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# Key Advisor

Spring 2023



Dealer news and tips

**KeyBank**  
Dealer Finance  


# Executive Outlook



## Here comes the silver lining

In Q1 2023, COVID seems a distant memory to many Americans. But some essential U.S. businesses, including auto dealerships, continue to face pandemic-era constraints.

Low inventory levels and supply chain limits still impact the new-vehicle industry. Dealerships and car shoppers alike feel the effects of fiscal challenges, including persistent inflation.

The #1 question: Where can car dealers find a competitive edge?

### Empowering opportunities

Fortunately, our post-COVID time also holds outstanding economic opportunities, particularly for auto dealers. This newsletter addresses two areas of specific interest: controlling credit card costs and obtaining affordable loans.

- Recent legislation brings good news for merchants. **You can now cut or eliminate credit card swipe fees in your dealership with the Key Merchant Services surcharge program.**
- Especially in trying economic times, **Small Business Administration (SBA) loans make good business sense.** Learn how KeyBank can help make your dealership more competitive with an SBA loan.

We hope you find this information both timely and useful. As always, it's our privilege to serve you and help enable your continued success. Feel free to contact us at any time to discuss ways in which we can assist you in your dealership endeavors.



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## Recovering your dealership's credit card swipe fees

Most merchants likely view credit card processing costs as a necessary business expense with benefits. Accepting credit cards usually creates a fast and convenient checkout experience, guaranteed payment, and faster processing time. Compared to cash and checks, business owners and customers alike also appreciate the convenience and security afforded by credit cards.

### The cost of convenience

Credit card acceptance is incurring increasingly high costs to merchants, however. Most of these costs can be traced to “swipe fees” — processing expenses that have doubled over the past decade.<sup>1</sup> For auto dealerships and other high-ticket business models, this can amount to a hefty sum.

“An average dealership spends between \$10,000 and \$20,000 a month on card processing fees,” says Chris Yelverton, Senior Vice President, KeyBank Payments. “Third-party payment processing contracts and pricing structures can be complicated, too,” he adds. “It’s important to read the fine print.”

### New U.S. standards

Until recently, merchants have had to absorb credit card swipe fees. As of July 2022, it’s legal for businesses to pass swipe fees onto the customer via a surcharge in most states. As a result, major credit card institutions

set forth rules and regulations for merchants to follow when implementing surcharges. While there are slight variations among card brands, the following general rules are universal:<sup>2</sup>

- The surcharge amount cannot exceed the cost of your transaction processing fee.
- Surcharge fees are strictly limited to credit card transactions, not debit or prepaid sales (including debit card transactions processed like a credit card, with signature capture).
- You must notify — in writing — major credit card institutions about your intent to surcharge — **unless your financial account representative handles the paperwork for you.**

*“An average dealership spends between \$10,000 and \$20,000 a month on card processing fees.”*

– Chris Yelverton, Senior Vice President, KeyBank Payments



<sup>1</sup> [https://www.convenience.org/Media/Daily/2023/February/1/1-Swipe-Fees-Cost-\\$600M\\_GR](https://www.convenience.org/Media/Daily/2023/February/1/1-Swipe-Fees-Cost-$600M_GR)

<sup>2</sup> <https://www.lawpay.com/about/blog/credit-card-surcharge-rules/>

## Enter the Key Merchant Services Surcharge Program

With these new legal standards in mind, KeyBank has introduced the Key Merchant Services (KMS) surcharge program to its customers. The program makes it easier for you to recoup 100% of eligible credit card transaction fees by offsetting costs, which can benefit your bottom line. Plus, compatible hardware includes flexible, robust features to enhance security and make credit card acceptance more convenient.

### Why now?

If it seems risky to unveil a surcharge policy during a period of inflation, now might be the perfect time to educate your customers about the hidden fees associated with the convenience of using their credit card — at any business. A recent report from The Strawhecker Group (TSG) states 42% of merchants do not have a clear understanding of surcharge programs.<sup>3</sup> A surcharge is an expense, not a profit center.

According to Yelverton, the KeyBank merchant client experience has been positive. “Most dealers are receiving less pushback from their customers than expected,” he said. “Your heads-up at the point of sale is critical.” For example, a notice might read something like this:

“We add a surcharge of x% on the transaction amount when paying with a credit card. The surcharge is not more than our cost of acceptance. We do not surcharge debit cards.”

### Surcharge considerations and FAQs

Some other FAQs to consider before introducing a KMS surcharge program at your dealership, as well as a snapshot of how one KeyBank client can realize significant credit card fee savings, are listed at right.

### Learn more

If you'd like to cut the high costs of swipe fees, you probably want to take a closer look at the KMS surcharge program. To learn more, please contact:

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## Frequently Asked Questions

### What should I tell our customers?

In addition to posting proper signage, vehicle dealers will also need to provide verbal notification about the surcharge fee to each customer. The final surcharge amount must also be cited separately on the receipt.

### Do I need to register with credit card services to use surcharging?

No. KeyBank will register each dealer upon approval.

### I have dealerships nationwide; can I surcharge in all of them?

No. We do not offer surcharging in the following states/territory: Connecticut, Kansas, Maine, Massachusetts, and Puerto Rico. In addition, state law currently prevents us from offering surcharging in New York.

### What are my competitors doing?

In an unsettled economy, keeping ahead of your competition often involves managing expenses. With the new legislation, surcharging will likely become common in all eligible U.S. businesses that incur high transaction expenses.

## Case Study

### KMS Surcharge Program at Work

**Challenge:** A Pacific Northwest car dealership wants to cut card processing costs. The business has three locations and incurs about \$21 million in annual credit card volume.

**Solution:** Implement KMS surcharge program and Clover wireless sales terminals.

**Result:** After participating in the surcharge system, the dealership offsets monthly credit card costs by passing all swipe fees back to customers.

**Estimated annual savings: \$367,500**

<sup>3</sup> <https://www.jec.cl/articulos/wp-content/uploads/2022/09/TSG-US-Surcharging-Snapshot-Sponsored-by-CardX.pdf>

## Grow your dealership with SBA loans



Thousands of car dealerships number among the 33 million small businesses that comprise more than 99% of U.S. business operations. In fact, small businesses employ nearly half the American workforce. In the past 25 years, small business has created 12.9 million new jobs, accounting for about 2/3 of all employment added to the U.S. economy.<sup>4</sup>

### The power of the SBA

What helps make American small business so powerful and prolific? A good part of the answer is: the Small Business Administration (SBA). Begun in 1953 as a federal government agency, the SBA focuses on fostering growth in small business, including auto dealerships.<sup>5</sup>

Dealership owners increasingly prefer the SBA 504 loan, especially for large, costly projects. According to Brian Bateman, a Senior Vice President and National Sales Manager at KeyBank, “Recent changes to the SBA 504 program make it a more attractive, attainable option for car dealers. At KeyBank, we have seen a substantial increase in its use in just over the past two years.”

### Key features of the SBA 504

- Capital conservation
- Broad loan range: \$100,000 to \$12 million
- Up to 90% loan to value (LTV)
- Maximum 25-year amortization
- Effective tool for business growth

### SBA 504: Flexible, timely, and strategic

As KeyBank’s Bateman suggests, a fixed-rate, long-term SBA 504 loan makes it easier for dealership owners to access capital they need to grow and expand. Especially in times of economic downturns or recession, an SBA 504 can help you stay competitive and preserve working capital.

<sup>4</sup> Forbes, “Small Business Statistics Of 2023,” <https://www.forbes.com/advisor/business/small-business-statistics/#:~:text=99.9%25%20of%20businesses%20across%20the%20US%20are%20small%20businesses>

<sup>5</sup> Small Business Administration, “Mission,” <https://www.sba.gov/about-sba/organization#:~:text=SBA%20was%20created%20in%201953,overall%20economy%20of%20our%20nation>



Below are some examples of how you can leverage an SBA 504 loan:

<b>Expansion and acquisition</b>	With an SBA 504, you might acquire another dealership that includes real estate. The SBA 504 loan can be used to purchase the real estate for as little as 10 to 15% down payment. Improvements to the newly acquired dealership can be wrapped into the loan allowing for immediate remodel dollars.
<b>Purchases and improvements</b>	You can also use the SBA 504 to fund a wide range of improvements to existing dealerships including remodels, building expansions, parking lots, car wash additions, service additions and ground-up expansions.
<b>Clean and green opportunities</b>	<p>On average, auto dealerships use more energy per square foot than a typical office building (110kBTU – 93kBTU respectively).<sup>6</sup> If you own your dealership real estate, SBA loans make it possible to reduce energy consumption and realize significant savings immediately. Energy-efficiency initiatives ranging from simple LED lighting upgrades and HVAC improvements to solar canopies and alternative power generation systems all make good business sense for car dealers.</p> <p>Additionally, as an SBA borrower, you're eligible for up to \$5 million of SBA debenture (\$5.5 million for small manufacturers) when meeting public policy goals of energy reduction or alternative fuels.</p>

### Experience and expedited efficiency

The easiest way to apply for an SBA loan is through a preferred SBA lender. KeyBank is among a small number of banks that have earned “preferred lender” status, bringing 20+ years of SBA lending experience. Combined with numerous retail banking services and other financing capabilities, we’re poised to help you grow your dealership and streamline costs so you can focus on your business operations.

### Put your SBA loan in motion today

We invite you to learn more about SBA loans — or conventional financing — by getting in touch with us today. Please contact Brian Bateman at [brian\\_p\\_bateman@keybank.com](mailto:brian_p_bateman@keybank.com).



## KeyBank Dealer Finance



<sup>6</sup> [https://www.energystar.gov/buildings/resources\\_audience/small\\_biz/vehicle\\_dealers](https://www.energystar.gov/buildings/resources_audience/small_biz/vehicle_dealers)

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