

Federal Deposit Insurance Corporation

September 18, 2006

Re: RIN # 3064-AD00; Red Flags Rule

Dear Sir:

Cambridge Trust Company (the “Bank”) is a \$750 million commercial bank and trust company headquartered in Cambridge, Massachusetts. The Bank appreciates the opportunity to comment on the proposal to implement section 114 of the Fair and Accurate Credit Transactions Act of 2003 [FACTA] – the Red Flag Regulations.

The proposed Red Flag Regulations would require financial institutions and creditors to have a written program that is based upon the institution’s risk assessment and includes controls to address the identity theft risks identified. The program must be appropriate to the size and complexity of the institution and nature and scope of its activities, and be flexible to address changing identity theft risks as they arise. Proposed additional requirements include verifying the identity of persons opening accounts, training staff, overseeing service provider arrangements, program approval by the board of directors or a committee thereof and a report to the board, an appropriate committee or senior management at least annually. The Agencies will issue periodic *Red Flags in Connection with an Account Application or an Existing Account*, which an institution should use as a basis for identifying which Red Flags are relevant based upon its risk assessment. The Red Flags would be compiled from literature on the topic, information from credit bureaus, financial institutions, creditors, designers of fraud detection software, and the Agencies’ own experience. The Agencies acknowledge the challenge they will face in issuing current Red Flag Guidelines. The proposal also indicates a financial institution may wish to combine its program with its information security program, pointing out that these programs are complementary in many ways.

The Agencies specifically invite comment on the impact of the proposal on community banks’ current resources and available personnel with requisite expertise and whether the goals of the proposal could be achieved through an alternative approach.

Community Bank Expertise:

In order to protect their customers and the safety and soundness of their banks, for many years community banks have maintained fraud investigation and prevention programs. The “Bank Security Officer” position that had generally been responsible for implementing the requirements of the Bank Protection Act [formerly Reg P] has also fulfilled the role of fraud investigator, with identity theft identified as a fraud method well before the regulatory emphasis it is currently receiving. Through participation in local fraud prevention groups, relationships with law enforcement, industry issuances or subscription to industry newsletters, the “security officer” was the expert regarding identity theft trends and indicators.

Regarding escalation and reporting frauds associated with identity theft, the “Security Officer” has often been responsible for coordinating compliance, with the requirements of the Suspicious Activity Reporting regulations, which would require requisite expertise..

With the advent of the Information Security Program required by Section 501(b) of the Gramm Leach Bliley Act, followed by the Interagency Guidance on Response Programs for Unauthorized Access to Customer Information and Customer Notice, the fraud investigator has evolved into the fraud prevention officer, coordinating with the information security officer to address traditional identity theft and technology-related breaches.

The fraud prevention, or security officer, would also have been an important member of the team that implemented the customer identification procedures required by Section 326 of the USA Patriot Act, and community banks have long maintained procedures to identify new customers in order to prevent new account fraud.

The above demonstrates the commitment and expertise of community banks in the area of identity theft prevention.

Community Bank Resources:

Cambridge Trust Company urges you to consider the burden imposed by the administrative requirements of these Guidelines.

Due to their limited resources, community banks have had to maintain flexible fraud and identity theft prevention programs that protect their customers, promote safety and soundness and comply with regulations. These programs include training, educating customers, maintaining expertise, using fraud prevention software when available, leveraging existing resources to support these efforts, and communicating regularly with the board of directors, a committee thereof, and senior management.

As noted above, there already exist regulations and guidance regarding protecting consumers and bank customers from identity theft.

The Bank is concerned that the administration of a separate identity theft prevention program in addition to existing regulations would add to the administrative burden of community banks, which have limited resources. The proposal does indicate that the requirements of the Guidelines could be integrated with existing policies and procedures. However, we are concerned that a community bank that has policies and procedures in place to protect the identity of its customers and can demonstrate their effectiveness may be criticized because documentation or administrative efforts do not meet a standard set forth in the “Guidelines” and enforced by examiners who may take a cookie cutter approach during compliance reviews. A bank may find itself managing to examiner expectations instead of focusing resources on protecting customers and the Bank.

Alternative Approach:

The Bank would appreciate using the *Red Flags in Connection with an Account Application or an Existing Account* [Appendix J] as a resource. Please consider focusing Agency efforts on maintaining and communicating current Red Flags so that financial institutions can depend on the Red Flags as a resource when performing their risk assessments and implementing their prevention programs.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Ana M Foster
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