

# DENVER BUSINESS JOURNAL

## ACQUISITION ACTIVATOR

What it's like to be counsel for some of the biggest regional bank mergers



Despite its small size, Denver-based law firm Shapiro Bieging Barber Otteson has served as legal counsel for some of the largest bank acquisitions in the region recently.

In June, Houston-based Prosperity Bancshares Inc. (NYSE: PB), parent of Prosperity Bank, announced that it planned to acquire Plano, Texas-based LegacyTexas Financial Group Inc. (Nasdaq: LTXB), parent of LegacyTexas Bank, in a cash-and-stock deal valued at approximately \$2.1 billion. It's expected to be the second-largest bank merger in the history of Texas, according to Denver Business Journal sister paper Houston Business Journal.

And the law firm also served as the legal advisor for longtime Denver-based Guaranty Bank, which was acquired by McKinney, Texas-based Independent Bank Group (NASDAQ: IBTX) earlier this year. DBJ interviewed the law firm's partner and director of its financial services practice, Christian Otteson, about his work and what trends he's seeing in community banking.

*The following Q&A has been edited for brevity and clarity.*

### Why did you decide to move your practice from Dallas to Denver?

The move to SBBO gave me the opportunity to grow my practice with a smaller firm that had positioned itself as a known firm in the financial institutions area in the Intermountain West, but was looking for the governance, M&A, securities and regulatory expertise that I had developed over the course of my career. Prior to joining SBBO, I had the privilege of working in the financial institutions group at an international firm with a number of great partners, including Bob Clarke, the former comptroller of the currency. They were great mentors. I also worked in-house at a large public bank for several years, including as general counsel. My move to Denver allowed me the flexibility to leverage those foundational experiences.

**How did you convince clients to stay with you after the move?** Client retention is very much tied



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### CHRISTIAN OTTESON

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to the strength of the relationships and trust built over many years. Many of my clients are close friends and true partners. With a smaller firm, I was also able to provide those services at a more attractive rate. Additionally, since the banking industry is heavily regulated by federal agencies, my clients knew that banking legal services are commonly provided on a "national" level so my location was not an issue.

### Colorado saw a record number of bank acquisitions last year. Do you see this trend continuing?

I expect the bank acquisition deal volume in Colorado to taper off quite a bit. Many of the bank acquisitions over the last few years involved a handful of public, out-of-state buyers who are very active acquirers. Most operate in multiple states and they can only close so many deals each year due to regulatory constraints. This means they have to be selective in terms of asset size and geography as they use their acquisition capacity. Many of those buyers have reached a size where they are looking for targets above a minimum asset size and Colorado has very few large banks left. In addition, because of the consolidation in the banking space here

in Colorado over the past five years, there are a number of very talented management teams rolling off of non-competition agreements that may look to reenter the banking space through a bank acquisition.

### What legal trends are you seeing in banking?

There are a lot of emerging trends right now in banking. Given the fierce competition for deposits there is a widening funding gap, where assets are generally growing more quickly than deposits to fund the asset growth. Banks will need to be nimble and opportunistic to grow core deposits to fund asset growth. I also think interest-rate risk management in an uncertain rate environment will continue to be a challenge for banks. Banks also face increasing pressure from unregulated participants in the financial services space, in particular fintech companies, which are very well capitalized and deploy sophisticated technology with lighter regulation.

### What advice do you have for community banks weighing an acquisition?

Banks considering an acquisition need to first ask if the target makes sense strategically, which involves a number of different considerations, including looking at the combined management team, asset mix, lines of business and geography. Growth for the sake of growth can be dangerous and ruin a bank's DNA. If the acquisition checks the strategic boxes, up-front diligence, in particular diligence that is necessary to run the acquisition financial model, is critical. Bank acquirers need reliable inputs, including likely cost savings and revenue enhancements, to create a reliable model they can use to determine a fair price that will result in acceptable earnings accretion and a reasonable earn-back period. Some of the best decisions our clients have made are the deals they elected not to do, where they back away from a deal where the pricing is stretching the financial model too far.

**What advice do you have for small law firms trying to set themselves apart?** Focus on your area of expertise and maintain a high level of client service. Know your client's industry.