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HOOOSIER BANKER



INSIDE

Chris Murphy leads 1st Source Corporation and 1st Source Bank, South Bend, in a culture of service.

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Chris Murphy: Positive Charge

LAURA WILSON
Vice President-Communications
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His stay in South Bend was to last no longer than six months, but instead he and his family “fell in love” with the northern Indiana community. “That was 33 years ago,” recalls Christopher J. Murphy III. “We’ve been here ever since.”

Today Chris Murphy is chairman, president and chief executive officer of 1st Source Corporation and chairman and

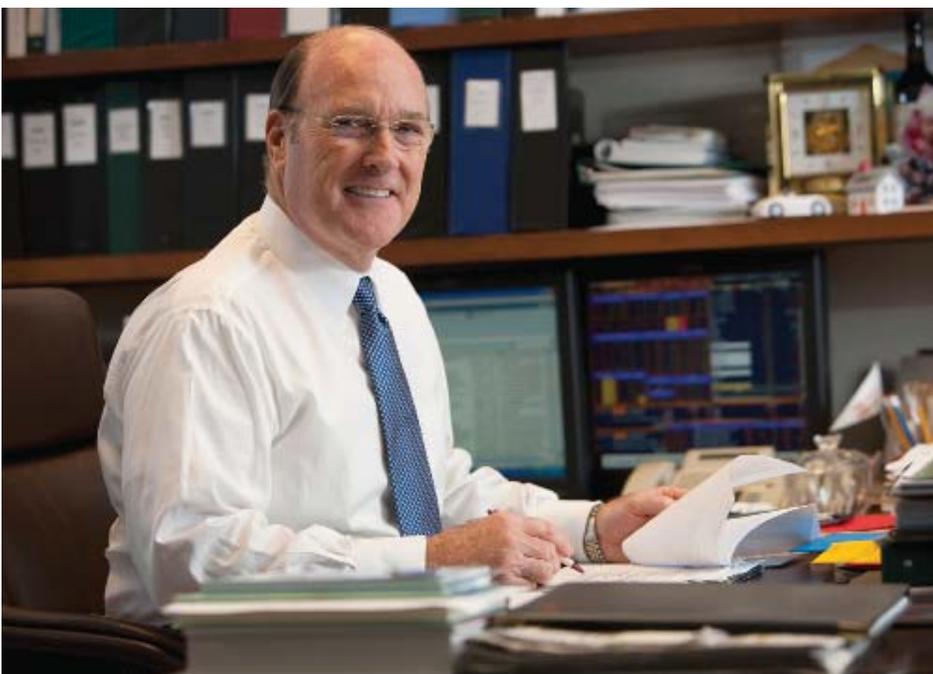
CEO of 1st Source Bank, South Bend. Both organizations have thrived under his leadership: The international corporation boasts assets of \$4.53 billion and includes 76 banking centers in 17 counties, 21 specialty finance offices located nationwide, seven trust and wealth management locations, and seven insurance offices. 1st Source Bank, serving the northern half of Indiana and southwest Michigan, is the largest locally controlled financial institution headquartered in the area.

Murphy, now 64, was barely 30 years old when he rose to top leadership at 1st Source. By then he and his wife Carmi, his college sweetheart, were busy raising a family of six children. Now empty nesters, Chris and Carmi Murphy continue a bustling pace, regularly opening their home for fundraisers and tailgate parties for crowds ranging in size from 40 to 300 guests from across the United States and abroad.

Murphy’s accolades reflect his larger-than-life mix of energy and ambition, tempered by passion for service and a ready wit. He regales listeners with colorful stories, heaping praise on others while downplaying his own accomplishments. *Hoosier Banker* recently interviewed Murphy about his career and views.

Describe your responsibilities with 1st Source Corp. and 1st Source Bank.

“My main responsibility is to be a provocateur. I encourage people, empower them, sometimes take the opposite viewpoint and challenge them. I need to be the keeper of the flame relative to our



Chris Murphy revels in his work as chairman of 1st Source Bank, South Bend.

values, and make sure those values are passed on with each generation of people we hire. Everybody here contributes to our legacy, everyone here makes a difference.

“People have an enormous capacity. My role is to encourage and push my colleagues to where they don’t realize they can go, and then recognize them for the wonderful things they do.

“To be in this business, it’s important to love being in service to others. One of the first things I say to new people is, ‘If you don’t love being in service to others, you shouldn’t be here, because that’s what we do, serve others.’”

What are your organization’s values?

“We start with integrity, because it’s the foundation for everything else. Without it, the rest is meaningless. Building on integrity, we value outstanding client service, teamwork, community leadership and strong financial performance over the long-term.

“Our marketing department has created a graphic that we share with all new employees. It’s based on questions we asked our colleagues: What do you believe in this place? What makes up this organization? The same core answers came back over and over, and echoed the values demonstrated throughout our history.

“Our values graphic depicts a monument with names written into its foundation. These names are colleagues who came before us and who helped shape our values and created our legacy. Eventually everyone here impacts that foundation and will pass on a legacy to those who come after us. I ask them to think about how they will impact that legacy, what will be their personal contribution?”

You have a full educational background—bachelor’s degree in government from the University of Notre Dame, JD from the University of Virginia Law School and an MBA from the Harvard University School of Business. Was banking always part of your plan?

“My joke is that I got all those degrees because I couldn’t decide what to do.

“I come from a medical family in the Washington, DC, area. My father was a doctor, my grandfather was a doctor and, as Chris the third, I was supposed to be a doctor, too.

“But in my senior year of high school,

I had a serendipitous experience. I was hired by the Comptroller of the Currency to write a philosophical synopsis of the position of the Comptroller. I had no idea what that meant, but it became my summer job.

“I went to work for Jim Saxon, who was then the Comptroller of the Currency. Within a week, the person I was reporting to got fired, and I was asked to take over some of his work.

“At age 18, I was running the executive development program for the Comptroller of the Currency’s office. The reason it worked was that I was a threat to nobody. I could walk into the Comptroller’s or Assistant Comptroller’s offices and, because I was a kid, they would help me.

“My work with the Comptroller of the Currency continued when I came to Notre Dame as a pre-med student, technically as an ‘employed student.’ During the winter I would plan the training programs for the Comptroller’s office to then host in the summer.

“My second year at Notre Dame, I worked overseas, again for the Comptroller’s office. While driving a professor throughout Europe, I did research on developing an international training program.

“By the end of my second year in pre-med, I decided not to become a doctor; organic chemistry was doing nothing for my bedside manner. When I told my father, his response was, ‘You can do whatever you want, just work to be the best at whatever you do.’

“I switched into government and international relations, got involved in student government, worked on cultural and political events on campus, and was later elected student body president. I then thought I might someday go into either politics or business. Even with my Comptroller’s experience, banking had not crossed my mind as a profession.”

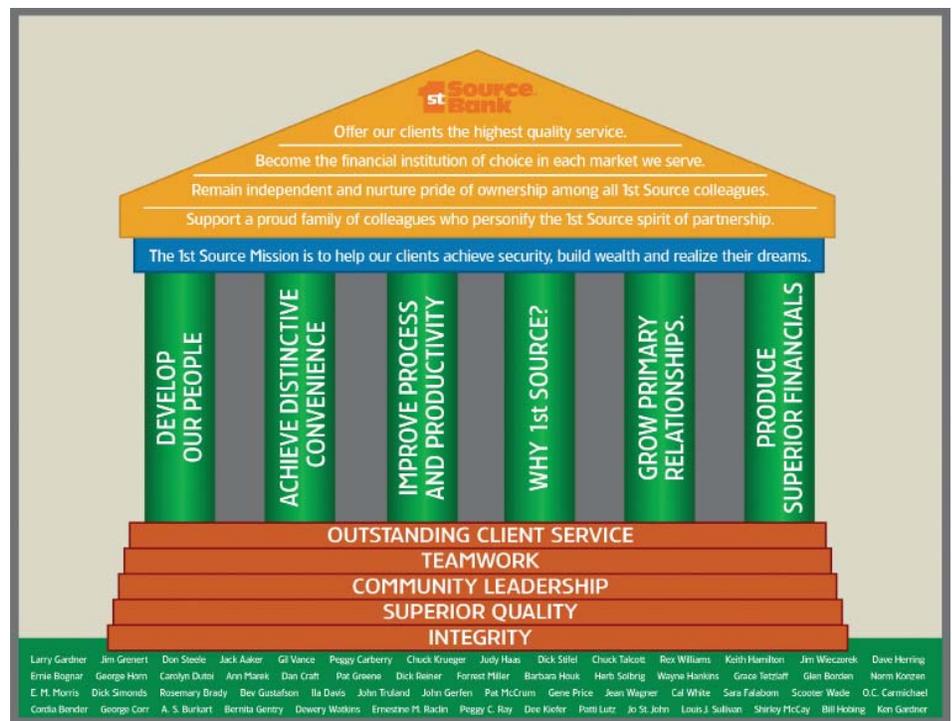
What led you to 1st Source?

“First, in college, with my interest in politics or business, I decided that I could get a law degree and pursue either option. So I enrolled in the University of Virginia Law School.

“While there, I joined some other students who had just started a business, conducting legal research for lawyers nationwide and publishing digests of appellate court records. We did for the lawyer what the lawyer did for the client.

“We hired law students to do the research and opened offices at Harvard,

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A marketing graphic illustrates the values and legacy of 1st Source Corporation and 1st Source Bank.

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the University of Michigan, Stanford and the University of Texas. That experience got me interested in business, which is why I went on to Harvard Business School.

"Second, I had a chance during business school to work on Wall Street, using my legal background. I did some mergers-and-acquisition work and some securities and tax planning. I also did a study with some classmates on acquiring a billion dollars of banking assets in Indiana and Michigan.

"My father-in-law was deeply involved in the financial services business, which included 1st Source. As background, this bank was founded in 1863 and experienced significant growth in the early 1930s, due to a partnership between Vincent Bendix and E.M. Morris.

"Bendix was the founder of the Bendix Corp., and Morris founded the Associates Investment Company, both in South Bend. They put two banking entities together to create our predecessor.

"Morris was chairman of Associates, but died in 1953, at which point his son-in-law, a lawyer in South Bend, took the chair. But then he was killed in an airplane crash in 1960, along with other members of the senior management team. That's when my father-in-law became chairman of Associates and the bank. He also was a lawyer, and serving then as president of a college in South Carolina.

"In 1964 Associates acquired the bank and, in 1968, was itself sold to Gulf+Western. In 1970 amendments to the One-Bank Holding Company Act were passed that meant that Gulf+Western

would come under the purview of the Federal Reserve, due to its ownership of the bank.

"The founder of Gulf+Western did not want to have to answer to the Federal Reserve, so he divested the bank. I joined my parents-in-law and other investors and bought the bank back in 1971, and joined the board.

"A couple of years later, after graduating from business school, I joined Citibank and became involved in its national expansion program, eventually commuting between New York and St. Louis. As a lawyer on the business side, I was encouraged to challenge the frontiers of the law."

How did you come to South Bend?

"My family and I were in St. Louis for about three years, when my father-in-law died suddenly at age 56. I was asked if I could spend time here in South Bend, helping my mother-in-law deal with some business issues.

"At that point, Citibank was transferring me back to New York City to take over an operation in upstate New York, but the assignment could be put off. So I requested a six-month leave of absence from Citibank and came to South Bend, thinking that's all it would be.

"Instead I fell in love with South Bend. I fell in love with the people and the opportunity, and I learned that I enjoyed working with my mother-in-law.

"It was a very different environment. At Citibank, if somebody didn't make their numbers, they were gone. There wasn't a lot of personal responsibility for the individual. But here at 1st Source, if you let someone go, you're responsible for them and their families. You need to help them find alternatives—they are still part of your community."



Chris Murphy's office offers a panoramic vista overlooking South Bend.

What would you tell newcomers to banking that the most rewarding aspect of this profession is?

"You're right in the center of people's lives, communities and businesses. It is an awesome responsibility, and can be difficult, but it's a wonderful place to be. You help make change.

"We are responsible to and for our clients. Our saying here is: 'We give straight talk, sound advice, keeping your best interests in mind.' This means we don't always say yes or tell people exactly what they want to hear.

"As an example, we have a client we know well who was interested in buying a franchise, but knew very little about it.

"We've seen friends, relatives and customers invest in franchises through the years, and lose. Franchises look good, but unless the investor has worked in that franchise for a period of time, understands it and all the nuances of it, the risk is great.

"In this case, the client's house was being put up to support an SBA loan. Would we, the bank, be protected? Sure. But not the client.

"So we didn't do it. We said, 'We're not going to lose any money, but it would not be right for the client.' So we did not do it.

"For the same reason, we never got into subprime mortgages. Or years back, when competitors were offering credit cards that consumers could secure with home equity, we went public and said, 'You shouldn't do it. You'll eat yourself out of house and home. That's an inappropriate use of the card.'"



The Murphy clan includes six children and nine grandchildren.

What are the biggest challenges to banking?

“The biggest challenge today is intrusive regulation. Much of the regulation is well-meaning, and some is well-directed and needs to be there. But the intrusive regulation is a challenge.

“The other challenge, clearly, is the economy and its impact. 1st Source has been fortunate, because we have built a strong balance sheet. Certainly we have clients and customers experiencing problems, but with our strength we can help many get through it.

“Those are the banking challenges. The biggest societal challenge is that we are building a bifurcated society, based on a lack of education. We are cheating the people at the lower end of the economic spectrum, because we have an urban school system that has failed them.

“The only way to make change is to address and confront the brutal truth. The truth is that our schools are failing to provide a good education; we have people failing.

“Unemployment today is clearly a problem, and it affects the undereducated at a much higher rate. For those who do not have a high school diploma, the unemployment rate is close to 17 to 22 percent. For college graduates, it’s closer to the 5 to 6 percent range. So we are creating a bifurcated class society, based on education.

“Education is the key to the future. Power comes from knowledge. Freedom comes from that power. People gain knowledge and power over their own lives by becoming educated.”

What is your work philosophy?

“Work hard, work smart, live your values, and remember there are always people out there working harder than you are. You need to be competitive, have fun at your work and love what you do. Whatever your work is, do what you’re passionate about, surround yourself with good, talented people, and the rest will take care of itself.

“I like to surround myself with people who are honest, who care and are smart. I also value people with positive personalities.

“Some people have exceptional talents, but they lack a positive outlook. The question is, can you work with them

and get them to use their positive side? Everybody has a positive side.”

You are active with several organizations, including service on the boards of the University of Chicago Hospitals and Health System, South Bend Center for Medical Education (Indiana University Medical School at Notre Dame), the Indiana Board of Depositories, the Indiana State Chamber of Commerce, the Indiana Commission for Higher Education and the Regional Approach to Progress. What is your community service philosophy?

“One of our values is being in leadership of the communities we serve. We do it because we are nothing more than a reflection of the communities we serve. We want them strong, so we can be.

“Our community service is self-serving in that sense. We believe in it, and we give back with both our human and our financial resources. We are beneficiaries of this service, because it’s for our clients, our customers, our colleagues and our neighbors.

“A very successful friend of mine, one of the most positive men I know, used to finish speeches by stating that the meaning of life is on the bottom of the old



Collections from travels, family and friends evoke fond memories for Chris Murphy.

Coke bottle. He’d say that if you follow those four words, you will know what to do in your marriage, in your family, in your business and in your community.

“Those four words are, ‘No Deposit, No Return.’ We believe in big deposits and, as a result, we get big returns.”

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1st Source Bank dates back to 1863 and is the largest locally owned financial institution in Michiana. What accounts for your institution's longevity and success?

"First, it's the people here, and one family being involved since 1931. E.M. Morris put the bank together in '31, established its values, and was followed in leadership by both his sons-in-laws, his daughter and her son-in-law, and we have all carried on those values.

"There is also a focus on the community. We're here, we live here, and we believe in the service that we're performing.

"Yet we cannot be reliant on just one community. We need to build and grow, so we've developed a set of businesses across the United States and elsewhere. We do specialty financing in all 50 states, Canada, Latin America, South America and parts of Europe, with a few transactions in Asia and the Middle East.

"I received some excellent advice some time ago from a friend of the family, who I believed to be one of the leading businessmen of the 20th century. I asked him if there was a future in banking. With the Internet and other changes, people were always saying that there's no future in this business.

"He asked me, 'Chris, how long has banking been around?' I thought for a minute, and I said, 'At least pre-Phoenician.'

"He answered, 'Then let's dispense with it. Banking will always be around. But,' he added, 'it won't be done the way you do it. That's why you hire young people, so they make it relevant to their generation.'

"Then we talked about what 1st Source was doing as an Indiana bank. My friend



Books, manuals and memorabilia line the shelves of Chris Murphy's office.

said, 'You've got to put your toe in the water in the international arena. If you want to grow long-term, you've got to have the capability to do business both domestically and internationally.'

"So we put our toe in the water, and we've been doing business internationally now for over 15 years."

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How did you make the transition to international?

"I knew that if we were going to go international, I needed to know more before taking the risk for 1st Source. I began by joining the YPO, or Young Presidents' Organization, an international organization for corporate leaders who are under the age of 40. Through it, I met people in business from around the world. I learned about the way people did business elsewhere.

"After YPO, at age 50, I continued my education through its graduate organization, WPO, The World Presidents' Organization. I ran a few international programs and then served as chairman and CEO, with my term starting the day before 9/11. While it was a tough time, I did have an opportunity to learn, meet influential people around the world, and oversee the growth of our business by my colleagues.

"As a result I developed confidence in the international business arena. It's satisfying, because our organization is able to employ talented people here who can serve those markets. We have people here who are fluent in Portuguese, Spanish and other languages, and have a

strong understanding of our product lines in international markets."

Recent media coverage portrays you as a proponent of regional economic development. Please explain.

"I believe in regional development. No market exists singularly as a city or a town or a county. Those lines that are drawn on a map have nothing to do with commerce.

"When you're competing in the world, you need a diversity of assets with which to compete. A regional approach—unifying as a set of communities—is going to give you more power to compete and more resources.

"In a region, there are clusters of businesses. Like any intellectual capital, it develops because you've got strength in a particular area, and people keep adding to that intellectual base. You become more competitive, people come and serve that area of expertise, and you can offer products and services competitively outside your geographic area because of your unique strength. You build strong, traded businesses.

"You want to have a positive GDP in a community or a state. You want to have a set of traded businesses that produce products and services in your area and

export them elsewhere. The idea is to import money and employ the people in your markets, and export products or services.

"Otherwise you have a spiraling-down market. To create one that spirals up, you need a wide base, made possible by different kinds of clusters that sustain businesses that symbiotically encourage, nurture and grow those clusters."

How can the IBA fit into helping with economic regional development or simply supporting the Indiana banking community?

"IBA needs to think in regional terms, as well. It has to be a spokesman for getting banking institutions to work across regions, and for telling the true story about Indiana banks to the public.

"I am referring to issues such as PDIF, on whose board I serve. I have been a hawk on that board, trying to protect the monies given by banks to support public deposits. We've been fighting every administration since I've been serving on that board and every legislature that wants to glom onto that PDIF money for some other purpose.

"The Public Deposit Insurance Fund needs to remain intact. It has benefited Indiana banks, the public entities that deposit their funds and, in turn, their communities."

Please describe the impact of an influential person in your life.

"My parents and my in-laws are exceptional people who had a major impact on me, and I was also influenced by some wonderful professors. Notable in that group is Emil Hofman, a chemistry professor from my first year at Notre Dame, when I was a pre-med student.

"Dr. Hofman was legendary. He taught 300 pre-med students in a huge lecture hall, and you could have heard a pin drop, we were so intent on listening. He gave tests every Friday.

"My first semester with him, I got a D. The second semester, I struggled to get an A.

"I'll never forget what he said to me one Sunday afternoon at a formal wine-tasting in the student center. It was my sophomore year, I had organized the event, and it was going well.



Chris and Carmi Murphy delight in time spent with their nine grandchildren.



Chris Murphy keeps awards, degrees and certificates modestly tucked behind a door.

“Dr. Hofman looked at me and said, ‘Chris, you’re going to do well in life.’ I revered this man, so I’m standing a little taller, feeling proud.

“Then he said, ‘I’ve really been impressed with the things you do.’ And my head’s growing bigger. He added, ‘You’re aggressive, you’re involved in a lot of activities,’ and by now I’m floating on air.

“Then he said, ‘But I wouldn’t give a nickel for what you know about science.’

Some time later, after I had been here at 1st Source for three years, Dr. Hofman visited me and presented me with an ‘Emil Award,’ his version of the Oscars and Emmys. He gives his award to select former students, non-doctors, who he believes are making an important contribution to their communities. The Emil is an engraved letter on a plaque, and mine includes a phrase acknowledging that my skills are not in the sciences.

“Emil is now in his 90s, he still lives in town, and I see him from time to time. I think it’s a marvel that he affects people so positively, that he goes out of his way to still touch them. I will strive to live up to my Emil Award for the rest of my life.”

Chris Murphy’s office, with a panoramic view of downtown South Bend, reflects the fullness of his life. On display in every nook are souvenirs from travels domestic and abroad, including working trips to China, Russia and other locales.

Stuffed toys, knickknacks and memorabilia from countless relationships in Murphy’s life fill shelf after shelf. Each item portends a story, and each story is told with animated humor. A pair of stuffed dolls, for example, was gifted to Murphy early in his career by two employees, readying to go on vacation. They enjoyed ribbing Murphy for his “many” youthful missteps at the bank early in his career and claimed that the dolls would monitor him in their absence.

Photos, artwork, sports trophies and other keepsakes of Murphy’s six children and nine grandchildren—ranging in age from 13 to infant—bespeak a thriving family life. He proudly rattles off ages and occupations of his five sons, daughter and their spouses, adding that every member of his family has a positive spirit.

He credits his wife of 42 years, Carmi, as the force behind their goodness. “Her full name is Carmine Carmichael Murphy,” he beams, “and she’s

phenomenal. She is a bundle of energy and joy, and so positive that she has a guardian angel watching over her.”

Murphy enjoys rich relationships in all areas. “My brothers are envious of my life in South Bend,” he says, “They don’t live in a community like this.”

He explains: “Carmi and I have been here for 33 years. We have caring and committed colleagues, and we have deep and lasting relationships, built on love and trust, and based on all the right things.

“I’ve been very, very blessed.” ♦



Chris and Carmi Murphy have been married for 42 years.

INSTA-POLL

Does your institution count coins for noncustomers? (72 responses)

- 7% Yes, at no charge
- 38% Yes, for a fee
- 55% No

Does your institution use an external company or attorney to conduct HR audits? (28 responses)

- 18% Yes
- 82% No
- 0% No, but planning to implement within next six months

How does your institution compute debt-to-income ratios on consumer loans? (25 responses)

- 56% Base the total monthly payments on the current amounts drawn on credit cards and equity lines of credit
- 24% Consider what the monthly payments would be, if the credit cards or equity loan lines are completely drawn
- 20% Hybrid of the two methods
- 0% Other

Does your institutions kids’ club include an account for teens? (24 responses)

- 21% Yes
- 33% No
- 46% N/A – no kids’ club available

Each week a topical question is posed to IBA members through the Association website and through IBA E-News, IBA’s electronic newsletter. To suggest a question for Insta-Poll, please contact Susan Clark at 317-387-9380, e-mail: sclark@indianabankers.org. Please note that Insta-Poll does not represent statistically accurate survey results. IBA members in search of specific information from peers are invited to enroll in IBA-member ListServs.