

Strategy Case: 1st Source - Funding the Next Engine of Growth

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Topic: Growth Strategy, Risk Management, Operations Strategy

Industry: Regional Banks

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Decision scope: Allocation of the next increment of growth capacity across local relationship banking and national specialty finance

Case convention: This is a constructed classroom decision exercise. The assignment and alternatives are hypothetical; company disclosures are historical. No private deliberations or actual management proposals are represented.

The decision

For 2026 planning, 1st Source's leadership must recommend where the bank should place its next increment of growth capacity: deepen local commercial and small-business relationships, expand selected national specialty-finance activities, or pace both through explicit line-level hurdles. The recommendation should address credit discipline and state what evidence would change it.

This case assigns students to advise the leadership team. It does not claim that the company disclosed a particular budget, investment request, board debate, or chosen alternative. Public filings show the company's current footprint and loan balances, but do not disclose incremental risk-adjusted returns for individual specialty-finance lines or new branches.

One bank, two operating footprints

1st Source Bank operates 78 banking centers in Indiana, Michigan, and Sarasota County, Florida. Its Specialty Finance Group has 15 locations nationwide. The company describes its Specialty Finance lending portfolio as concentrated in certain equipment types, while also describing its clients as diverse and saying it does not depend on any single industry or client. These are distinct company disclosures: the first concerns equipment types; the latter concerns clients, industries and dependence. The group finances construction equipment, aircraft, auto and light-truck fleets, and medium- and heavy-duty trucks; the bank separately finances commercial solar and renewable-energy projects. The businesses have different customers, collateral, geographies and operating requirements. They should not be treated as one loan pool. [C1], Item 1, pp. 3-4.

The local and specialty models are not simple opposites. Management says its specialty group operates with a relationship focus, and specialized equipment lenders also assess collateral and industry conditions. Local commercial lending can likewise rely on financial statements, collateral and other transaction-level evidence alongside personal knowledge of borrowers. The allocation question concerns where additional capacity can be used productively, not whether one side knows its customers and the other does not.

In October 2025, Andrea Short became CEO of 1st Source Corporation and the bank; Chris Murphy became Executive Chairman, and Kevin Murphy became bank president. The annual report describes the first full-service banking center in Carmel, Indiana, following an earlier loan-production office in the Indianapolis region. It also reports improved digital services for small-business clients. These are expansion and service milestones, not disclosures of the center’s economics. [C2], Executive Chairman letter, p. 6; CEO letter, p. 10.

The Executive Chairman’s letter presents specialty growth as deliberate. It recounts experience in equipment finance dating to earlier decades and says the group learned from pre-9/11 aircraft-related borrowers whose businesses depended on aircraft-generated revenue. The letter says 1st Source now mostly finances borrowers able to repay from their core businesses. It also says the company exited waste-management equipment, step vans, funeral cars and buses after higher intrinsic losses and negative Economic Value Added (EVA). Management calls EVA a discipline for understanding business returns, but the public disclosures do not provide the product-level calculations or hurdle rates behind those statements. [C2], Executive Chairman letter, p. 8.

What grew, and where credit pressure appeared

Exhibit 1. Year-end loans and leases by category

USD thousands; balances at 31 December; net of unearned discount. Growth rates are those reported by 1st Source.

Portfolio category	2024	2025	Reported 2025 change
Commercial and agricultural	772,974	797,592	+3.18%
Renewable energy	487,266	652,799	+33.97%
Auto and light truck	948,435	887,876	−6.39%
Medium and heavy-duty truck	289,623	269,749	−6.86%
Aircraft	1,123,797	1,086,821	−3.29%
Construction equipment	1,203,912	1,221,135	+1.43%
Commercial real estate	1,215,265	1,269,765	+4.48%
Residential real estate and home equity	680,071	740,777	+8.93%
Consumer	133,465	120,155	−9.97%
Total loans and leases	6,854,808	7,046,669	+2.80%

Average loans and leases increased \$336.29 million, or 5.10%, in 2025. The year-end total grew more slowly. Renewable-energy balances expanded from a smaller base, while aircraft, auto/light-truck and medium/heavy-truck balances declined. These figures describe changes in balances, not revenue, margins, capital use or risk-adjusted returns. [C1], Item 7, “Loan and Lease Portfolio,” pp. 27-28.

Exhibit 2. Selected nonperforming assets

USD thousands; year-end balances. The ratio is nonperforming assets to loans and leases plus operating leases, net of unearned discount.

Measure	2024	2025
Total nonperforming assets	31,334	77,378
Nonperforming assets / loans and leases plus operating leases	0.46%	1.10%
Auto and light-truck nonaccrual loans and leases	2,806	54,348
Aircraft nonaccrual loans and leases	0	0
Construction-equipment nonaccrual loans and leases	17,976	11,341

Management attributes the increase in nonperforming assets mainly to auto-rental nonaccruals, partly offset by lower construction nonaccruals. The filing's auto/light-truck category includes the rental segment; the figures do not show that every auto/light-truck borrower was a rental company. Nor does one year's category data establish through-cycle performance for any product. [C1], Item 7, "Nonperforming Assets," pp. 33-34.

The 10-K separately says there were no "concentrations" at or above 10% of total loans, but the nearby Item 7 passage does not define the unit of concentration. Item 1's qualitative statement about Specialty Finance being concentrated in certain equipment types is a separate company disclosure. The reported aircraft category is 15.42% of total loans and leases by calculation; this is a product-category share, not a borrower concentration. The disclosures use different measures and should be kept distinct. [C1], pp. 3, 27.

The market around the choice

Wintrust provides one point of local and product context. It reported \$71.1 billion in assets and 209 banking locations at year-end 2025, with a market area that includes northwest Indiana and west Michigan. It opened two Chicago-area branches and three southern-Wisconsin branches during the year and said it expected to continue selective openings. Wintrust also reported a \$4.5 billion equipment-leasing portfolio, including direct-financing leases, loans and equipment on operating leases, compared with \$3.9 billion in 2024. Wintrust Asset Finance contributed \$112.9 million to 2025 revenue before intersegment eliminations. Its equipment finance spans transportation, construction, manufacturing, technology and other equipment. [C3], Item 1, pp. 3-8.

Wintrust is not a like-for-like benchmark. It is much larger; its portfolio scope includes operating-lease equipment; its revenue contribution is before intersegment eliminations; and it reports business segments differently from 1st Source. The comparison shows that a regional competitor combines local branches and nationwide specialty finance. It does not establish which model earns a higher return.

Two mechanisms, no automatic winner

Relationship lending can build useful information over repeated contact with a business, its owner and local community. That information may be hard to verify or pass through organizational layers, so local decision authority can help. Delegation also creates monitoring and incentive challenges inside the bank. Berger and Udell's conceptual model distinguishes relationship lending from transaction technologies such as financial-statement lending, asset-based lending and credit scoring. It offers mechanisms, not a predicted return on a 1st Source branch. [A1].

Industry specialization can also create knowledge that improves screening or monitoring. In a study of 40 large, stress-tested U.S. banks, specialization in a borrower's industry was associated with lower nonperformance for C&I term loans from 2012Q2 to 2021Q1, with commitments above \$1 million. In the main specification, the relative-specialization coefficient was -0.006 (standard error 0.001, $p < 0.01$). The authors' preferred comparison translates to about a 1.2 percentage-point difference against a 4.9% sample baseline; with bank-internal risk ratings included, the coefficient was about half as large. The result is observational, and the sample is not 1st Source's aircraft or equipment lending. [A2].

Other banking evidence cautions that diversification does not automatically improve return or safety; its effects may depend on a bank's starting risk and its ability to monitor unfamiliar sectors. That evidence uses Italian banks from 1993-1999 and an earlier author-manuscript version of a later article. Neither study supplies a forecast for 1st Source. [A3].

Classroom alternatives

The following paths are constructed for analysis; none is presented as an actual 1st Source proposal.

1. **Deepen the local franchise.** Add relationship-banking capacity for local commercial and small-business customers, including service and digital capabilities around the Carmel/Indianapolis presence. This path tests whether local knowledge, core-client relationships and a service proposition can support growth. It also requires evidence on branch ramp, deposits, relationship retention, staff capacity, cost and local concentration.
2. **Expand selected specialty lines.** Direct additional underwriting, sales and balance-sheet capacity to specific national finance verticals where expertise, collateral valuation, recovery and through-cycle returns can be demonstrated. This path tests whether specialized knowledge and national reach create a scalable advantage. It requires product-level yields, funding, risk, capital, concentrations, residual-value and operating-cost evidence; the 2025 auto-rental data caution against assuming all specialty categories share the same performance.
3. **Stage a mix behind line-level hurdles.** Preserve both operating models but release incremental capacity as each line meets defined risk-adjusted return, credit-quality and execution milestones. This path limits commitment under uncertain economics, but may slow scale, complicate resource allocation and require comparable internal data that public filings do not provide.

No branch, hiring, lending or capital budget is supplied. Students should not manufacture one. A defensible recommendation identifies the scarce capacity to prioritize, the product or customer scope, the evidence threshold, and the conditions that would trigger expansion, pause or reallocation.

Assignment

Prepare a short recommendation for the hypothetical 2026 planning discussion:

- Which alternative would you pursue first, and what would you preserve from the other paths?
- Which public evidence supports your choice, and what does that evidence not establish?
- What minimum performance, credit, concentration and execution hurdles would you require before committing additional capacity?
- What internal data would you request, and what results would cause you to reverse your recommendation?

Sources and conventions

Financial figures are company-reported unless marked “by calculation.” Loan balances are year-end values in USD thousands; reported growth rates are not recomputed. “Nonperforming assets” and “nonaccrual loans” are different measures.

C1. 1st Source Corporation, [2025 Form 10-K](#), accession 0000034782-26-000011, filed 17 February 2026; year ended 31 December 2025.

C2. 1st Source Corporation, [2025 Annual Report to Security Holders](#), accession 0000034782-26-000022, filed 13 March 2026 at 16:03:04 ET; PDF pages cited above.

C3. Wintrust Financial Corporation, [2025 Form 10-K](#), accession 0001015328-26-000007, filed 26 February 2026; year ended 31 December 2025.

A1. Allen N. Berger and Gregory F. Udell, “Small Business Credit Availability and Relationship Lending: The Importance of Bank Organisational Structure,” *Economic Journal* 112(477), F32-F53 (2002), [DOI](#), relevant sections 2-5.

A2. Kristian Blickle, Cecilia Parlatore and Anthony Saunders, “Specialization in Banking,” NBER Working Paper 31077 (March 2023), [PDF](#), relevant §§3-6, Tables 3-6. This case uses the March 2023 version available by the cutoff.

A3. Viral V. Acharya, Iftekhar Hasan and Anthony Saunders, “Should Banks Be Diversified? Evidence from Individual Bank Loan Portfolios,” author manuscript dated 20 February 2004; final article, *Journal of Business* 79(3), 1355-1412 (2006), [manuscript PDF](#), relevant sections and Tables 3-8. The final published text was not read; cited only for the qualitative countervailing mechanism.