Ridgestone Bank
Making success happen.

September 14, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation,
550 17th Street, N.W.
Washington, D.C. 20429

Re: Basel III Capital Proposals

Ladies and Gentlemen:

Thank you for the opportunity to provide comment on the Basel III proposals[1] that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies").

Ridgestone Bank, with locations in Brookfield, Wisconsin and Schaumburg, Illinois, is a $400 million community bank with a strong focus on SBA lending and has been 11th in the nation in dollar volume with the SBA. We are writing today to comment on the Basel III Capital Proposals as they relate to unrealized gains and losses flowing through capital.

Unrealized Gains and Losses

The Basel III proposed ruling proposes that unrealized gains and losses on a bank's available-for-sale (AFS) securities to flow through to common equity Tier 1 capital. Under the current rules, unrealized gains and losses that exist in accumulated other comprehensive income on AFS debt securities are not included in regulatory capital.

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[1] The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions*; *Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

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Allowing unrealized gains and losses to flow through to capital would negatively impact the ability of banking organizations to contribute to the economic recovery in a rising interest rate environment. Rising rates will put downward pressure on banks' capital levels, potentially causing banks to shrink or reduce the growth of their securities portfolios considerably to maintain capital ratios.

Currently our bank's portfolio enjoys unrealized gains. However, in a rising rate environment, which is the next expected cycle, most portfolios will suffer unrealized losses. This will cause us to limit investment in longer duration assets such as Fannie Mae and Freddie Mac mortgage-backed securities. This will lead to a lower ROA for our bank and reduced funding for the housing market.

For these reasons, we respectfully request that the proposed rule be revised so that unrealized gains and losses do not flow through capital as the current rules state. Or, an alternative to that would be to exclude U.S. government and agency securities and U.S. government sponsored entity securities from the rule, as these have very little, if any, credit risk.

Thank you again for the opportunity to comment on the proposed rulings. Please feel free to contact us at 262.789.1011 with any questions.

Sincerely,

Bruce W. Lammers
CEO

Jessica Fritz
CFO