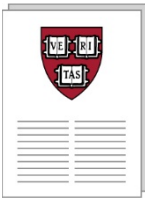




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Financial Regulation Case Study: Unidentified Financial Institutions

Case Study

Product Number: CSP030

This case study was adapted from Howell E. Jackson and Edward L. Symonds, Regulation of Financial Institutions, West Publishing Company, 1999. HLS cases are developed solely as the basis for class discussion and participation. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective legal representation.

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Different types of financial intermediaries often perform economically similar functions. In public perception, however, there is a substantial difference between categories of financial intermediaries. Most people and most politicians perceive mutual funds in a different light than commercial banks. Insurance companies are thought to be different in material respects from thrift institutions. Reality falls somewhere between economic theory and popular sensibilities.

As a step towards understanding the differences among the different classes of financial intermediaries, work your way through the following exercise and try to address these questions:

First, review the ten balance sheets and income statements shown in exhibits 1 through 10 and determine which financial statement is associated with each of the ten financial services firms listed below.

Second, take a closer look at the Unidentified Financial Institution A. How does it generate income? How profitable is it? How might that institution improve its profitability?

The institutions depicted in the following financial statements are:

1. **Commercial Bank:** Commercial banks are the most diversified and numerous of all U.S. financial institutions; they are intermediaries that attract funds largely through deposits and invest money in consumer and business loans, state and local government bonds, and U.S. Treasuries.
2. **Savings Bank:** Savings banks are traditionally organized in a mutual (as opposed to stock) form. Savings banks are primarily depository institutions that invest their funds in securities, bonds, and various other types of loans.
3. **Credit Union:** Credit unions provide functions similar to those of banks. However, their legal and organizational structures are different. Credit unions are non-profit cooperative organizations owned by their members.
4. **Credit Card Issuer:** A credit card issuer offers credit cards and payment services and funds its own lending.
5. **Mutual Fund:** Mutual funds are open-end management investment companies that are authorized to issue shares and invest in stocks, bonds, and other investment securities.
6. **Money Market Mutual Fund:** A money market mutual fund is a special form of investment company that limits itself to high-quality, short-term investments.
7. **Broker-Dealer:** These companies promote the exchange of securities in the secondary markets, offer investment advice, and sometimes underwrite or otherwise facilitate the issuance of new securities.
8. **Insurance Company:** Property and casualty insurance companies insure people against damages or loss to property (e.g., auto, home, business), including related loss of income-producing abilities.
9. **Tax Preparer:** Tax preparers provide tax preparation and electronic filing services for federal, state, and local tax returns.
10. **Alternative Financial Services Provider:** The services most commonly provided by these institutions include short-term loans (often in the form of pawn loaning or payday lending) and check-cashing services.

Exhibit 1: Institution A

Balance Sheet as of December 31, 2007

Assets	\$ Millions	% of Assets
Cash and Due from Banks	30.7	1.5%
Investment Securities and Other Short-Term Holdings	496.7	24.1%
Loans Secured by Real Estate	1,410.4	68.4%
Other Loans	48.2	2.3%
Allowance for Possible Loan Losses	(8.5)	-0.4%
Total Loans Net of Allowances	1,450.1	70.3%
Premises and Equipment	18.4	0.9%
Other Assets	66.5	3.2%
Total Assets	2,062.3	100.0%

Liabilities and Surplus	\$ Millions	% of Liabilities and Surplus
Deposits	1,600.5	77.6%
Other Liabilities	281.4	13.6%
Total Liabilities	1,882.0	91.3%
Surplus	180.4	8.7%
Total Liabilities and Surplus	2,062.3	191.3%

Income Statement for Year Ending December 31, 2007

	\$ Millions
Interest on Investment Securities and Other Short-Term Holdings	27.1
Interest on Loans Secured by Real Estate	83.8
Interest on Other Loans	3.6
Total Interest Income	114.5
Interest Expense on Deposits	(51.9)
Interest Expense on Other Liabilities	(12.1)
Total Interest Expense	(63.9)
Provision for Possible Loan Losses	0.0
Net Interest Income	50.5
Non-Interest Income	6.5
Salaries and Benefits	(27.9)
Office Occupancy and Equipment	(6.5)
Other Expenses	(11.8)
Net Non-Interest Income and Expenses	(39.7)
Income Before Taxes	10.8
Taxes	3.6
Net Income	7.3

Exhibit 2: Institution B**Balance Sheet as of December 31, 2007**

Assets	\$ Millions	% of Assets
Cash and Demand Balances Due from Banks	2,687.0	2.4%
Portfolio Securities and Other Short-Term Holdings	11,796.0	10.6%
Portfolio Loans and Leases	84,582.0	76.2%
Allowance for Loan and Lease Losses	(937.0)	-0.8%
Loans and Leases Net of Allowances	83,645.0	75.4%
Premises and Equipment	2,576.0	2.3%
Other Assets	10,258.0	9.2%
Total Assets	110,962.0	100.0%

Liabilities and Shareholders' Equity	\$ Millions	% of Liabilities and Shareholders' Equity
Deposits in Domestic Offices	69,992.0	68.8%
Deposits in Foreign Offices	5,453.0	5.4%
Total Deposits	75,445.0	74.1%
Short-Term Borrowings	9,174.0	9.0%
Accrued Taxes, Interest and Expenses	2,427.0	2.4%
Long-Term Debt	12,857.0	12.6%
Other Liabilities	1,898.0	1.9%
Total Liabilities	101,801.0	91.7%
Shareholders' Equity	9,161.0	8.3%
Total Liabilities and Shareholders' Equity	110,962.0	100.0%

Continued on next page

Exhibit 2: Institution B (continued)**Income Statement for Year Ending December 31, 2007**

	\$ Millions
Interest on Loans Including Fees	5,418.0
Interest on Portfolio Securities and Other Short-Term Holdings	609.0
Total Interest Income	6,027.0
Interest Expense on Deposits	2,007.0
Interest on Other Short-Term Borrowings	324.0
Interest on Long-Term Debt	687.0
Total Interest Expense	3,018.0
Provision for Loan and Lease Losses	628.0
Net Interest After Provision for Loan and Lease Losses	2,381.0
Electronic Payment Processing Revenue	826.0
Trading Revenue and Service charges on Deposit Accounts	579.0
Other Noninterest Income	1,062.0
Total Other Revenues	2,467.0
Salaries, Benefits & Other Compensation	(1,517.0)
Net Occupancy and Equipment	(269.0)
Other Expense	(1,525.0)
Total Non-Interest Expenses	(3,311.0)
Income Before Taxes	1,537.0
Taxes	(461.0)
Net Income	1,076.0

Exhibit 3: Institution C

Balance Sheet as of September 30, 2007

Assets	\$ Millions	% of Assets
Cash	0.5	0.0%
Asset-Backed Securities	1,366.0	37.5%
Corporate Bonds and Notes	726.2	19.9%
Certificates of Deposit	620.1	17.0%
Commercial Paper	617.7	17.0%
U.S. Govt., Agency, & Instrumentality Obligations	26.0	0.7%
Other Investments	259.9	7.1%
Interest and Other Receivables	27.0	0.7%
Total Assets	3,642.4	100.0%

Liabilities & Shareholders' Equity	\$ Millions	% of Liabilities and Shareholders' Equity
Payable for Investments Purchased	45.7	1.3%
Payable for Fees and Expenses	4.4	0.1%
Total Liabilities	50.2	1.4%
Shareholders' Equity (Net Assets)	3,593.3	98.6%
Total Liabilities and Shareholders' Equity	3,643.4	100.0%

Income Statement for Year Ending September 30, 2007

	\$ Millions
Investment Income	180.9
Investment Advisory Fee	(10.2)
Distribution and Servicing Fees	(8.5)
Other Expenses and Adjustments	(1.5)
Total Expenses	(20.2)
Net Investment Income	160.8
Realized Loss on Investments	(0.0)
Net Increase in Net Assets Resulting from Operations	160.7

Exhibit 4: Institution D

Balance Sheet as of December 31, 2007

Assets	\$Millions	% of Assets
Cash and Cash Equivalents	6,764.0	16.0%
U.S. Government and Agency Cash and Investments	8,803.0	20.8%
Equity Securities	8,201.0	19.4%
Loans	3,487.0	8.2%
Receivables	13,039.0	30.8%
Other Assets, Including Intangibles	1,992.0	4.7%
Total Assets	42,286.0	100.0%

Liabilities and Shareholders' Equity	\$Millions	% of Liability and Shareholders' Equity
Deposits from Banking Clients	13,882.0	36.0%
Payables	22,212.0	57.6%
Accrued Expenses and Other Liabilities	1,621.0	4.2%
Long-Term Borrowings	899.0	2.3%
Total Liabilities	38,554.0	91.2%
Shareholders' Equity	3,732.0	8.8%
Total Liabilities and Shareholders' Equity	42,286.0	100.0%

Income Statement for Year Ending December 31, 2007

	\$Millions
Revenues	
Interest Income	2,270.0
Asset Management	2,358.0
Trading Revenue	860.0
Other	129.0
Total Revenues	5,617.0
Interest Expense	(623.0)
Revenues, Net of Interest Expense	4,494.0
Expenses	
Non-Interest Expense	
Compensation and Employee-Related	1,781.0
Other	1,360.0
Total Non-Interest Expense	3,141.0
Income from Continuing Operations	1,853.0
Income Tax Expense	(733.0)
Income from Discontinued Operations	1,287.0
Net Income	2,407.0

Exhibit 5: Institution E

Balance Sheet as of December 31, 2007

Assets	\$ Millions	% of Assets
Cash	7.7	0.01%
Receivables	473.8	0.78%
Common Stocks	38,449.7	63.08%
Preferred Stock and Convertibles	339.9	0.56%
Bonds & Notes	17,788.2	29.18%
Short-Term Investments	3,893.1	6.39%
Total Investment Securities	60,470.9	99.21%
Total Assets	60,952.3	100.00%

Liabilities & Shareholders' Equity	\$ Millions	% of Liabilities and Shareholders' Equity
Payables for:		
Purchases of Investments	110.8	0.18%
Repurchases of Fund's Shares	208.0	0.34%
Investment Advisory Services	11.0	0.02%
Services Provided by Affiliates	30.9	0.05%
Director's Deferred Compensation	1.9	0.00%
Other	0.6	0.00%
Total Liabilities	363.3	0.60%
Shareholders' Equity		
Capital Paid in on Shares of Capital Stock	52,195.8	85.63%
Undistributed Net Investment Income	160.8	0.26%
Undistributed Net Realized Gain	420.8	0.69%
Net Unrealized Appreciation	7,811.6	12.82%
Shareholders' Equity (Net Asset Value)	60,589.0	99.40%
Total Liabilities & Shareholders' Equity	60,952.3	100.00%

Continued next page

Exhibit 5: Institution E (continued)**Income Statement for Year Ending December 31, 2007**

	\$Millions
Income	
Dividends (net of non-U.S. taxes of \$11,808)	798.0
Interest	1,136.6
Total Income	1,934.6
Fees and Expenses	
Investment Advisory Services	(140.7)
Distribution Services	(253.4)
Transfer Agent Services	(41.1)
Administrative Services	(28.6)
Reports to Shareholders	(1.7)
Registration Statement and Prospectus	(1.8)
Postage, Stationery and Supplies	(4.7)
Directors' Compensation	(0.6)
Auditing and Legal	(0.1)
Custodian	(0.5)
State and Local Taxes	(0.0)
Other	(0.1)
Total Fees and Expenses Before Reimbursements/Waivers	(473.4)
Less Reimbursements/Waivers of Fees and Expenses	
Investment Advisory Services	14.1
Administrative Services	0.0
Total Fees and Expenses After Reimbursements/Waivers	(459.3)
Net Investment Income	1,475.3
Net Realized Gain and Unrealized Appreciation on Investments and Currency	
Net Realized Gain on:	
Investments	1,907.3
Currency Transactions	0.4
Total Net Realized Gain	1,907.7
Net Unrealized Appreciation (Depreciation) on:	
Investments	224.8
Currency Translations	(0.1)
Total Net Unrealized Appreciation	224.8
Net Realized Gain and Unrealized Appreciation	2,132.5
Net Increase in Net Assets Resulting from Operations	3,607.8

Exhibit 6: Institution F

Balance Sheet as of December 31, 2007

Assets	\$ Millions	% of Assets
Cash	445.9	1.4%
Investments	2,088.1	6.3%
Securities Available for Sale	680.9	2.1%
Securities Held to Maturity	821.6	2.5%
Mortgage Loans Awaiting Sale	67.8	0.2%
Loans	26,163.2	79.3%
Deposits	1,039.2	3.1%
Accounts Receivable	526.0	1.6%
Accrued Interest Receivable	122.4	0.4%
Fixed Assets	539.0	1.6%
NCUSIF Deposit	193.1	0.6%
Mortgage Servicing Assets	191.8	0.6%
Prepaid Expenses	95.7	0.3%
Other Assets	37.2	0.1%
Total Assets	33,011.9	100.0%

Liabilities and Equity	\$Millions	% of Liabilities and Equity
Member Accounts		
Share Draft	3,181.8	9.6%
Regular Share Savings	13,522.0	41.0%
All Other	7,273.8	22.0%
Total Member Accounts	23,977.6	72.6%
Other Liabilities	5,767.5	17.5%
Total Liabilities	29,745.1	90.1%
Equity	3,266.8	9.9%
Total Liabilities and Equity	33,011.9	262.7%

Continued on next page

Exhibit 6: Institution F (continued)**Income Statement for Year Ending December 31, 2007**

	\$Millions
Total Interest Income	1,882.3
Total Interest Expense	(976.5)
Provision for Loan and Lease Losses	(283.9)
Net Interest Income After Provision for Loan Losses	621.9
Non-Interest Income	
Fee Income	137.7
Other Operating Income*	259.4
Gain (Loss) on Investments and Fixed Assets	11.6
Other Non-Operating Income	82.3
Total Non-Interest Income	491.0
Non-Interest Expense	
Compensation	489.5
Operating**	188.3
Loan Servicing	128.3
All Other	70.4
Total Non-Interest Expense	876.7
Net Income	236.2

* mortgage servicing, credit card interchange, check card interchange

** office operating, office occupancy, education and marketing

Exhibit 7: Institution G

Balance Sheet as of November 30, 2007

Assets	\$Millions	% of Assets
Cash and Cash Equivalents	8,787.1	23.5%
Investment Securities	525.4	1.4%
Loan Portfolio		
Credit Cards	23,469.0	62.8%
Commercial Loans	234.1	0.6%
Other Consumer Loans	251.2	0.7%
Allowance for Loan Losses	(916.8)	-2.5%
Net Loan Receivables	23,037.5	61.6%
Accrued Interest Receivable	139.4	0.4%
Amounts Due from Asset Securitization	3,093.5	8.3%
Other Assets	1,793.2	4.8%
Total Assets	37,376.1	161.6%

Liabilities and Shareholder's Equity	\$Millions	% of Liabilities and Shareholder's Equity
Deposits	24,725.4	66.2%
Short-Term Borrowings	3,175.4	8.5%
Long-Term Borrowings	2,134.1	5.7%
Accrued Interest Payable	264.9	0.7%
Accrued Expenses and Other Liabilities	1,476.8	4.0%
Total Liabilities	31,776.7	85.0%
Shareholders' Equity	5,599.4	15.0%
Total Liabilities and Shareholders' Equity	37,376.1	100.0%

Continued next page

Exhibit 7: Institution G (continued)**Income Statement for Year Ending December 31, 2007**

	\$Millions
Consumer Loans	2,416.5
Commercial Loans	3.9
Federal Funds Sold	241.7
Commercial Paper	0.8
Investment Securities	10.5
Deposits in Other Banks	25.1
Other Interest Income	189.7
Total Interest Income	2,888.2
Interest Expense	
Deposits	(1,044.6)
Short-Term Borrowings	(232.2)
Long-Term Borrowings	(105.6)
Total Interest Expense	(1,382.4)
Provision for Loan Losses	(950.2)
Net Interest Income After Provision for Loan Losses	555.6
Securitization Income	2,384.5
Loan Fee Income	387.2
Discount and Interchange Revenue	263.9
Insurance	202.2
Merchant Fees	92.5
Transaction Processing Revenue	99.7
Other Income	116.2
Total Other Income	3,546.1
Other Expenses	
Compensation and Benefits	(922.1)
Operating Expenses*	(1,480.8)
Goodwill and Intangible Impairment Loss	(391.1)
Other Expenses	(\$362.5)
Total Other Expenses	(\$3,156.5)
Income Before Taxes	945.2
Taxes	(356.6)
Net Income	\$588.6

*marketing and business development, info processing and communications, professional fees, premises and equip.

Exhibit 8: Institution H

Balance Sheet as of April 30, 2008

Assets	\$Millions	% of Assets
Current Assets		
Cash and Cash Equivalents	4.6	0.8%
Accounts Receivable (net of allowance for doubtful accounts of \$694 and \$1,279, respectively)	17.9	3.0%
Notes Receivable, net	6.0	1.0%
Prepaid Expenses and Other	13.2	2.2%
Deferred Income Taxes	0.2	0.0%
Total Current Assets	41.9	7.0%
Property and Equipment, net	32.1	5.3%
Goodwill	414.9	69.1%
Other Intangible Assets, net	86.5	14.4%
Notes Receivable, net	6.0	1.0%
Other Non-Current Assets, net	18.7	3.1%
Total Assets	600.1	100.0%
Liabilities and Shareholder's Equity	\$Millions	% of Liabilities and Shareholder's Equity
Current Liabilities		
Accounts Payable and Accrued Liabilities	34.9	5.8%
Income Taxes Payable	48.5	8.1%
Deferred Revenues	8.3	1.4%
Total Current Liabilities	91.6	15.3%
Long-Term Debt	231.0	38.5%
Deferred Income Taxes	27.3	4.5%
Other Non-Current Liabilities	13.6	2.3%
Total Liabilities	363.5	60.6%
Shareholders' Equity	236.5	39.4%
Total Liabilities and Shareholders' Equity	600.1	100.0%

Continued next page

Exhibit 8: Institution H (continued)**Income Statement for Year Ending April 30, 2008**

	\$Millions
Revenues	
Franchise Operations Revenues	
Royalty	76.5
Marketing and Advertising	34.0
Financial Product Fees	71.5
Other	9.9
Service Revenues from Company-Owned Office Operations	86.5
Total Revenues	278.5
Expenses	
Cost of Franchise Operations	(35.4)
Marketing and Advertising	(48.4)
Cost of Company-Owned Office Operations	(65.9)
Selling, General and Administrative	(48.9)
Depreciation and Amortization	(13.2)
Total Expenses	(211.8)
Income from Operations	66.7
Other Income/(Expense)	
Interest Income	1.8
Interest Expense	(14.4)
Income Before Taxes	54.2
Provision for Income Taxes	21.7
Net Income	32.4

Exhibit 9: Institution I

Balance Sheet as of December 31, 2007

Assets	\$Millions	% of Assets
Current Assets		
Cash and Cash Equivalents	22.7	2.5%
Pawn Loans	137.3	15.2%
Cash Advances, net	88.1	9.7%
Merchandise Held for Disposition, net	98.1	10.8%
Finance and Service Charges Receivable	27.0	3.0%
Other Receivables and Prepaid Expenses	16.3	1.8%
Deferred Tax Assets	20.2	2.2%
Total Current Assets	409.8	45.3%
Property and Equipment, net	161.7	17.9%
Goodwill	306.2	33.8%
Intangible Assets, net	23.5	2.6%
Other Assets	3.5	0.4%
Total Assets	904.6	100.0%

Liabilities and Shareholder's Equity	\$Millions	% of Liabilities and Shareholder's Equity
Current Liabilities		
Accounts Payable and Accrued Expenses	87.4	9.7%
Customer Deposits	7.9	0.9%
Income Taxes Currently Payable	3.8	0.4%
Current Portion of Long-Term Debt	8.5	0.9%
Total Current Liabilities	107.5	11.9%
Deferred Tax Liabilities	18.6	2.1%
Other Liabilities	1.7	0.2%
Long-Term Debt	280.3	31.0%
Total Liabilities	408.0	45.1%
Shareholders' Equity	496.6	54.9%
Total Liabilities and Shareholders' Equity	904.6	100.0%

Continued next page

Exhibit 9: Institution I (continued)**Income Statement for Year Ending December 31, 2007**

	\$Millions
Revenue	
Finance and Service Charges	161.0
Proceeds from Disposition of Merchandise	396.8
Cash Advance Fees	355.2
Check Cashing Fees, Royalties and Other	16.4
Total Revenue	929.4
Cost of Revenue	(246.8)
Net Revenue	682.6
Expenses	
Operations	(304.5)
Cash Advance Loss Provision	(155.2)
Administration	(57.3)
Depreciation and Amortization	(32.1)
Total Expenses	(549.1)
Income from Operations	133.5
Interest Expense	(16.0)
Interest Income	1.0
Foreign Currency Transaction (loss)	(0.0)
Gain on Sale of Foreign Notes	6.3
Income from Continuing Operations Before Taxes	124.8
Provision for Income Taxes	(45.4)
Net Income	170.2

Exhibit 10: Institution J**Balance Sheet as of December 31, 2007**

Assets	\$Millions	% of Assets
Cash and Cash Equivalents	61.9	8.8%
Investment Securities	400.1	57.0%
Accrued Investment Income	3.4	0.5%
Premiums Receivable	95.9	13.7%
Deferred Acquisition Costs	9.5	1.4%
Receivable from Reinsurers	37.1	5.3%
Amounts Due from Service Clients	13.3	1.9%
Prepaid Expenses, Agent Loans, and Deposits	7.2	1.0%
Real Estate	23.0	3.3%
Fixed Assets	45.1	6.4%
Goodwill and Intangible Assets	3.2	0.5%
Other Assets	2.4	0.3%
Total Assets	702.1	100.0%

Liabilities and Shareholder's Equity	\$Millions	% of Liabilities & Shareholder's Equity
Claim and Claim Adjustment Expense Reserves	145.9	34.3%
Unearned Premium Reserve	113.4	26.7%
Advance Premiums	7.3	1.7%
Commissions Payable and Accrued Liabilities	79.9	18.8%
Payable to Reinsurers	35.1	8.3%
Unearned Service Fees	33.9	8.0%
Amounts Due to Service Clients	5.4	1.3%
Deferred Income Taxes	1.7	0.4%
Income Tax Payable	2.3	0.5%
Other Liabilities	0.0	0.01%
Total Liabilities	425.0	60.5%
Total Shareholders' Equity	277.2	39.5%
Total Liabilities and Shareholders' Equity	702.1	100.0%

Continued next page

Exhibit 10: Institution J (continued)

Income Statement for Year Ending December 31, 2007

	\$Millions
Revenues	
Premiums Earned in Underwriting Activities	241.2
Fees Earned from Service Activities	181.6
Investment Income and Capital Gains	34.3
Total Revenues	457.1
Expenses	
Claims and Claim Adjustment Expenses	179.5
Policy Acquisition, Underwriting, and General Expense	72.2
Service Activity Expenses	148.2
Total Expenses	399.9
Income Before Taxes	57.1
Income Taxes	20.8
Net Income	36.3