



## Main Street Financing Challenges

# Small Business Analytical Software for Banks and CPAs - How it Affects SMBs

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This morning through a new Twitter connection, I found an interview with Brian Hamilton, CEO and Founder of a Raleigh NC based software company called [Sage Works, Inc](#) on [Fox Video](#). I recommend you watch the video. It is about growth industries in today's economy.

Sage Works is not a household software name but does write very powerful private business analytical tools that banks, CPAs and business financial advisors can use to help businesses run at their optimum efficiency.

As a former banker, I am very familiar with such software. In all banks I have worked in since 1994 we used a product to analyze businesses provided by an organization by the name of Risk Management Association (RMA).

RMA and Sage Works collect confidential financial information from banks and other users of their analytical software on private companies as they are analyzed. Banks have a credit analyst who then takes that data and writes a dry, hard to understand report for the bank's credit committee to use in making a "thumbs up or down" decision on lending money to businesses. RMA's risk assessment process is so complex that bankers often have to take a multi-week course in understanding the data its software provides.

In 1999 when I was working with a very successful bank that was extremely small business loan friendly (without many losses), the bank was acquired by a much larger regional bank. As soon as the new bank took over, the new bank required us to take an RMA test to see what we knew about commercial lending. I can't remember exactly how many commercial loan officers we had, but as I recall the test was administered to about 10 loan officers and the

senior management of the bank including the original founder who was staying on to manage the operation for the acquiring bank. As I recall, out of the 10 people who took the RMA test, only 1 passed. I am not telling you if it was me or not, but two of the the bank founders was not successful test takers.

We were a very successful bank, in part because we didn't use all the complex analytical data as the primary or only deciding factor for making lending decisions. Rather we weighed the value of the data, which had to support the loan request. More importantly, we looked at the holistic financial picture of the company. We looked at the borrower's character, closely looked at the collateral we would be financing, and looked at the capacity of the borrower to repay our loan. Yes, the debt service and other ratios were important, but they were only one data point used to make a decision.

Strong community bankers often make their loan decisions not based on solely on raw financial data provided by a software program, but on getting to know their customer and business and having a 100% confidence level in the management of the borrower. That is something you can't do by simply analyzing the financial statements in a sterile fashion.

My favorite banker in the world is a guy who is Chairman of the Board of a Texas based bank. I would like to say he has been my mentor in this business who I have worked with him off and on since 1994. I use the lessons I have learned from him every day.

For most bankers, the last word out of their mouths is simply "NO." My mentor is different. He will sit down with a borrower and might say no to an immediate loan request, but he nearly always sends a potential client away with good suggestions on ways to make changes to their business so when those changes are made, he can say "YES."

It is a very refreshing way of doing business. If the business is persistent, the borrower has excellent character, and if the borrower follows my mentor's advice; Two, three, or four times down the line when the customer comes in to ask for a loan again, my mentor will likely say yes. More importantly the business will be a bank customer for life and stronger for following good advice.

When I did a little research on Sage Works, I was impressed that they take the same kind of data that the RMA does and instead of lining it up in very tiny hard to read and understand columns, they put it into a narrative that makes sense for the banker and borrower to understand. I am not aware if banks share the Sage Works narrative reports produced by their product with their customers or the customer CPAs, but if they did, they would be giving valuable data to the customer who could use it to make the borrower's business stronger and more credit-worthy.