THE WALL STREET JOURNAL.

Critical Thinking Resource

Finance

About The Wall Street Journal's Critical Thinking Resource

We developed this guide to help you maximize The Wall Street Journal as a resource for your classes. You'll be able to energize discussions and engage students with tangible examples of course concepts that your students can apply in the real world. In addition, with the help of faculty partners, we've curated a special collection of our most popular and thought-provoking articles across business. For each of these readings, we provide a summary, correlation to course topics, classroom applications and questions suitable for launching discussions and conducting assessments.

Here are some of the many ways to incorporate WSJ into your courses:

- **Course Readings:** Assign articles as required reading alongside your textbook sections. For best results, include assessment questions on quizzes and exams.
- **Discussion Launchers:** Use articles to spur classroom and threaded discussions in online and hybrid courses on core concepts and current events.
- Extra Credit: Allow students to read optional articles and answer assessment questions for extra credit.
- **Group Projects:** WSJ is a rich source of real-world topics for group research and presentation projects.
- Research Papers and Case Studies: WSJ features provide timely citations for research projects.

Subtopic: Financial services landscape in the United States

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Mortgage Originations Are on Pace for Best Year Ever

Reporter: Ben Eisen

Reviewed by: Brad Gibbs, Brown University

Date: December 10, 2020

Topics: Interest Rates, Mortgages, Mortgage Industry Structure

Link to Article: Click Here

Summary: The home-lending surge is an unexpected reverberation of the Covid-19 recession. The pandemic has put millions of people out of work and made it tougher to show homes to prospective buyers. But it has also ushered in record-low interest rates that have prompted millions to refinance and lower their monthly payments or trim the length of their loans.

In the first nine months of the year, lenders extended \$2.8 trillion of mortgages, according to industry-research firm Inside Mortgage Finance. The boom has extended into the final quarter of 2020, prompting analysts to predict origination volume will exceed the prior record of \$3.7 trillion in 2003.

Classroom Application: This article provides an opportunity to explore the residential mortgage industry in the U.S., including the relationship between interest rates and mortgage origination activity, the role of government-sponsored entities, such as Fannie Mae and Freddie Mac, and mortgage servicers, and the rise of non-bank lenders.

Topics include:

- Interest Rates: The term structure of interest rates, the relationship between interest rates and bond prices and the determination of loan pricing all represent topics that can be discussed in connection with this article.
- Mortgages: The structure of residential mortgages can also be introduced, including the math associated
 with amortizing loans, discount points, down payments, fixed- vs. adjustable-rate loans, private mortgage
 insurance, etc.
- Mortgage Industry Structure: In connection with this article, the role of Fannie Mae and Freddie Mac, bank
 and nonbank lenders, and mortgage servicers can be presented and a discussion on the impact of changes
 in interest rates on homeowners, originators, and servicers can be facilitated (i.e., what happens to each
 constituency in the case of a 100bps increase or decrease in rates).

cont.

Questions:

- 1. Based on the article, where are current mortgage rates in an historical context?
- 2. What factors are driving the current pace of refinancing activity in the U.S.?
- 3. What is a "cash-out refi"?
- 4. What challenges have mortgage servicers faced during the pandemic?
- 5. Why is 2021 expected to be a slower year for mortgage originations?
- 6. Why might nonbank lenders be particularly at risk with respect to a slower 2021?
- 7. To the extent that 2020 looks like 2003 and 2021 looks like 2004, why might that be a cause for concern?
- 8. Research the terms offered online for a \$500,000, 30-yr. fixed-rate mortgage. What are the monthly payments (with and without "points")?

PNC Financial Services to Buy U.S. Arm of Spain's BBVA for \$11.6 Billion

Reporter: Cara Lombardo and Liz Hoffman **Reviewed by:** Brad Gibbs, Brown University

Date: November 16, 2020

Topics: Banking Basics, Consolidation, Acquisition Consideration and Metrics

Link to Article: Click Here

Summary: PNC Financial Services Group Inc. (PNC) agreed to buy the U.S. arm of Spain's BBVA for \$11.6 billion in November 2020 in one of the largest bank tie-ups since the financial crisis. The deal, if approved, will create the fifth-largest U.S. retail bank and seventh-largest bank by assets with more than \$550 billion on a combined basis.

There are at least 30 lenders with between \$50 billion and \$250 billion of assets. While there have been limited acquisitions in the banking sector since the Global Financial Crisis, there has been an increase in activity as the sheer number of midsize banks in the U.S. has long bred expectations of consolidation in the industry and PNC's announcement might serve as a catalyst for other deals.

Classroom Application: This article provides an opportunity to introduce the basics of banking, explore the continued consolidation of the U.S. banking industry and discuss mergers and acquisitions as a tool for pursuing strategic aims.

Topics include:

- Banking Basics: The role of loans and deposits, the derivation of net interest income and non-interest
 income, the impact of different yield curve shapes on a bank's business and the importance of capital
 can be presented in connection with this article.
- Consolidation: The acquisition of BBVA by PNC can be used to introduce various drivers of
 consolidation, including the current flat yield curve constraining banks' net interest income,
 competition from larger players, opportunities for economics of scale (such as reductions in branch costs
 and technology spend) and scope (enhanced product offerings and geographic reach).
- Acquisition Consideration and Metrics: This transaction is structured as a cash purchase, whereby PNC
 is financing the transaction with the proceeds of the sale of its equity stake in Blackrock. The article
 notes that PNC announced that the deal would be accretive to earnings, thus providing an opportunity
 to discuss the process by which PNC disposed of its Blackrock position and explain what "accretion"
 represents and why the markets use it as a measure of the attractiveness of a transaction.

cont.

Questions:

- 1. What is the strategic rationale for PNC's purchase of BBVA's US operations?
- 2. How is PNC financing the acquisition?
- 3. What is the financial impact of the transaction?
- 4. Why does the article posit that the "the old logic of adding adjacent branch networks is less powerful" today?
- 5. What forces are driving consolidation in the U.S. banking industry?
- 6. Why do you think Asian and European institutions are retreating from the U.S.?
- 7. How did Bank of America become Bank of America? Create a timeline of significant transactions undertaken during the past thirty years. A similar exercise can be undertaken for Wells Fargo, Citi, or JPMorgan Chase.

The Battle to Keep America's Black Banks Alive

Reporters: Amber Burton, Justin Scheck and John West

Reviewed by: Brad Gibbs, Brown University

Date: November 16, 2020

Topics: Financial Inclusion, Role of the FDIC, "Red-Lining"

Link to Article: Click Here

Summary: Fifteen years ago, America had 36 Black-owned banks, government data show. Now there are 18. Despite decades of federal financial and regulatory support, the majority have disappeared under the burden of soured loans, bigger competitors created by mergers, and financial downturns that hit small lenders hard.

A new generation of entrepreneurs, companies and regulators is trying a different strategy. They are promising to strengthen Black-owned banks by building up their capital with private investments and giving them new ways to earn money with hundreds of millions in big corporate deposits. Their hope is that this approach will ultimately improve Black communities' access to capital.

Classroom Application: This article provides an opportunity to explore the banking industry in the context of financial inclusion (notably, access to credit) and "pursuing social and economic justice."

Topics include:

- Financial Inclusion: As defined by the World Bank, financial inclusion "means that individuals and businesses have access to useful and affordable financial products and services that meet their needs transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way" and is considered "a key enabler to reduce extreme poverty and boost shared prosperity." This article provides an opportunity to explore initiatives to increase financial inclusion in the US.
- Role of the FDIC: As per their website, the Federal Deposit Insurance Company (FIDC) is "responsible
 for maintaining stability and public confidence in the nation's financial system." The FDIC insures
 deposits, examines and supervises financial institutions for safety and soundness and consumer
 protection, works to make large and complex financial institutions resolvable, and manages
 receiverships. This article also discusses the mandate of the FDIC to provide technical support and advice
 to minority-owned depository institutions so they can continue to support underserved communities
- "Red-Lining": This article provides an opportunity to discuss historical barriers to would-be Black homeowners obtaining mortgages as a result of the Federal Housing Authority (which was founded in 1934) refusing to insure mortgages in and near Black neighborhoods—a policy known as "red-lining"—thus curtailing banks willingness to lend to them.

Questions:

- 1. Discuss the origins of Black-owned banks in the U.S.
- 2. Discuss the various governmental initiatives that have been undertaken during the past five decades to support Black-owned banks, including the role of the FDIC.
- 3. What challenges did Black-owned banks face during the Global Financial Crisis in 2008-2009?
- 4. In what ways have Black-owned banks been able to differentiate themselves from their larger competitors?
- 5. What competitive disadvantages do Black-owned banks currently face?
- 6. What initiatives are being undertaken by corporates and larger financial institutions to support Black-owned banks?
- 7. What initiatives are being undertaken by entrepreneurs to support financial inclusion?
- 8. Research the financial statements and recent share price performance of Carver Bancorp, Inc., one of the largest, publicly traded banks focused specifically on Black communities in the U.S. What drove Carver's share price outperformance during the early summer of 2020?