching strategies should reinforce the course aims and student learning outcomes stated above.

4. STUDENT RESPONSIBILITIES AND CONDUCT

All students are expected to adhere to university policies in relation to class attendance and general conduct and behaviour. In addition, students are expected to understand their obligations in relation to workload and keeping informed. Information and policies on these topics can be found at: www.my.unsw.edu.au

4.1 Workload
It is expected that you will spend at least **eight hours** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Attendance
Your regular and punctual attendance at lectures and seminars is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

4.3 General Conduct and Behaviour
You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.4 Keeping Informed
You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

5. LEARNING ASSESSMENT

5.1 Formal Requirements
In order to pass this course, you must:
- achieve a composite mark of at least 50; and
- satisfactorily attempt all assessment tasks (see below).
5.2 Assessment Details

Assessment in this course is a combination of individual and group assessment tasks consisting of a mid-session examination, final examination, group seminar/mock boardroom presentations and major real life group research project. Individual exams must be your own work. Group assignment tasks must be done and submitted as a team. Free riders in group tasks are identified by confidential questionnaire circulated in the final examination and will receive an appropriate reduction of marks for the group assignment task concerned.

The assessment regime is designed to promote and reinforce the stated learning objectives.

The assessment weights for the following tasks will be:

- **Mid-session Exam**  
  Due: Week 6 and will cover material either in the text or in lecture notes or orally in lectures during the first 5 weeks of class.

- **Final Exam**  
  Due: In the UNSW Exam Week and will cover weeks 7 to 13

- **Seminar/Presentation and Participation**  
  The assignment will be due by the end of the lecture in Week 14.

- **Applied Project Assignment**  
  Students failing to take either exam will be awarded a failure for unsatisfactory performance. The mid session exam will consist of multiple choice questions + applied problems to solve and final exams will consist of multiple choice and essay and problem type questions. The marks or weighting for each question will appear on the exam paper and will reflect the degree of difficulty of the question.

- **The seminar/boardroom presentation involves more than attendance.** Make sure you contribute to the class discussions and endeavour to complete the assigned work prior to attending your seminar/presentation. See “Seminar Program” in your WebCT notes for more details.

- **The criteria by which marks will be assigned for the seminar/boardroom presentation are as follows:**
  Fifteen marks are allocated to the seminar/mock Boardroom presentation program. 2 marks will be allocated for each of the following 5 main elements of the written paper.

1. Whether the question has been answered or not.
2. Content
3. Argument and development
4. Appropriateness of summary and conclusions
5. Research and analysis
The delivery will be judged on:

1. Presentation and consistency with the written paper, and
2. Ability to stimulate interest in a captive audience

And **one mark** will be allocated for each delivery element.

The remaining **three marks** will be allocated for student’s audience participation and will be judged on frequency of quality contributions to the seminar program (by asking pertinent questions or by providing debate, discussion or solutions to the discussion topic).

The rationale/purpose for the assessment and the relationship with specific student learning outcomes has been discussed above.

- Dates and procedure of submission of all assessment tasks are notified in the WebCT notes. Late submission and information about penalties for lateness are also notified in the WebCT notes.

### 5.3 The Special Consideration and Supplementary Examinations

For the Faculty’s Special Consideration and Supplementary Examinations policy, see URL:


Please note that the supplementary exam may take the form of a viva (ie an aural exam administered by the lecturer).

### 5.4 Assignment Format

Information about the assignment format is contained in the WebCT notes titled “Major Project Assignment”.

6. Academic Honesty and Plagiarism

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see:

http://www.lc.unsw.edu.au/plagiarism/index.html

Plagiarism is the presentation of the thoughts or work of another as one’s own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person’s assignment without appropriate acknowledgement;
- paraphrasing another person’s work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does not amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre.
  Used with kind permission from the University of Newcastle
† Adapted with kind permission from the University of Melbourne.
7. STUDENT RESOURCES

7.1 Course Resources

Provide information on the resources available to students such as:

- The prescribed textbook is “Managing Credit Risk: The Next Great Financial Challenge” by John B. Caouette, Edward Altman, and Paul Narayanan, Wiley N.Y., 1998 and is available from the Bookshop on Campus.
- The course structure will be set around the notes I post weekly and these will be cross referenced to your readings.
- Additional materials are provided in WebCT and may be notified to you in lectures.
- Recommended Internet sites are also notified to you in lectures and in WebCT notes.

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- Learning and study support
- FCE Education Development Unit (http://education.fce.unsw.edu.au ). I would like to say a special word about the EDU: Students should avail themselves of this service if they are underperforming in assessment tasks. N.B. students capable of gaining a HD instead of a credit have been referred to this service by your lecturer with success. It is not only for students in fear of failure.
- UNSW Learning Centre (http://www.lc.unsw.edu.au
- EdTec – WebCT information (http://www.edtec.unsw.edu.au
- Counselling support · http://www.counselling.unsw.edu.au
- Library training and support services · http://www.library.unsw.edu.au
- Disability Support Services – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (http://www.equity.unsw.edu.au/disabil.html). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- Examination procedures and advice concerning illness or misadventure https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html

8. CONTINUAL COURSE IMPROVEMENT

This course is constantly being improved by means of student feedback · through comment during the course and from formal evaluations. For example, the use of a
tutor to act as a consultant for the final project has come from the last round of student suggestions/evaluations (and is of course subject to funds being available.

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

**TEXTBOOK**

The textbook for the course is:


Other helpful texts that I refer to are:
“Credit Analysis & Lending Management”, Sathye, Bartle, Vincent and Boffey, Wiley, 2003 (This book was used last semester – it will be referred to in early lectures).
“Credit Risk Measurement”, Saunders A and Allen L, Wiley 2002. and

Look up Risk Books website: http://www.riskbook.com/topics/risk_management_credit_institutional.htm

This site contains many of the very current publications on different and specialised aspects of credit risk.

**APART FROM THE TEXTBOOK, THE OTHER BOOKS ARE NOT ALWAYS KEPT IN STOCK AT THE BOOKSHOP BUT MAY BE ORDERED. SOME BOOKS MAY BE AVAILABLE FROM THE LIBRARY.**

**THE COURSE SCHEDULE IS SHOWN OVERLEAF.**
### 9. LECTURE OUTLINE*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>24th Jul</td>
<td>VE</td>
<td>Introduction to Lending - culture, background and environment, and Strategy - Analysis &amp; Interpretation of Credit Risk</td>
<td>(Both C &amp; S) Chapter 1 Chapter 2 &amp; C. Chapter 3</td>
</tr>
<tr>
<td>2</td>
<td>31st Jul</td>
<td>VE</td>
<td>Credit Scoring</td>
<td>C:Ch 12</td>
</tr>
<tr>
<td>3</td>
<td>7th Aug</td>
<td>VE</td>
<td>Consumer Credit Code</td>
<td>Handout</td>
</tr>
<tr>
<td>4</td>
<td>14th Aug</td>
<td>VE</td>
<td>Workshop Block</td>
<td>Weeks1 - 3</td>
</tr>
<tr>
<td>5</td>
<td>21st Aug</td>
<td>VE</td>
<td>Consumer Finance Models - from basics to sophisticated analysis</td>
<td>C:Chs 4, 5 &amp; 12 + Edwards Handout</td>
</tr>
<tr>
<td>6</td>
<td>28th Aug</td>
<td>VE</td>
<td>Mid-session exam</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>4th Sept</td>
<td>VE + industry guest</td>
<td>Small Business and Real Estate Lending</td>
<td>S:Ch 6 and Ch 7 C:Ch 13</td>
</tr>
<tr>
<td>8</td>
<td>11th Sept</td>
<td>VE</td>
<td>Testing, Implementing Credit Risk Models Default Rates, Losses &amp; Recoveries</td>
<td>C:Chs 14,15 &amp; 16</td>
</tr>
<tr>
<td>9</td>
<td>18th Sept</td>
<td>VE</td>
<td>Workshop Block</td>
<td>Weeks 5-8</td>
</tr>
<tr>
<td></td>
<td>Recess</td>
<td>25th Sept to 1st Oct</td>
<td>Mid-session Break</td>
<td>Work on the Applied Project</td>
</tr>
<tr>
<td>10</td>
<td>2nd Oct</td>
<td>VE + Industry guest</td>
<td>Structured Finance: Loan Sales and Securitisation</td>
<td>Saunders Chs 27 &amp; 28, C:Ch 8.23 Valentine/Edwards Ch.2</td>
</tr>
<tr>
<td>11</td>
<td>9th Oct</td>
<td>VE + industry guest</td>
<td>Ratings</td>
<td>C. Ch.6.</td>
</tr>
<tr>
<td>12</td>
<td>16th Oct</td>
<td>VE</td>
<td>Classical /Corporate Scorecard v. Stock Prices based Approach</td>
<td>C:Chs 7,9,10 &amp; 11</td>
</tr>
<tr>
<td>13</td>
<td>23rd Oct</td>
<td>VE</td>
<td>Workshop Block</td>
<td>As per weeks 10 to 12</td>
</tr>
<tr>
<td>14</td>
<td>30th Oct</td>
<td>VE</td>
<td>Applied Assignment Due</td>
<td>C.Ch11</td>
</tr>
<tr>
<td>14</td>
<td></td>
<td></td>
<td>Final Examination in Week 14</td>
<td></td>
</tr>
</tbody>
</table>

I hope you find the course interesting and of value to your career objectives in life.

**Vic Edwards,**  
26 July 2006