Like a Rolling StoneHill

— by WARREN LUTZ —

After 20 years, loan quality experts The StoneHill Group has hit full stride. Quality control is big business in today's regulatory environment.

It's safe to say David Green is not your typical business success story. ¶ The former soldier had built an accomplished career in housing finance. He created or led teams that developed new mortgage products, credit policy and procedure manuals. He launched a startup residential construction loan office. He planned and organized the first real estate group at Charlotte, North Carolina–based First Union Mortgage Corporation as well as several large real estate auctions at First Union and Washington, D.C.–based Resolution Trust Corporation (RTC). ¶ By 1996, Green was in his early 50s and serving as the liquidation manager at the Atlanta office of the Federal Deposit Insurance Corporation (FDIC). Though at an age when most people are at least thinking about retirement, Green had no such plans—in fact, he was ready for something new. But finding something new was harder than he'd anticipated. ¶ He disliked the bureaucracy of the FDIC so much that he resigned. "Not knowing what I was going to do, and having never really interviewed for a job, I discovered men in their 50s and baldheaded didn't stand much of a chance in the job market," he says. ¶ So Green did the only thing he could. He started his own company.

A focus on quality

At a time when lenders and servicers are thirsting for stronger data quality and better processes, Atlanta-based The StoneHill Group has become one of the leading companies leading them to water.

Last year the company head count grew by 70 percent, due in large part to soaring demand for its quality control (QC), due diligence and mortgage fulfillment solutions.

In addition to its pre-existing clients, since the beginning of 2015 more than 100 more mortgage lenders, banks and credit unions have chosen StoneHill for everything from quality-control program development and audit services to preclosing and post-closing reviews, loan file shipping, fraud reviews, MERS® System reconciliation and review, Federal Housing Administration (FHA) insuring, underwriting and loan processing.

Green attributes the growth in large part to the improved lending environment and new regulations such as the Consumer Financial Protection Bureau's (CFPB's) Truth in Lending Act (TILA)–Real Estate Settlement Procedures Act (RESPA) Integrated Disclosure (TRID) rule.

"It was evident from my first call with them that there was a reason this company was so well respected and sought after," says Swinehart.

A large portion of StoneHill's new business comes through referrals. "The word is getting out about us," he says. "There are other quality-control vendors, but there are few that have placed such a high value on technology, security and client service."

Clients of The StoneHill Group agree. "It was evident from my first call with them that there was a reason this company was so well respected and sought after," says Megan Swinehart, vice president of quality assurance at Baltimore-based First Home Mortgage Corporation. "They truly are a company that works with you and will take the extra effort to get the job done, both efficiently and correctly. They listen and make accommodations and enhancements for their clients whenever possible. When we have a question as it relates to post-close audit reviews or QC in general, they are always responsive and helpful."

Robert Odom, president of Marietta, Georgia–based Ameris Bank Mortgage, agrees, citing The StoneHill Group's "personal touch" and attention to detail.

"They understand the QC process and work with their clients to provide education as well as technical expertise," Odom says. "StoneHill takes the time to help banks and mortgage lenders improve both their efficiencies and the quality of their monthly production."

Now in his 70s, Green still presides over the company, which currently has 130—and growing—employees in its Atlanta and Jacksonville, Florida, offices. All told, it is a pretty far cry for a college dropout who used to jump out of planes for a living.

The path to StoneHill

Six weeks after dropping out of college in 1964, Green was drafted into the U.S. Army. He spent the next 12 years in the Army—11 of them as a commissioned officer. Green served two tours in Vietnam with the 173rd Airborne Brigade and U.S. Special Forces Military Assistance Command, Vietnam–Studies and Observations Group (MACV-SOG). In addition to Airborne training, he was awarded the U.S. Army Ranger Tab and the "3" prefix designating his training for Special Forces. Besides doing more than 30 night jumps, Green conducted military logistic operations, later spending time in Japan and Germany in an officer management role.

When Green rejoined civilian life on Dec. 31, 1976, "I had never interviewed for a job in my life," he recalls. He spent the next 10 years in the residential real estate business before a friend helped him get a job with Raleigh, North Carolina–based mortgage banking firm Cameron-Brown Co., where he began his mortgage career.

From there, Green had stints at several large mortgage companies before he became involved with managing defaulted loans. As regional manager at the RTC, Green oversaw six failed savings-and-loan (S&L) institutions with assets of more than $5 billion before joining the FDIC, where he worked for the agency's Atlanta-based division of liquidation for failed banks and S&Ls.

When Green decided to branch off on his own, the initial focus of his new company was providing loan due-diligence and project-management services for mortgage lenders and servicers. This soon evolved to include consulting and outsourcing loan fulfillment, and eventually, quality-control work—specifically pre-close and post-close reviews.

At the time, however, Green admits he had more drive than expertise. "I had a friend of mine in the business who needed two months of quality-control work done," he says. "I did it—and I screwed it up so bad, I had to go back and redo it. But eventually I got it right."

Another service area emerged when the company contracted with Reston, Virginia–based MERSCORP Holdings Inc. in 1998. The StoneHill Group helped all its lending clients that did not retain servicing sell their loans servicing-released utilizing MERS.

"To this day, MERS is still a client of ours and we do 100 percent of its QC work—plus monthly, quarterly and annual reviews," Green says. "It's probably the longest relationship we have had with any client."

StoneHill's big break came in 2000, when the company bid on a contract with the Department of Housing and Urban Development (HUD) to perform post-endorsement technical reviews, which was HUD's way of doing post-closing QC, Green says.

Around the same time, Green realized the power technology could have in helping to solve lenders' quality-control issues. As he began to look for software to help, he came across a risk-management software company that offered to charge The StoneHill Group on a per-file basis. StoneHill also explored the acquisition of a small QC company in the Atlanta area.

It turned out that StoneHill did not get the HUD contract, and the acquisition of the smaller QC company fell through. But the company did purchase an outsourced decision engine from the software company, which made StoneHill's loan quality-control work exponentially easier. After that, things began to roll.

"We started with 20 clients in 2000 and have grown to over 350 clients today," Green says. "Our QC work alone jumped to 5,000 files per month, which is a pretty big number for any firm. This does not include any of our fulfillment operations work, which pushes our total file volume to over 8,000 files per month."

StoneHill created a quality-control division and a loan-fulfillment division, which morphed into contract underwriting, closing, funding, investor delivery, government insuring, trailing documents and transfer support. When a lender sells or transports a loan, The StoneHill Group works with it and performs all the assignments and recording.

As Green says, "People began coming to us and asking, 'Can you do this?' Well, yeah, we can do anything—as long as we know what you want us to do."

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Shifting into overdrive

From a historical perspective, 2008 will go down as one of the worst years ever in mortgage lending—except if you were The StoneHill Group. "To be perfectly honest, that was not a terribly bad year for us," Green says. "We had a couple of clients that went out of business during that time. But our actual loss—in other words, the work we did and didn't get paid for—was less than $75,000. We continued to grow during that time."

The company's due-diligence services also began to pick up, attracting clients that, at the time, included Aurora Loan Services, Lehman Brothers, Wachovia Corp. and IndyMac Bank, as well as other large clients whose names the company is not able to disclose.

Another boost came when Fannie Mae introduced its Loan Quality Initiative (LQI) in 2010, which required lenders to conduct oversight on loans when hardly anyone had done it before. But it was good news for The StoneHill Group, which by that time had been providing quality-control services for years.

After LQI came the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 and the CFPB's Know Before You Owe (TRID) rules in October 2015, which placed enormous pressure on lenders to do a better job selecting and managing third-party vendors like StoneHill.

Investing in security and client-facing technology

These additional requirements, Green says, along with learning of several large data breaches and large-scale incidents of identity theft, prompted The StoneHill Group to beef up its network security and controls, investing in state-of-the-art firewalls and conducting penetration testing.

"In this day and age, it's critical for our clients to be able to rely on us for business continuity in the event of a disaster," Green says.

StoneHill began putting additional resources into its client-facing technology as well. In 2015, it launched LES™ (Loan Evaluation Software), a propriety web-based solution that enables mortgage lenders to automate loan QC and vendor-review processes while reducing costs associated with the amount of time employees spend reviewing files.

And just recently, the company updated its web-based client dashboard, which enables lenders to upload loan files and receive reports anytime from a secure FTP site. All client data is backed by virtual servers, storage area networks and stringent security measures.

Denise Martinez, chief compliance officer with Houston-based Network Funding LP, is a huge fan of the dashboard.

"StoneHill is able to access our LOS directly so we don't have to provide them with the random files—they can go right into our LOS and do their selection and do their reviews," Martinez says. "Their dashboard allows us to review the findings. It's very user-friendly and easy to read. Everything is on the dashboard, and it's easy to rebut the findings and get your feedback updated."

Network Funding began outsourcing its QC reviews to StoneHill two years ago, after being dissatisfied with a competing vendor. According to Martinez, StoneHill was chosen after the company sent three loan files to six vendors for QC reviews and judged the results. StoneHill continues to impress, she says.

"Fannie Mae requires report findings to be sent to senior management within 120 days. Over the past year, we've been able to report in less than 90 days. StoneHill's turn times have been great," Martinez says.

Along with improved security and new technology solutions, StoneHill continues to enhance its loan-quality review services. To handle TRID alone, the company added a total of 100 new items to its pre-close quality-control and post-close checklists.

Today The StoneHill Group is one of the pre-eminent providers of quality-control services. As some of its competitors—like Farmington Hills, Michigan–based Wetzel Trott Inc. and Agoura Hills, California–based Interthinx—were purchased by larger firms, StoneHill became one of the largest independent providers of loan-quality services in the industry.

The founder's stamp

Wade Hamby, StoneHill's national director of sales and marketing, attributes much of the company's success to Green's personal experiences, which have served both him and the company well.

"He is very focused on processes and forms, which can be attributed to his military background. His dad was in the restaurant business, so that business mindset is ingrained in him also. I think those experiences have helped him," Hamby says.

It also doesn't hurt that Green likes a crowd. "David is pretty much a staple in the industry conference circuit, and he enjoys people and conferences as much—or more—than anyone I've ever known," Hamby says. "I think that lends itself to the relationships and partnerships he's developed with so many clients over the years. It has very much been David's drive, persistence and doggedness that have made the company what it is today."

Green's military roots are never far away. The StoneHill Group is heavily involved in several military charities, including Fisher House Foundation and the Bryan McDonough Military Heroes Foundation. Both are charitable organizations that raise money for veterans and military families, the latter named after the son of the founder of a StoneHill competitor who was killed in action during Operation Iraqi Freedom.

With 20 years of loan quality under its belt, where does The StoneHill Group go from here?

Recently New York–based DBRS, a full-service credit-rating agency, determined the company was an acceptable third-party due-diligence firm for DBRS-rated transactions, making The StoneHill Group one of only 17 third-party vendors used by DBRS. As the private market for mortgage securities improves, The StoneHill Group will be in a good position to grow.

After that, it's anybody's guess how far The StoneHill Group will go. Green, for his part, shows no signs of slowing down. "We want to continue to grow, but maintain enough control that we can still improve the quality and timeliness of our services," Green says.

"Industrywide, I think you're going to see more automation in the quality-control process and in lender-support services, because it's simply necessary from both a cost and an efficiency perspective. We're in a great position to help."

Citing the unpredictable nature of the mortgage business, Green likens the work that The StoneHill Group does to being a professional bull rider. "Our industry has been very volatile, and it's mainly because our clients are volatile in how much work they flow to us, the delays in sending files and changes in personnel. The only difference between what we do and bull riding is you have to stay on the bull longer than 8 seconds." **MB**

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