

YALE ALUMNI COLLEGE
Course Proposal: Risk Management Lessons from the Financial Crisis

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While many large financial firms, including Fannie Mae, Freddie Mac, Citigroup, Countrywide, and Lehman, failed in the Financial Crisis, other firms – such as JPMorgan Chase, Goldman Sachs, and TD Bank – successfully navigated the crisis. The successful firms applied governance and risk management practices that offer important lessons. This class will provide an overview of the Financial Crisis and ways that private companies and government organizations can protect themselves against unexpected shocks in the future.

This course is intended for the Yale Alumni Community, i.e., informed people who may not have knowledge of finance and who would like to learn how the crisis happened and lessons we can learn from it.

The six classes will address the following topics:

I. The Financial Crisis: Causes and Consequences

How the crisis unfolded; key developments; incentives of key market participants; role of new technologies; costs of the crisis for over-indebted homeowners and their communities. Lessons learned.

II. Financial Supervisors and the Crisis

Problems of the regulatory framework; disparity of capabilities between regulators and regulated financial firms; disparity of power between regulators and regulated firms; dynamics of bank supervision. Lessons learned.

III. Special Vulnerabilities of the Housing Market

Problems managing financial risk of the 30-year fixed-rate mortgage; dynamics of the savings and loan debacle as they relate to the Financial Crisis; Fannie Mae and Freddie Mac as mainstays of the mortgage market; why they failed. Lessons learned.

IV. Lessons for Decision Making and Risk Management

What the NASA Shuttle Disaster and the Financial Crisis have in common; differences in governance and risk management between firms that thrived and those that failed in the crisis; complacency as a critical vulnerability; importance of constructive dialogue; feedback is a gift.

V. **Enterprise Risk Management: A Powerful Management Tool for Private Firms and Government Agencies**

Enterprise Risk Management as a way to (1) improve decision making, (2) manage risks you don't already expect, and (3) improve the flow of information across organizational boundaries; how to establish Enterprise Risk Management in an organization; how more widespread application of Enterprise Risk Management could have moderated the Financial Crisis.

VI. **Where We are Today**

The Dodd-Frank Act and financial system improvements and vulnerabilities; Hyman Minsky and the inevitability of financial cycles; complacency and financial crises; when risk management turns into crisis management. What we can do.

Class Readings:

- Alex J. Pollock, *Finance and Philosophy: Why We're Always Surprised* (Paul Dry Books, 2018)
- Optional: Thomas H. Stanton, *Why Some Firms Thrive While Others Fail: Governance and Management Lessons from the Crisis* (Oxford University Press, 2012)
- Other readings will be distributed in class.