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Legends Bank – A Rural Missouri Banking Institution Committed to Their Communities

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Legends Bank

https://www.legendsbk.com/

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CEOCFO: ***Mr. Klebba, on March 13th of this year (2022), Legends Bank celebrated its 109th birthday. How did the name Legends Bank come about and would you give us a little background and history of the bank and how it developed from its founding?***
Mr. Klebba: I will start with the history and background because it is necessary to explain how we got to the name. It was my grandfather that cofounded the bank back in a little town just eight miles south of here. My grandfather's name was John B. Klebba. You will find that we have very little imagination in naming our firstborn male children because there are I think eight Johns now. He cofounded it with his brother in-law, and it was chartered as the Rich Fountain Bank. Rich Fountain is a German Catholic community and a neat little community. However, it is out of the way and has not grown much over the years.

In 1936, during the Great Depression, the last of the banks in Linn failed, leaving the county seat of Osage County without a financial institution. The bank commissioner of Missouri came to my grandfather and asked if the bank would move to Linn. The board decided that that would be a beneficial move and supposedly on a Friday evening they closed their Rich Fountain location and loaded the whole bank in the trunk of a car and moved it. They reopened on Monday morning in the former headquarters of the failed Farmers and Merchants Bank of Osage County, which was deeded to them by the state banking commissioner. They then obviously had to change the name, and the name they chose was Linn State Bank.

At that time Missouri was a unit banking state, so there was no branching permitted. Gradually and incrementally over the years the state started opening up to branching opportunities. The first branch of Linn State Bank was a de novo branch that was opened in 1973 in the small town of Westphalia, and they formally referred to it as the Westphalia Banking Facility, a branch of Linn State Bank.

The bank had several other de novo branches as well as a couple acquisitions in subsequent years and continued using DBA names. For instance, a de novo branch in Belle was opened in 1992 with the DBA of Tri County Bank, a branch of Linn State Bank. Ultimately it became clear that these DBAs were confusing and a marketing nightmare, and we really needed to change our name to something we could use throughout our footprint. So in 2005 we rolled out a contest for our customers and we solicited suggestions as to what the bank name should be and we offered a prize of $1000 to the winner. We ended up with over 1000 entries. We went through them and picked the top five and we did a little bit of market research on those and that is how we came up with Legends Bank.

CEOCFO: ***In the summer of 2022, you also completed the expansion of your headquarters in Linn, Missouri. What did that mean for Legends Bank?***

Mr. Klebba: When we moved to Linn in 1936, we were given the closed Farmers and Merchants Bank location at 200 East Main Street. As it turned out we are still on that same corner because every time we needed to expand, we were able to purchase an adjacent building which we would tear down so that we could expand our existing facility. Several years ago, we thought we had reached the end of that expansion, because we have an alley to the south of us and a highway to the north and there is the courthouse to the west of us. However, we were finally able to negotiate the purchase of the building that was immediately to our east with which we essentially shared a common wall.

Beginning right before Covid we demolished our newly acquired building and began construction of a two-story, roughly sixteen thousand square foot addition. Before that addition came on line we were completely out of space; as we had been growing but had not had much in the way of expansion of our headquarter space for about fifteen or so years. We now not only have the space that we immediately needed, but we also have incorporated a lot of space for future expansion. We think this is going to take care of us for hopefully for the next couple decades.

"Another part of the vision that has not changed is that we are a conservatively managed, highly capitalized bank. Had that not been the case with the first generation of management of the bank, the bank likely would never have survived the Great Depression, when nine of the thirteen banks in the county were closed. We are proud to consistently be a five-star rated bank by Bauer Financial, with solid earnings and a stable, managed growth rate that has us at just under a half billion dollars in assets." John A. Klebba

CEOCFO: ***Has the vision changed much from its founding vision?***

Mr. Klebba: The industry has changed tremendously. Our strategic vision is that we are going to be a locally owned community bank that is heavily involved in our communities. We are going to be a rural provider of financial services and we are going to do it in a face-to-face manner and that has not changed. However, a lot of aspects of the bank have changed to respond to what is going on in the industry and in society as a whole. I remember back when I came 31 years ago, we did not have an ATM and now we have ATMs throughout our footprint. We did not have internet and mobile banking and now in terms of the number of transactions those applications far surpass the transactions that we do in person.

We emphasize that we are here in person. If a customer wants to come in and talk to us, we are here, if you want to call us on the phone, we are going to personally answer the phone. We do not have a call center. You are going to talk to actual employees that are on the premise. In that respect, no we have not changed a whole lot, but we would not have survived had we not incorporated many of the changes that have taken place in the industry.

Another part of the vision that has not changed is that we are a conservatively managed, highly capitalized bank. Had that not been the case with the first generation of management of the bank, the bank likely would never have survived the Great Depression, when nine of the thirteen banks in the county were closed. We are proud to consistently be a five-star rated bank by Bauer Financial, with solid earnings and a stable, managed growth rate that has us at just under a half billion dollars in assets.

CEOCFO: ***You joined the bank in 1991. Would you tell us about your role at Legends Bank and how it developed to where you are today as Chairman and CEO?***

Mr. Klebba: My dad was the Chairman and CEO at that time when I joined. I had been practicing law in Kansas City, where I was a partner in Lewis Rice & Fingersh, a firm of about 160 attorneys. I did a lot of mergers and acquisitions and some bank regulatory work. I was very familiar with the banking industry from a legal perspective. My wife is from a small town in Kansas and we started having kids and decided that even though we loved Kansas City that raising kids in a small town was just a better experience for them. That is the way we were raised and that is why we came back, and obviously having the bank where I would be third-generation in the bank, made it an attractive alternative.

We also have a cattle ranch that has been in the family since the 1870s, so being able to come back to that family business was also attractive. I took over for my dad at the bank and on the ranch and he was active in both until he passed away in 2004. It was a pretty easy transition because he learned from his dad and I learned from him. There is a lot of institutional knowledge that got passed down as a result of my good fortune to have worked with him for over ten years.

CEOCFO: ***You are in Belle, Jefferson City, Linn, Linn Motor Bank, Loose Creek, Owensville, Westphalia, Rolla, Taos and Union. Would you tell us about the communities that you serve?***
Mr. Klebba: We are in six counties in mid Missouri, with the smallest town that we in being Westphalia with a population of about four hundred. The largest town that we are in, which is the most recent one that we moved into, is Jefferson City, Missouri's state capital located about twenty miles to the west of Linn with a population of about 40 thousand give or take. We have a couple other locations in what I would consider to be very small cities and those would be Union and Rolla, which are in the 10 thousand to 20 thousand range population wise.

The whole of Mid Missouri is historically agrarian based, although presently the employment base is fairly diversified. Many of the towns around Jefferson City are bedroom communities with commuting patterns going into Jefferson City. Jefferson City does have around 15-16 thousand state jobs, but it also has a lot of private industry and is typically a tight jobs market.

Mostly we are a rural small-town banking institution. We have stayed out of the urban areas because our business model does not work well there, but we think it works really well in rural areas. We know what we are good at and know what we are not good at. We try to stay with the former and away from the latter.

CEOCFO: ***Are you more of a business/commercial bank than a consumer bank? What is the mix and would you like to see that change?***
Mr. Klebba: We have a diversified mix, so we do a little bit of everything. I would call us more of a consumer bank than a business bank just because of the communities we serve. We have some agricultural lending, and while there is not a lot of full-time AG in our footprint what we have is heavily AG influenced. We have lots of people with small farms. Missouri is a cow/calf producing state, in fact the second largest producer in the nation behind Texas. There are a lot of cattle locally. A lot of guys grew up on or near a farm and you have a lot of people with 50-200 acres which is not nearly large enough for a full-time operation. It is weekend and evening farming operations. People love their cows. Even a lot of our residential loans are AG influenced in that respect.

I am happy with the mix. We have a fairly active secondary market mortgage operation but we really do not solicit from outside our footprint. We do sell through investors to Fannie and Freddie our long-term fixed loans because we rarely hold any long-term assets on our balance sheets. We do hold a lot of adjustable rate loan products that are residential or small farm on our balance sheet, so we are fairly heavy real estate lenders. In our larger market there is a little bit more commercial real estate, so it is Union, Rolla and Jefferson City where we are getting more into the commercial real estate lending side of things.

CEOCFO: ***Has there been any significant changes to your team over the past few years?***
Mr. Klebba: We have had some retirements. But other than the normal turn in our part time work force, many of whom are students, we have had a fairly stable workforce. The retirements hurt because many times these folks have been with us for 20 to 40 years and so it is difficult to replace all of what they have brought to us over their tenure.

One of the benefits we offer to our customers is if they get to know someone and start to deal with them, especially on the loan side, they do not have to worry about coming in next week and finding out that that office has somebody else in it. We are not moving around people like some of the larger institutions do where the more seasoned they get, the more they move them to larger or different markets.

Most of the people we hire, especially on the loan side, were born and raised in the communities in which they are working. They are committed to those communities and committed to stay, so we have dedicated, long tenured staff at our branches.

CEOCFO: ***With the rise of online banking and mobile apps, is the personal touch still important for you and your customers or do you find with the newer generations that are in the workforce these things don't matter as much?***
Mr. Klebba: Yes the personal touch is very important to us and we market that heavily. We market that fact that with the technology that is available from our IT providers today, we can match almost everything that the big banks have. What they cannot match of ours is that we still have very personal service. We do not have customers call into the bank and have them press 1 for this and 2 for that. We have somebody who is actually picking up the phone and they are working at the facility that our customer has called.

We tell our customers that we have all the online resources that they need, but if they have a problem and want to come in or call and talk to somebody to get it resolved, they do not have to go through a bank of press 1, press 2, press 3. You come in or call in and we will take care of it for you. We really emphasis the personal interaction.

CEOCFO: ***How many branches do you have and are you looking to grow that number in the near future?***
Mr. Klebba: We have ten right now and within the next six months we will be opening a second branch in our Rolla market. We have a branch that we opened down there about ten years ago and it was previously the second Rolla branch of Bank of America. They had decided at that time to consolidate into just one Rolla branch, so they closed this facility and put it up for sale. What we bought was only the lot and the building, no other assets, no loans or deposits, nothing. It was a contiguous market for us so we decided to move there. We had a decent loan base down there in Rolla anyway. It was a de novo branch for us and that has turned into a great market for us. Bank of America then subsequently sold their remaining branch and exited that market entirely.

It just goes to show you that business models make a huge difference in whether you can be successful in a market or not. Bank of America could not make it there but it has been great for us. Brian Moynihan who is president of Bank of America was a year behind me at Notre Dame Law School, so I know Brian just a little bit. Obviously, they have gotten just a hair bigger than we have.

We are always looking for new branch opportunities whether it is through a de novo that makes sense for us or another community bank that may make sense for us to acquire. We have done three acquisitions over the last 25 years or so and we are always looking. We have passed on far more opportunities than we have followed up on, so we are careful not to compromise our strategic focus solely for growth.

CEOCFO: ***What is your management style? Are you more hands on or depending on your officers?***
Mr. Klebba: There is the old theory of management by walking around and I have always ascribed to that. I think it is important to be out in front. In a smaller institution like we have with about 120 employees, but spread over six counties, it can be challenging to get out as much as I should but I like to get out and talk to folks. We give our branch managers a lot of authority, so most decisions are staying at the branch level unless it involves bigger credits and thus more involved issues. There is an old adage that I was taught and which I repeat to our officers and that is that "The time in which you tell me about the problem is going to dictate whether it is your problem or our problem." The earlier people can indicate to me that they have something there to deal with, the more it becomes our problem and our folks have really taken to that.

I would say that my management style is more hands-on, but it is not at the expense of withholding from our employees their ability to make decisions. The worse thing we can do, unless it is a big issue, is to tell customers "I'll have to get back to you and call the headquarters." They ought to know what their authorities are and whether they are comfortable that they have all the information and the requisite experience to make a decision. If they feel like they do, then they need to make that decision to get the issue taken care of.

CEOCFO: ***How is the bank funded? Is it locally owned, one family or group? Do you have shareholders, investors, if so, how many and are you looking to grow that number?***
Mr. Klebba: The bank is controlled by the Klebba family, so my siblings and I have voting control over the bank. We do have a few outside shareholders, but that percentage ownership is shrinking. We are locally-owned, locally-managed and we are not looking at going outside for new shareholders.

We find it incredibly healthy to be able to say that we are managing the bank from a long-term perspective. We have been here over 109 years now and we never take the short-term view on things. We are investing or making decisions based upon our long-term objective of staying independent. My brother who is fifteen years younger than I am is our CFO and the president. I have been here 31 years; he has been here 20 plus. My two oldest boys are also in the bank, so the fourth generation of our family is already involved. We feel like we are in a pretty good spot right now.

CEOCFO: ***In closing, what sets Legends Bank apart from other local banks and why are you important to the fabric of the community?***
Mr. Klebba: The banking industry has been consolidating for several decades now, and in fact I believe the high mark in terms of bank charters was in the 1930s. We are losing several hundred charters a year. Looking at recent statistics, in 2010 there were around 7400 bank charters in this country and we are now at about 4600. I do not see that trend changing. That means there will be fewer and fewer small independent banks like us, and so fewer bankers who are local owners and local managers. In that sense it sets us apart. In some respects that is good for us as an institution, but I don't think it is healthy for the banking industry in that it consolidates decision making into fewer entities.

Even though we continue to grow somewhat through our branch network, we really try to make sure that our branch employees are very committed to their local communities. They are involved in various fund-raising and volunteer aspects. Community members ought to see our employees not only in their service roles but also at the grocery store and at church. They need to be neighbors and they are. The vast majority of our loan staff were born and raised in the towns in which they are working for us. We heavily invest in making sure that they are involved in the community and allow them the time and resources to be able to do that.

You hear time and time again, not just with respects to banks but to other companies as well, that once an entity moves their headquarters out of a local community, all-of-a-sudden a lot of the support for local initiatives goes away. Not only the money but the time and resources of staff. We try never to do that and when we go into a community, we make a big commitment to be a part of that community because healthy communities make healthy banks and healthy banks make healthy communities. There is a real connection there, and most importantly it is the right thing to do.

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