

HOUSTON BUSINESS JOURNAL

Friday, April 11, 2008

Law firms brace for subprime fallout

Houston Business Journal - by [Ford Gunter](#) Houston Business Journal



Michael Stravato/HBJ

Tom Perich of Andrews Kurth: 'It's something we've been talking about a while.'

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The subprime fallout is starting the clock on billable hours in legal offices.

Law firms are ramping up subprime practice groups as litigation looms in the bankruptcy and banking and securities sectors.

Fulbright & Jaworski LLP's six-month-old global subprime practice numbers 100 attorneys. Most firms are starting small with units of 10 to 20 litigators, corporate bankruptcy specialists and white-collar crime lawyers.

Andrews Kurth LLP has assigned 13 lawyers on an ad hoc basis to the firm's newly formed subprime and distressed assets group.

"It's something we've been talking about a while," says Tom Perich, Houston managing partner for Andrews Kurth. "Our thought was that we're big in all these

areas that were impacted, it seems like we know all aspects of this thing, and we've got the lawyers and finance experts."

The attorneys are spread across the firm's Houston, Dallas, New York City and Los Angeles offices.

Perich says the group likely could grow to dozens considering all signs indicate there will be plenty of work to go around.

"The front-line action is going to be lawsuits," he says. "People are going to be suing each other, so you've got to have front-line litigators. They need the subject expertise behind them."

The transition into subprime practice was not difficult. Many Texas law firms saw significant work in similar areas during the bust years of the 1980s and savings and loan scandals of the 1990s.

"We had probably our greatest growth spurt in the '80s," Perich says, noting the firm grew by 50 percent.

"A lot of those guys are still here," he says.

"The subprime issues have been around a long time," says Anne Rodgers, one of Fulbright's five co-heads of the subprime practice. "They even go back to the late '80s, early '90s when a lot of us were doing litigation involving failed savings and loans in Texas and across the country."

Fulbright attorneys are spread across the firm's Texas offices, as well as New York City, Washington, D.C. and London.

Says Rodgers: "Certainly subprime is an area that people see as a growth area right now."

Ripple effect

Investment banks, mortgage companies, title companies and investors are all potential targets of lawsuits.

In some cases, even home builders and appraisers could be caught up in it, says Craig Weinstock, a Houston partner in Locke Lord Bissell & Lidell LLP.

Locke Lord's subprime task force is now up to 15 lawyers, eight in Houston. The count was three or four lawyers when the firm founded the task force less than a year ago.

"Nobody was born a subprime lawyer," Weinstock says. "These are folks who have depth of experience representing in the securities fraud area, financial institutions, white-collar crime -- expertise that is now being turned to these current problems."

He says litigation will unfold over the next three to five years.

"There's a ripple, and the ripple is not done," says Weinstock. "In size and scope, you're going to see it throughout the country."

Ralph Midkiff, equity shareholder with Chamberlain, Hrdlicka, White, Williams & Martin also sees extended repercussions.

"Usually a cycle like this can last a couple of years," says Midkiff. "I think we're really just seeing the start of it."

He says many aspects of the fallout have yet to unfold.

Says Midkiff: "A lot of people don't realize the losses they've suffered."

Not another Y2K

Creating practice groups to address what could be a temporary issue doesn't seem to concern subprime lawyers.

Fulbright's Rodgers relays a lawyer joke about an attorney who said his Y2K practice wasn't busy at the moment.

Rodgers says subprime will not suffer the same fate.

"We're going to keep doing what we've been doing," she says. "I do not think that the subprime anticipated litigation will go the way of the Y2K scare a few years ago."

Litigation runs true to form, picking up in a down economy.

Large firms still on the sidelines are weighing the option of entering the subprime game.

Baker Botts LLP, Vinson & Elkins LLP and Bracewell & Giuliani LLP have yet to move, but all have entertained the notion.

For a firm like Hughes Watters Askanase LLP, the subprime situation is business as usual.

"Our entire default servicing group and a large part of the litigation group deal with subprime issues, lenders and borrowers on a day-to-day basis and has for years," says Partner Wayne Kitchens.

Hughes Watters is continuously in a subprime mode.

Says Kitchens: "Subprime is already such an intrinsic part of our practice that we felt no need to start any new group or section."

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