



# Associated Wholesale Grocers, Inc.

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May 16, 2011

The Honorable Ben Bernanke, Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

**RE: Federal Reserve System (Regulation II: Docket No. R-1404) re: Debit Card  
Interchange Fees and Routing**

**Dear Chairman Bernanke:**

I am writing on behalf of the supermarket retail and wholesale industry and the thousands of families we feed in communities across the nation everyday. AWG member retailers operate 2300 retail food stores with combined annual retail sales volume of \$15 billion.

I want to first thank you, your fellow Board of Governors, and your payments staff for the diligent work you have done on the rules pertaining to reasonable debit card interchange fees and routing. Rising debit card interchange swipe fees has been a top priority for FMI's member companies for over a decade. When we first began accepting debit cards in our grocery stores in the early 1990's, the most we were paying on a PIN debit transaction was ten cents, and the average network interchange fee was less than 7 cents per transaction. In fact, in the very early 90's we were paid to install card terminals in our checkout lines, but now those equipment investments are a significant cost on the merchant side that helps support the entire payments system.

As free market business people, we naturally expected interchange fee costs to decrease with improvements in technology and increases in volume, but we have seen the exact opposite effect. It is rare that we accept a product in our stores that we do not negotiate on directly, but since the banks who issue debit cards do not set their own fees, rather they allow the card networks to set the fees for them, we have seen our per transaction costs quadruple in some cases and it is clear to us there is absolutely no free market in this space.

As major acceptors of Electronic Benefit Transfer (EBT) cards, which are used like debit cards in our stores for participants to access their Supplemental Nutrition Assistance program benefits (SNAP/formerly food stamps), we know the costs associated with electronic debit transactions are pennies or less in some cases. Given this knowledge, combined with the fact that the Federal Reserve's own survey results indicate that merchants bear over 40% of fraud losses in the payments system, we strongly encourage the Federal Reserve Board of Governors to maintain or lower the proposed safe harbor level of seven cents on debit cards. Based on historical cost information, technology efficiencies, and economies of scale, we believe the

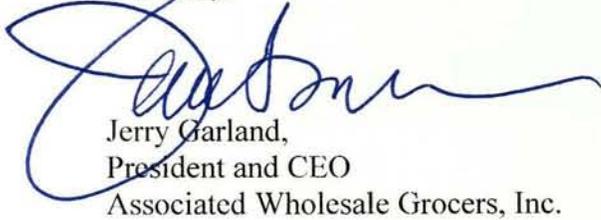
Federal Reserve's proposed rule is more than reasonable and in no way removes profits from the system.

As leaders in our respective companies, we compete for customers on price and service everyday. Severe competition in our industry forces us to innovate and find new efficiencies, but we have seen the exact opposite situation in the United State debit card market, which is lagging behind the rest of the industrialized world. One thing is clear to us, and that is if we continue with the current system or walk back at all from debit swipe fee reforms, the Unites States payments market will remain at a competitive disadvantage with the rest of the world.

Lastly, our industry average profit margin is roughly one to two pennies on the dollar. That has not changed in the past fifty years and we do not expect that to change in the next fifty years. We are a high-volume industry that competes on price to get people into our stores. As a result, we have every reason to believe the debit swipe fee reforms will have a stimulative impact on the economy when they go into effect this summer, and will put money back into the pockets of consumers who need it the most.

Thank you once again for your deliberative and thorough work on this critical issue. We are happy to provide any additional information that would be of use as you finalize rules on debit card transaction fees and routing.

Sincerely,



Jerry Garland,  
President and CEO  
Associated Wholesale Grocers, Inc.

cc: Senator Jerry Moran  
Senator Pat Roberts  
Senator Roy Blunt  
Senator Claire McCaskill  
Congressman Kevin Yoder  
Congresswoman Jo Ann Emerson  
Congressman Sam Graves  
Congressman Emanuel Cleaver  
Leslie Sarasin, Esq, FMI