



June 6, 2011

To: United States Senate
From: Food Marketing Institute
Re: Oppose Any Delay of Debit Card Swipe Fee Reforms

On behalf of your neighborhood supermarkets, the families we feed, and the millions of Americans we employ in communities across America, we **strongly encourage you to oppose any efforts to delay debit card swipe fee reforms.**

Swipe fees have been a huge issue for our industry for over a decade as they are the fastest growing expense for most of the companies we represent. We have no ability to negotiate rates and terms of card acceptance in what is truly a broken market. The grocers we represent are not able to knock on your doors every day because they are trying to keep their businesses afloat and communities served in a continually tough economic climate and a highly competitive 1.5 percent profit margin business. Debit card swipe fee reforms are absolutely the number one priority for our industry right now and will be a key vote for the Food Marketing Institute should an amendment to delay reforms be considered.

First and foremost, it does not make sense to delay a rule that has yet to be finalized. But more importantly, our industry does not see what benefits there are to a delay, which is effectively an attempt to kill swipe fee reform because any delay and study will continue to be purely speculative instead of an actual study of how the market reacts to reforms. Also, from our perspective, the only thing we get out of a delay is our industry, and all others across the U.S. who accept credit and debit cards, will continue to struggle with excessive and unpredictable debit card swipe fees that impede our ability to budget for the hiring of new workers and keep prices low for our customers. We have seen a handful of debit swipe fee increases since the financial reform law was signed next year, and we know we will continue to see more increases - increases that wouldn't be feasible in a free market - with any delay.

In the early 1990's it cost us well under 10 cents on most payment networks to accept debit cards. As free market businesspeople we just assumed that as debit cards, which are essentially an electronic check, began to replace paper checks it would create efficiencies for us, our customers, and the banks that issued the cards. We expected these efficiencies coupled with improvements in technology and increases in volume to drop our per transaction rates, but the exact opposite has happened. And that's not just according to us, but also according to independent analysis from economists at the Kansas City Federal Reserve Bank who have found that rates have quadrupled over the past 15 years.

With merchants bearing over 40% of all fraud losses in the system, according to the Federal Reserve's own survey, there is limited, if any, hard evidence for why costs are going up. In a June 2011 Consumer Reports article analysts estimated that merchant losses were billions of dollars higher than losses shouldered by financial institutions. Not to mention, our industry invests tens of millions of dollars in our point-of-sale

equipment and in our software programming and personnel training to support the U.S. payment card infrastructure and to protect our brands and our customers from fraud.

However, U.S. financial institutions continue to provide the American people with a product that is modeled on 1970's technology. The same Consumer Reports article compared the United States debit card magstripe technology to non-industrialized countries in western Africa. For the sake of American consumers and businesses it is time to reform our system in manner that incentivizes a reduction in fraud across the entire payments system, and the Durbin amendment does just that by rewarding fraud prevention efforts instead of the status quo, which has stifled innovation.

Lastly, in the grocery industry, we operate on super-competitive margins. In the past 50 years our average industry profits have never exceeded two pennies on the dollar. When we have savings to pass along to our customers we absolutely do, otherwise our competitors certainly will. Our 2010 consumer trends survey showed that low prices were stated as a very important factor by 75 percent of respondents, and 37 percent of consumers cited having low prices as being the top consideration in deciding a primary grocery store. In short, if we can reflect savings in our prices, we are likely to do so.

Overall, we believe swipe fee reforms will have a positive impact on the economy. It will put money back in the hands of the consumers who need it the most, and it will help small businesses - the backbone of job creation in the U.S. economy - plan ahead and hire new workers.

It simply makes no sense to vote to delay a final rule that is imminent but has not yet been released.

We have not found a Senator yet to say there is not a problem with the current system. This amendment is not a serious attempt to find a policy solution; it is only focused on kicking the can further down the road without reform, and we strongly encourage you to oppose any effort to delay critical debit swipe fee reforms.

Sincerely,

A handwritten signature in black ink, reading "Jennifer Hatcher". The signature is fluid and cursive, with the first name "Jennifer" written in a larger, more prominent script than the last name "Hatcher".

Jennifer Hatcher
Senior Vice President, Government Relations
Food Marketing Institute