

UMPQUA HOLDINGS CORP
Form 10-Q
November 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: **September 30, 2011**

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____.

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON (State or Other Jurisdiction of Incorporation or Organization)	93-1261319 (I.R.S. Employer Identification Number)
One SW Columbia Street, Suite 1200 Portland, Oregon 97258 (Address of Principal Executive Offices)(Zip Code)	
(503) 727-4100 (Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:

Common stock, no par value: 114,539,105 shares outstanding as of October 31, 2011

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UMPQUA HOLDINGS CORPORATION

FORM 10-Q

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(in thousands, except shares)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$ 151,548	\$ 111,946
Interest bearing deposits	767,617	891,634
Temporary investments	552	545
Total cash and cash equivalents	919,717	1,004,125
Investment securities		
Trading, at fair value	2,481	3,024
Available for sale, at fair value	3,090,064	2,919,180
Held to maturity, at amortized cost	4,877	4,762
Loans held for sale	94,295	75,626
Non-covered loans and leases	5,828,114	5,658,987
Allowance for non-covered loan and lease losses	(92,932)	(101,921)
Non-covered loans and leases, net	5,735,182	5,557,066
Covered loans and leases, net of allowance of \$14,423 and \$2,721	672,130	785,898
Restricted equity securities	32,709	34,475
Premises and equipment, net	146,887	136,599
Goodwill and other intangible assets, net	678,448	681,969
Mortgage servicing rights, at fair value	16,612	14,454
Non-covered other real estate owned	34,787	32,791
Covered other real estate owned	23,039	29,863
FDIC indemnification asset	106,378	146,413
Other assets	215,277	242,465
Total assets	\$ 11,772,883	\$ 11,668,710
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	\$ 1,940,865	\$ 1,616,687
Interest bearing	7,463,545	7,817,118
Total deposits	9,404,410	9,433,805
Securities sold under agreements to repurchase	146,361	73,759
Term debt	256,198	262,760
Junior subordinated debentures, at fair value	82,324	80,688
Junior subordinated debentures, at amortized cost	102,624	102,866
Other liabilities	85,846	72,258
Total liabilities	10,077,763	10,026,136

COMMITMENTS AND CONTINGENCIES (NOTE 10)**SHAREHOLDERS EQUITY**

Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 114,538,536 in 2011 and 114,536,814 in 2010	1,541,753	1,540,928
Retained earnings	110,237	76,701
Accumulated other comprehensive income	43,130	24,945
Total shareholders equity	1,695,120	1,642,574
Total liabilities and shareholders equity	\$ 11,772,883	\$ 11,668,710

See notes to condensed consolidated financial statements

Table of Contents**UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
INTEREST INCOME				
Interest and fees on loans	\$ 101,991	\$ 112,652	\$ 303,818	\$ 300,600
Interest and dividends on investment securities				
Taxable	21,932	17,421	68,323	49,065
Exempt from federal income tax	2,136	2,221	6,479	6,655
Dividends	2	6	9	9
Interest on temporary investments and interest bearing deposits	466	646	1,207	1,590
Total interest income	126,527	132,946	379,836	357,919
INTEREST EXPENSE				
Interest on deposits	14,579	19,913	44,943	57,165
Interest on securities sold under agreement to repurchase and federal funds purchased	152	136	405	382
Interest on term debt	2,332	2,533	6,922	6,832
Interest on junior subordinated debentures	1,930	2,047	5,769	5,871
Total interest expense	18,993	24,629	58,039	70,250
Net interest income	107,534	108,317	321,797	287,669
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES				
	9,089	24,228	39,578	96,101
PROVISION FOR COVERED LOAN AND LEASE LOSSES				
	4,420	667	15,443	667
Net interest income after provision for loan and lease losses	94,025	83,422	266,776	190,901
NON-INTEREST INCOME				
Service charges on deposit accounts	8,849	8,756	25,210	26,706
Brokerage commissions and fees	3,115	2,609	9,768	8,387
Mortgage banking revenue, net	7,084	7,138	17,166	13,825
Gain on investment securities, net				
Gain on sale of investment securities, net	1,813	2,331	7,491	2,331
Total other-than-temporary impairment losses	-	(37)	(110)	(42)
Portion of other-than-temporary impairment losses transferred from other comprehensive income	-	(7)	38	(290)
Total gain on investment securities, net	1,813	2,287	7,419	1,999
(Loss) gain on junior subordinated debentures carried at fair value	(554)	(554)	(1,643)	5,534
Bargain purchase gain on acquisition	-	-	-	6,437
Change in FDIC indemnification asset	1,611	(11,948)	(1,035)	(11,075)
Other income	2,860	3,845	9,105	8,930

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Total non-interest income	24,778	12,133	65,990	60,743
NON-INTEREST EXPENSE				
Salaries and employee benefits	45,023	42,964	133,441	118,808
Net occupancy and equipment	12,803	11,448	37,867	33,596
Communications	2,791	2,480	8,397	7,300
Marketing	2,007	2,468	4,656	5,191
Services	6,089	5,507	17,997	16,253
Supplies	686	1,177	2,310	2,906
FDIC assessments	1,867	3,910	8,561	10,909
Net loss on non-covered other real estate owned	2,289	663	8,967	3,542
Net loss (gain) on covered other real estate owned	4,755	(980)	5,778	(2,500)
Intangible amortization	1,222	1,356	3,724	4,032
Merger related expenses	51	1,643	303	5,718
Other expenses	6,641	12,534	21,631	24,119
Total non-interest expense	86,224	85,170	253,632	229,874
Income before provision for income taxes	32,579	10,385	79,134	21,770
Provision for income taxes	10,717	2,194	26,020	1,602
Net income	\$ 21,862	\$ 8,191	\$ 53,114	\$ 20,168

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	\$ 21,862	\$ 8,191	\$ 53,114	20,168
Preferred stock dividends	-	-	-	12,192
Dividends and undistributed earnings allocated to participating securities	105	18	253	49
Net earnings available to common shareholders	\$ 21,757	\$ 8,173	\$ 52,861	\$ 7,927
Earnings per common share:				
Basic	\$ 0.19	\$ 0.07	\$ 0.46	\$ 0.07
Diluted	\$ 0.19	\$ 0.07	\$ 0.46	\$ 0.07
Weighted average number of common shares outstanding:				
Basic	114,540	114,528	114,576	105,695
Diluted	114,691	114,760	114,769	105,924
See notes to condensed consolidated financial statements				

Table of Contents**UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(UNAUDITED)**

(in thousands, except shares)

	Common Stock			Accumulated		
	Preferred	Shares	Amount	Retained	Other	Total
	Stock			Earnings	Comprehensive	
					Income	
BALANCE AT JANUARY 1, 2010	\$ 204,335	86,785,588	\$ 1,253,288	\$ 83,939	\$ 24,955	\$ 1,566,517
Net income				28,326		28,326
Other comprehensive loss, net of tax					(10)	(10)
Comprehensive income						\$ 28,316
Issuance of common stock		8,625,000	89,786			89,786
Stock-based compensation			3,505			3,505
Stock repurchased and retired		(22,541)	(284)			(284)
Issuances of common stock under stock plans and related net tax benefit		173,767	844			844
Redemption of preferred stock issued to U.S. Treasury	(214,181)					(214,181)
Issuance of preferred stock	198,289					198,289
Conversion of preferred stock to common stock	(198,289)	18,975,000	198,289			-
Amortization of discount on preferred stock	9,846			(9,846)		-
Dividends declared on preferred stock				(3,686)		(3,686)
Repurchase of warrants issued to U.S. Treasury			(4,500)			(4,500)
Cash dividends on common stock (\$0.20 per share)				(22,032)		(22,032)
Balance at December 31, 2010	\$ -	114,536,814	\$ 1,540,928	\$ 76,701	\$ 24,945	\$ 1,642,574
BALANCE AT JANUARY 1, 2011	\$ -	114,536,814	\$ 1,540,928	\$ 76,701	\$ 24,945	\$ 1,642,574
Net income				53,114		53,114
Other comprehensive income, net of tax					18,185	18,185
Comprehensive income						\$ 71,299
Stock-based compensation			2,930			2,930
Stock repurchased and retired		(180,491)	(2,061)			(2,061)
Issuances of common stock under stock plans and related net tax deficiencies		182,213	(44)			(44)
Cash dividends on common stock (\$0.17 per share)				(19,578)		(19,578)
Balance at September 30, 2011	\$ -	114,538,536	\$ 1,541,753	\$ 110,237	\$ 43,130	\$ 1,695,120

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	\$ 21,862	\$ 8,191	\$ 53,114	\$ 20,168
Available for sale securities:				
Unrealized gains (losses) arising during the period	12,065	(7,976)	37,714	20,117
Reclassification adjustment for net gains realized in earnings (net of tax expense of \$725 and \$932 for the three months and net of tax expense of \$2,996 and \$932 for the nine months ended September 30, 2011 and 2010, respectively)	(1,088)	(1,399)	(4,495)	(1,399)
Income tax (expense) benefit related to unrealized gains (losses)	(4,826)	3,190	(15,086)	(8,047)
Net change in unrealized gains (losses)	6,151	(6,185)	18,133	10,671
Held to maturity securities:				
Unrealized gains (losses) related to factors other than credit (net of tax expense of \$70 for the three months ended September 30, 2010, and tax benefit of \$30 and tax expense of \$139 for the nine months ended September 30, 2011 and 2010, respectively)	-	105	(45)	208
Reclassification adjustment for impairments realized in net income (net of tax benefit of \$18 for the three months ended September 30, 2010, and tax benefit of \$20 and \$133 for the nine months ended September 30, 2011 and 2010, respectively)	-	26	30	199
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of \$17 and \$26 for the three months ended September 30, 2011 and 2010, and tax benefit of \$44 and \$100 for the nine months ended September 30, 2011 and 2010, respectively)	25	39	67	150
Net change in unrealized losses related to factors other than credit	25	170	52	557
Other comprehensive income (loss), net of tax	6,176	(6,015)	18,185	11,228
Comprehensive income	\$ 28,038	\$ 2,176	\$ 71,299	\$ 31,396

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)

	Nine months ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 53,114	\$ 20,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	24,582	12,230
Gain on sale of investment securities, net	(7,491)	(2,331)
Other-than-temporary impairment on investment securities held to maturity	72	332
Loss on sale of non-covered other real estate owned	1,449	1,379
Gain on sale of covered other real estate owned	(1,469)	(3,425)
Valuation adjustment on non-covered other real estate owned	7,518	2,163
Valuation adjustment on covered other real estate owned	7,247	925
Provision for non-covered loan and lease losses	39,578	96,101
Provision for covered loan and lease losses	15,443	667
Bargain purchase gain on acquisition	-	(6,437)
Change in FDIC indemnification asset	1,035	11,075
Depreciation, amortization and accretion	9,454	9,121
Increase in mortgage servicing rights	(4,100)	(3,624)
Change in mortgage servicing rights carried at fair value	1,942	2,857
Change in junior subordinated debentures carried at fair value	1,636	(5,520)
Stock-based compensation	2,930	2,627
Net decrease in trading account assets	543	118
Gain on sale of loans	(6,585)	(9,282)
Origination of loans held for sale	(518,915)	(454,662)
Proceeds from sales of loans held for sale	506,831	439,663
Excess tax benefits from the exercise of stock options	(4)	(56)
Change in other assets and liabilities:		
Net decrease in other assets	(4,066)	20,723
Net increase in other liabilities	11,905	4,030
Net cash provided by operating activities	142,649	138,842
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(822,898)	(1,004,194)
Purchases of investment securities held to maturity	(1,573)	-
Proceeds from investment securities available for sale	665,131	262,067
Proceeds from investment securities held to maturity	1,486	1,080
Redemption of restricted equity securities	1,766	282
Net non-covered loan and lease (originations) paydowns	(249,199)	144,292
Net covered loan and lease paydowns	75,791	70,698
Proceeds from sales of non-covered loans	9,262	35,463
Proceeds from disposals of furniture and equipment	199	1,100
Purchases of premises and equipment	(23,137)	(40,978)
Net proceeds from FDIC indemnification asset	57,885	24,103
Proceeds from sales of non-covered other real estate owned	25,691	18,867
Proceeds from sales of covered other real estate owned	12,550	9,544
Proceeds from sale of acquired insurance portfolio	-	5,150

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Cash acquired in merger, net of cash consideration paid	-	179,046
Net cash used by investing activities	(247,046)	(293,480)

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(in thousands)

	Nine months ended September 30,	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposit liabilities	(28,606)	713,503
Net increase in securities sold under agreements to repurchase	72,602	10,153
Repayment of term debt	(5,000)	(161,968)
Redemption of preferred stock	-	(214,181)
Proceeds from issuance of preferred stock	-	198,289
Net proceeds from issuance of common stock	-	89,786
Redemption of warrants	-	(4,500)
Dividends paid on preferred stock	-	(3,686)
Dividends paid on common stock	(17,260)	(14,882)
Excess tax benefits from stock based compensation	4	56
Proceeds from stock options exercised	310	977
Retirement of common stock	(2,061)	(282)
 Net cash provided by financing activities	 19,989	 613,265
 Net (decrease) increase in cash and cash equivalents	 (84,408)	 458,627
Cash and cash equivalents, beginning of period	1,004,125	605,413
 Cash and cash equivalents, end of period	 \$ 919,717	 \$ 1,064,040
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 62,680	\$ 71,887
Income taxes	\$ 24,133	\$ 175
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	\$ 18,133	\$ 10,671
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	\$ 52	\$ 557
Cash dividend declared on common and preferred stock and payable after period-end	\$ 8,056	\$ 5,743
Transfer of non-covered loans to non-covered other real estate owned	\$ 36,654	\$ 29,867
Transfer of covered loans to covered other real estate owned	\$ 11,924	\$ 10,453
Transfer from FDIC indemnification asset to due from FDIC and other	\$ 39,000	\$ 25,984
Receivable from sales of covered other real estate owned	\$ 420	\$ -
Transfer of covered loans to non-covered loans	\$ 10,610	\$ -
Conversion of preferred stock to common stock	\$ -	\$ 198,289
Acquisitions:		
Assets acquired	\$ -	\$ 1,512,048
Liabilities assumed	\$ -	\$ 1,505,611
See notes to condensed consolidated financial statements		

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The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as we, our or the Company) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Umpqua Bank (Bank), and Umpqua Investments, Inc. (Umpqua Investments). All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2011 for potential recognition or disclosure. A more detailed description of our accounting policies is included in the 2010 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2010 Annual Report filed on Form 10-K.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 Business Combinations

On January 22, 2010, the Washington Department of Financial Institutions closed EvergreenBank (Evergreen), Seattle, Washington and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. That same date, Umpqua Bank assumed the banking operations of Evergreen from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO) and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$90.0 million on covered assets for Evergreen and absorb 95% of losses and share in 95% of loss recoveries exceeding \$90.0 million, except the Bank will incur losses up to \$30.2 million before the loss-sharing commences. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, Umpqua Bank assumed six additional store locations in the greater Seattle, Washington market. This acquisition is consistent with our community banking expansion strategy and provides further opportunity to fill in our market presence in the greater Seattle, Washington market.

On February 26, 2010, the Washington Department of Financial Institutions closed Rainier Pacific Bank (Rainier), Tacoma, Washington and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Rainier from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$95.0 million of losses on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding \$95.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank assumed 14 additional store locations in Pierce County and surrounding areas. This acquisition expands our presence in the south Puget Sound region of Washington State.

The operations of Evergreen and Rainier are included in our operating results from January 23, 2010 and February 27, 2010, respectively, and added combined revenue of \$13.3 million and \$36.4 million, non-interest expense of \$9.2 million and \$18.7 million, and earnings of \$2.5 million and \$10.7 million, net of tax, for the three and nine months ended September 30, 2011, and added combined revenue of \$8.7 million and \$31.4 million, non-interest expense of \$6.6 million and \$17.9 million, and earnings of \$1.3 million and \$8.9 million, net of tax, for the three and nine months ended September 30, 2010, respectively. These operating results include a bargain purchase gain of \$6.4 million, which is not indicative of future operating results. Evergreen's and Rainier's results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of none and \$88,000 for the three and nine months ended September 30, 2011, respectively, and \$748,000 and \$4.1 million for the three and nine months ended September 30, 2010, respectively, have been incurred in connection with these acquisitions and recognized in a separate line item on the *Condensed Consolidated Statements of Operations*.

On June 18, 2010, the Nevada State Financial Institutions Division closed Nevada Security Bank (Nevada Security), Reno, Nevada and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Nevada Security from the FDIC under a

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whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO, and accrued interest

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on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank assumed five additional store locations, including three in Reno, Nevada, one in Incline Village, Nevada, and one in Roseville, California. This acquisition expands our presence into the State of Nevada.

The operations of Nevada Security are included in our operating results from June 19, 2010, and added revenue of \$5.9 million and \$14.3 million, non-interest expense of \$2.8 million and \$8.9 million, and income of \$850,000 and \$648,000, net of tax, for the three and nine months ended, September 30, 2011 and revenue of \$3.9 million and \$4.4 million, non-interest expense of \$3.0 million and \$3.6 million, and earnings of \$578,000 and \$544,000, net of tax, for the three and nine months ended, September 30, 2010, respectively. Nevada Security's results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of none and \$101,000 for the three and nine months ended September 30, 2011, respectively, and \$741,000 and \$1.1 million for the three and nine months ended September 30, 2010, respectively, have been incurred in connection with the acquisition of Nevada Security and recognized as a separate line item on the *Condensed Consolidated Statements of Operations*.

We refer to the acquired loans and other real estate owned that are subject to the loss-sharing agreements as covered loans and covered other real estate owned, respectively, and these are presented as separate line items in our consolidated balance sheet. Collectively these balances are referred to as covered assets. Certain types of modifications or restructuring activities subsequent to acquisition may disqualify a loan from loss-share coverage under the provisions of the loss-share agreement. Loans that have been disqualified from loss-share coverage are prospectively reported as non-covered loans.

The assets acquired and liabilities assumed from the Evergreen, Rainier, and Nevada Security acquisitions have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification (the FASB ASC). The amounts are subject to adjustments based upon final settlement with the FDIC. In addition, the tax treatment of FDIC-assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreements provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Evergreen, Rainier, and Nevada Security not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of \$6.4 million in the Evergreen acquisition, \$35.8 million of goodwill in the Rainier acquisition and \$10.4 million of goodwill in the Nevada Security acquisition.

A summary of the net assets (liabilities) received from the FDIC and the estimated fair value adjustments are presented below:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Cost basis net assets (liabilities)	\$ 58,811	\$ (50,295)	\$ 53,629
Cash payment received from (paid to) the FDIC	-	59,351	(29,950)
Fair value adjustments:			
Loans	(117,449)	(103,137)	(112,975)
Other real estate owned	(2,422)	(6,581)	(17,939)
Other intangible assets	440	6,253	322
FDIC indemnification asset	71,755	76,603	99,160
Deposits	(1,023)	(1,828)	(1,950)
Term debt	(2,496)	(13,035)	-
Other	(1,179)	(3,139)	(690)
Bargain purchase gain (goodwill)	\$ 6,437	\$ (35,808)	\$ (10,393)

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer's bid, the FDIC may be required to make a cash payment to the acquirer or the acquirer may be required to make payment to the FDIC.

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In the Evergreen acquisition, cost basis net assets of \$58.8 million were transferred to the Company. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

In the Rainier acquisition, cost basis net liabilities of \$50.3 million and a cash payment received from the FDIC of \$59.4 million were transferred to the Company. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired. Goodwill of \$27.6 million and core deposit intangible assets of \$1.1 million recognized are deductible for income tax purposes.

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In the Nevada Security acquisition, cost basis net assets of \$53.6 million were transferred to the Company and a cash payment of \$30.0 million was made to the FDIC. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired. Goodwill of \$36.8 million and core deposit intangible assets of \$322,000 recognized are deductible for income tax purposes.

The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of Evergreen, Rainier, or Nevada Security as part of the purchase and assumption agreements. Rather, the Bank was granted the option to purchase or lease the real estate and furniture and equipment from the FDIC. The term of this option expired 90 days from the acquisition dates. Acquisition costs of the real estate and furniture and equipment are based on current mutually agreed upon appraisals. Umpqua exercised the right to purchase approximately \$344,000 of furniture and equipment for Evergreen, \$26.3 million of real estate and furniture and equipment for Rainier, and \$2.0 million of real estate and furniture and equipment for Nevada Security. The Bank had the option to purchase one store location as part of the Nevada Security acquisition and purchased it in the second quarter of 2011.

The statement of assets acquired and liabilities assumed at their estimated fair values of Evergreen, Rainier, and Nevada Security are presented below:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Assets Acquired:			
Cash and equivalents	\$ 18,919	\$ 94,067	\$ 66,060
Investment securities	3,850	26,478	22,626
Covered loans	252,493	458,340	215,507
Premises and equipment	-	17	50
Restricted equity securities	3,073	13,712	2,951
Goodwill	-	35,808	10,393
Other intangible assets	440	6,253	322
Mortgage servicing rights	-	62	-
Covered other real estate owned	2,421	6,580	17,938
FDIC indemnification asset	71,755	76,603	99,160
Other assets	328	3,254	2,588
Total assets acquired	\$ 353,279	\$ 721,174	\$ 437,595
Liabilities Assumed:			
Deposits	\$ 285,775	\$ 425,771	\$ 437,299
Term debt	60,813	293,191	-
Other liabilities	254	2,212	296
Total liabilities assumed	346,842	721,174	437,595
Net assets acquired/bargain purchase gain	\$ 6,437	\$ -	\$ -

Rainier's assets and liabilities were significant at a level to require disclosure of one year of historical financial statements and related pro forma financial disclosure. However, given the pervasive nature of the loss-sharing agreement entered into with the FDIC, the historical information of Rainier is much less relevant for purposes of assessing the future operations of the combined entity. In addition, prior to closure Rainier had not completed an audit of their financial statements, and we determined that audited financial statements were not and would not be reasonably available for the year ended December 31, 2009. Given these considerations, the Company requested, and received, relief from the Securities and Exchange Commission from submitting certain financial information of Rainier. The assets and liabilities of Evergreen and Nevada Security were not at a level that requires disclosure of historical or pro forma financial information.

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The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2011 and December 31, 2010:

September 30, 2011

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	\$ 117,313	\$ 1,450	\$ (1)	\$ 118,762
Obligations of states and political subdivisions	209,026	15,053	-	224,079
Residential mortgage-backed securities and collateralized mortgage obligations	2,688,976	58,125	(2,098)	2,745,003
Other debt securities	152	-	(14)	138
Investments in mutual funds and other equity securities	1,959	123	-	2,082
	\$ 3,017,426	\$ 74,751	\$ (2,113)	\$ 3,090,064
HELD TO MATURITY:				
Obligations of states and political subdivisions	\$ 1,335	\$ 2	\$ -	\$ 1,337
Residential mortgage-backed securities and collateralized mortgage obligations	3,542	129	(174)	3,497
	\$ 4,877	\$ 131	\$ (174)	\$ 4,834

December 31, 2010

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	\$ 117,551	\$ 1,239	\$ (1)	\$ 118,789
Obligations of states and political subdivisions	213,129	4,985	(1,388)	216,726
Residential mortgage-backed securities and collateralized mortgage obligations	2,543,974	57,506	(19,976)	2,581,504
Other debt securities	152	-	-	152
Investments in mutual funds and other equity securities	1,959	50	-	2,009
	\$ 2,876,765	\$ 63,780	\$ (21,365)	\$ 2,919,180
HELD TO MATURITY:				
Obligations of states and political subdivisions	\$ 2,370	\$ 5	\$ -	\$ 2,375
Residential mortgage-backed securities and collateralized mortgage obligations	2,392	216	(209)	2,399
	\$ 4,762	\$ 221	\$ (209)	\$ 4,774

Investment securities that were in an unrealized loss position as of September 30, 2011 and December 31, 2010 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

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(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	\$ -	\$ -	\$ 91	\$ 1	\$ 91	\$ 1
Residential mortgage-backed securities and collateralized mortgage obligations	342,891	1,991	22,261	107	365,152	2,098
Other debt securities	-	-	137	14	137	14
Total temporarily impaired securities	\$ 342,891	\$ 1,991	\$ 22,489	\$ 122	\$ 365,380	\$ 2,113

HELD TO MATURITY:

Residential mortgage-backed securities and collateralized mortgage obligations	\$ -	\$ -	\$ 868	\$ 174	\$ 868	\$ 174
Total temporarily impaired securities	\$ -	\$ -	\$ 868	\$ 174	\$ 868	\$ 174

December 31, 2010

(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	\$ -	\$ -	\$ 110	\$ 1	\$ 110	\$ 1
Obligations of states and political subdivisions	60,110	1,366	1,003	22	61,113	1,388
Residential mortgage-backed securities and collateralized mortgage obligations	1,238,483	19,968	1,539	8	1,240,022	19,976
Total temporarily impaired securities	\$ 1,298,593	\$ 21,334	\$ 2,652	\$ 31	\$ 1,301,245	\$ 21,365

HELD TO MATURITY:

Residential mortgage-backed securities and collateralized mortgage obligations	\$ -	\$ -	\$ 658	\$ 209	\$ 658	\$ 209
Total temporarily impaired securities	\$ -	\$ -	\$ 658	\$ 209	\$ 658	\$ 209

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2011 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the impairment related to factors other than credit amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated accordingly to the procedures described above.

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The following tables present the OTTI losses for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended September 30,	
	2011	2010
Total other-than-temporary impairment losses	\$ -	\$ 37
Portion of other-than-temporary impairment losses transferred from in other comprehensive income ⁽¹⁾	-	7
Net impairment losses recognized in earnings ⁽²⁾	\$ -	\$ 44

	Nine months ended September 30,	
	2011	2010
Total other-than-temporary impairment losses	\$ 110	\$ 42
Portion of other-than-temporary impairment losses (recognized in) transferred from other comprehensive income ⁽¹⁾	(38)	290
Net impairment losses recognized in earnings ⁽²⁾	\$ 72	\$ 332

(1) Represents other-than-temporary impairment losses related to all other factors.

(2) Represents other-than-temporary impairment losses related to credit losses.

The OTTI recognized on investment securities held to maturity relate to non-agency residential collateralized mortgage obligations. Each of these securities holds various levels of credit subordination. The underlying mortgage loans of these securities were originated from 2003 through 2007. At origination, the weighted average loan-to-value of the underlying mortgages was 69%; the underlying borrowers had weighted average FICO scores of 731, and 59% were limited documentation loans. These securities are valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimate cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management's estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security. We review the actual collateral performance of these securities on a quarterly basis and update the inputs as appropriate to determine the projected cash flows. The following table presents a summary of the significant inputs utilized to measure management's estimate of the credit loss component on these non-agency collateralized mortgage obligations as of September 30, 2011 and 2010:

	2011			2010		
	Minimum	Range Maximum	Weighted Average	Minimum	Range Maximum	Weighted Average
Constant prepayment rate	5.0%	20.0%	14.1%	4.0%	25.0%	14.9%
Collateral default rate	5.0%	55.0%	14.3%	8.0%	45.0%	16.8%
Loss severity	30.0%	65.0%	39.8%	20.0%	50.0%	34.6%

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The following table presents a roll forward of the credit loss component of held to maturity debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in OCI for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended September 30,	
	2011	2010
Balance, beginning of period	\$ 12,850	\$ 12,652
Subsequent OTTI credit losses	-	44
Reductions:		
Securities sold, matured or paid-off	(1,016)	-
Balance, end of period	\$ 11,834	\$ 12,696

(in thousands)

	Nine months ended September 30,	
	2011	2010
Balance, beginning of period	\$ 12,778	\$ 12,364
Subsequent OTTI credit losses	72	332
Reductions:		
Securities sold, matured or paid-off	(1,016)	-
Balance, end of period	\$ 11,834	\$ 12,696

The following table presents the maturities of investment securities at September 30, 2011:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	\$ 12,717	\$ 12,783	\$ 85	\$ 85
Over three months through twelve months	265,185	269,926	-	-
After one year through five years	2,079,869	2,125,689	1,475	1,532
After five years through ten years	598,435	617,997	1,021	929
After ten years	59,261	61,587	2,296	2,288
Other investment securities	1,959	2,082	-	-
	\$ 3,017,426	\$ 3,090,064	\$ 4,877	\$ 4,834

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties.

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The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended September 30, 2011		Three months ended September 30, 2010	
	Gains	Losses	Gains	Losses
Residential mortgage-backed securities and collateralized mortgage obligations	\$ 1,827	\$ 14	\$ 2,331	\$ -
	\$ 1,827	\$ 14	\$ 2,331	\$ -
	Nine months ended September 30, 2011		Nine months ended September 30, 2010	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	\$ -	\$ -	\$ -	\$ 1
Obligations of states and political subdivisions	7	-	2	1
Residential mortgage-backed securities and collateralized mortgage obligations	8,301	817	2,331	-
	\$ 8,308	\$ 817	\$ 2,333	\$ 2

The following table presents, as of September 30, 2011, investment securities which were pledged to secure borrowings and public deposits as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	\$ 199,008	\$ 207,574
To state and local governments to secure public deposits	560,043	583,556
Other securities pledged	201,504	205,411
Total pledged securities	\$ 960,555	\$ 996,541

Note 4 Non-covered Loans and Leases

The following table presents the major types of non-covered loans recorded in the balance sheets as of September 30, 2011 and December 31, 2010:

(in thousands)

	September 30, 2011	December 31, 2010
Commercial real estate		
Term & multifamily	\$ 3,542,974	\$ 3,483,475

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Construction & development	175,278	247,814
Residential development	103,668	147,813
Commercial		
Term	613,571	509,453
LOC & other	815,568	747,419
Residential		
Mortgage	281,131	222,416
Home equity loans & lines	275,041	278,585
Consumer & other	32,133	33,043
Total	5,839,364	5,670,018
Deferred loan fees, net	(11,250)	(11,031)
Total	\$ 5,828,114	\$ 5,658,987

As of September 30, 2011, loans totaling \$5.1 billion were pledged to secure borrowings and available lines of credit.

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Note 5 Allowance for Non-Covered Loan Loss and Credit Quality

Allowance for Non-Covered Loan and Lease Losses

The Bank has a management Allowance for Loan and Lease Losses (ALLL) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance

with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Our methodology for assessing the appropriateness of the ALLL consists of three key elements, which include 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, all risk-based activities within the loan portfolio are simultaneously considered.

Formula Allowance

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the formula allowance.

The formula allowance is calculated by applying risk factors to various segments of pools of outstanding loans. Risk factors are assigned to each portfolio segment based on management's evaluation of the losses inherent within each segment. Segments or regions with greater risk of loss will therefore be assigned a higher risk factor.

Base risk The portfolio is segmented into loan categories, and these categories are assigned a Base Risk factor based on an evaluation of the loss inherent within each segment.

Extra risk Additional risk factors provide for an additional allocation of ALLL based on the loan risk rating system and loan delinquency, and reflect the increased level of inherent losses associated with more adversely classified loans.

Changes to risk factors Risk factors are assigned at origination and may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans; regulatory exam results; changes in the level of adversely classified loans (positive or negative); improvement or deterioration in local economic conditions; and any other factors deemed relevant.

Specific Allowance

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a Specific Allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. The non-accrual impaired loans as of period end have already been partially charged off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

The combination of the formula allowance component and the specific allowance component lead to an allocated allowance for loan and lease losses.

Unallocated Allowance

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The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 10% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed quarterly with consideration of factors including, but not limited to:

Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;

Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

Changes in the nature and volume of the portfolio and in the terms of loans;

Changes in the experience and ability of lending management and other relevant staff;

Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;

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Changes in the quality of the institution's loan review system;

Changes in the value of underlying collateral for collateral-dependent loans;

The existence and effect of any concentrations of credit, and changes in the level of such concentrations;

The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

These factors are evaluated through a management survey of the Chief Credit Officer, Chief Lending Officers, Special Asset Manager, and Credit Review Manager. The survey requests responses to evaluate current changes in the nine qualitative factors. This information is then incorporated into our understanding of the reasonableness of the formula factors and our evaluation of the unallocated portion of the ALLL.

Management believes that the ALLL was adequate as of September 30, 2011. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 80% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios. A continued deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

The reserve for unfunded commitments (RUC) is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. For each portfolio segment, these factors include:

The quality of the current loan portfolio;

The trend in the loan portfolio's risk ratings;

Current economic conditions;

Loan concentrations;

Loan growth rates;

Past-due and non-performing trends;

Evaluation of specific loss estimates for all significant problem loans;

Historical short (one year), medium (three year), and long-term charge-off rates;

Recovery experience;

Peer comparison loss rates.

There have been no significant changes to the Bank's methodology or policies in the periods presented.

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The following tables summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan portfolio segment for the three and nine months ended September 30, 2011 and 2010, respectively:

(in thousands)

	Three Months Ended September 30, 2011					Total
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	
Balance, beginning of period	\$ 61,982	\$ 23,750	\$ 5,154	\$ 868	\$ 6,041	\$ 97,795
Charge-offs	(8,413)	(6,032)	(1,657)	(351)	-	(16,453)
Recoveries	2,010	346	54	91	-	2,501
Provision	5,913	1,158	3,141	339	(1,462)	9,089
Balance, end of period	\$ 61,492	\$ 19,222	\$ 6,692	\$ 947	\$ 4,579	\$ 92,932

	Three Months Ended September 30, 2010					Total
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	
Balance, beginning of period	\$ 68,215	\$ 19,847	\$ 9,773	\$ 848	\$ 15,231	\$ 113,914
Charge-offs	(16,311)	(12,586)	(1,873)	(648)	-	(31,418)
Recoveries	883	317	34	140	-	1,374
Provision	18,163	11,908	(283)	596	(6,156)	24,228
Balance, end of period	\$ 70,950	\$ 19,486	\$ 7,651	\$ 936	\$ 9,075	\$ 108,098

	Nine Months Ended September 30, 2011					Total
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	
Balance, beginning of period	\$ 64,405	\$ 22,146	\$ 5,926	\$ 803	\$ 8,641	\$ 101,921
Charge-offs	(32,728)	(17,387)	(4,586)	(1,238)	-	(55,939)
Recoveries	5,463	1,437	175	297	-	7,372
Provision	24,352	13,026	5,177	1,085	(4,062)	39,578
Balance, end of period	\$ 61,492	\$ 19,222	\$ 6,692	\$ 947	\$ 4,579	\$ 92,932

	Nine Months Ended September 30, 2010					Total
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	
Balance, beginning of period	\$ 67,281	\$ 24,583	\$ 5,811	\$ 455	\$ 9,527	\$ 107,657
Charge-offs	(51,846)	(45,451)	(3,710)	(1,724)	-	(102,731)
Recoveries	5,479	966	204	422	-	7,071
Provision	50,036	39,388	5,346	1,783	(452)	96,101
Balance, end of period	\$ 70,950	\$ 19,486	\$ 7,651	\$ 936	\$ 9,075	\$ 108,098

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The following table presents the allowance and recorded investment in non-covered loans by portfolio segment and balances individually or collectively evaluated for impairment as of September 30, 2011 and 2010, respectively:

(in thousands)

	September 30, 2011					Total
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	\$ 60,422	\$ 19,219	\$ 6,684	\$ 947	\$ 4,579	\$ 91,851
Individually evaluated for impairment	1,070	3	8	-	-	1,081
Total	\$ 61,492	\$ 19,222	\$ 6,692	\$ 947	\$ 4,579	\$ 92,932
Non-covered loans and leases:						
Collectively evaluated for impairment	\$ 3,670,059	\$ 1,400,862	\$ 555,864	\$ 32,133		\$ 5,658,918
Individually evaluated for impairment	151,861	28,277	308	-		180,446
Total	\$ 3,821,920	\$ 1,429,139	\$ 556,172	\$ 32,133		\$ 5,839,364
	September 30, 2010					Total
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	\$ 69,369	\$ 19,474	\$ 7,458	\$ 936	\$ 9,075	\$ 106,312
Individually evaluated for impairment	1,581	12	193	-		1,786
Total	\$ 70,950	\$ 19,486	\$ 7,651	\$ 936	\$ 9,075	\$ 108,098
Non-covered loans and leases:						
Collectively evaluated for impairment	\$ 3,767,697	\$ 1,217,238	\$ 473,679	\$ 35,312		\$ 5,493,926
Individually evaluated for impairment	170,911	39,873	4,489	-		215,273
Total	\$ 3,938,608	\$ 1,257,111	\$ 478,168	\$ 35,312		\$ 5,709,199

The gross non-covered loan and lease balance excludes deferred loans fees of \$11.3 million at September 30, 2011 and \$10.9 million at September 30, 2010.

Table of Contents**Summary of Reserve for Unfunded Commitments Activity**

The following tables present a summary of activity in the reserve for unfunded commitments (RUC) and unfunded commitments for the three and nine months ended September 30, 2011 and 2010, respectively:

(in thousands)

	Three Months Ended September 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	\$ 61	\$ 705	\$ 169	\$ 53	\$ 988
Net change to other expense	1	(36)	10	8	(17)
Balance, end of period	\$ 62	\$ 669	\$ 179	\$ 61	\$ 971

	Three Months Ended September 30, 2010				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	\$ 41	\$ 510	\$ 136	\$ 47	\$ 734
Net change to other expense	(1)	37	23	4	63
Balance, end of period	\$ 40	\$ 547	\$ 159	\$ 51	\$ 797

	Nine Months Ended September 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	\$ 33	\$ 575	\$ 158	\$ 52	\$ 818
Net change to other expense	29	94	21	9	153
Balance, end of period	\$ 62	\$ 669	\$ 179	\$ 61	\$ 971

	Nine Months Ended September 30, 2010				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	\$ 57	\$ 484	\$ 144	\$ 46	\$ 731
Net change to other expense	(17)	63	15	5	66
Balance, end of period	\$ 40	\$ 547	\$ 159	\$ 51	\$ 797

	Commercial Real Estate				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Unfunded loan commitments:					
September 30, 2011	\$ 60,906	\$ 640,028	\$ 227,505	\$ 46,000	\$ 974,439
September 30, 2010	40,470	521,819	211,725	44,295	818,309

Non-covered loans sold

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In the course of managing the loan portfolio, at certain times, management may decide to sell loans prior to resolution. The following table summarizes loans sold by loan portfolio during the three and nine months ended September 30, 2011 and 2010, respectively:

(in thousands)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Commercial real estate				
Term & multifamily	\$ 2,457	\$ 5,823	\$ 6,341	\$ 16,551
Construction & development	28	1,886	28	3,061
Residential development	-	-	2	5,434
Commercial				
Term	-	6,704	151	9,914
LOC & other	-	41	2,740	503
Total	\$ 2,485	\$ 14,454	\$ 9,262	\$ 35,463

Asset Quality and Non-Performing Loans

We manage asset quality and control credit risk through diversification of the non-covered loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank's Credit Quality Group is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and

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procedures across the Bank. Reviews of non-performing, past due non-covered loans and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors.

A loan is considered impaired when based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when loans are identified as impaired they are moved to our Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every six to nine months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac's nor the Bank's Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Company's Allowance for Loan and Lease Losses (ALLL) Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

Loans are classified as non-accrual when collection of principal or interest is doubtful generally if they are past due as to maturity or payment of principal or interest by 90 days or more unless such loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. Loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain.

Loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

Loans are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms. All loans determined to be impaired are individually assessed for impairment except for impaired consumer loans which are collectively evaluated for impairment in accordance with ASC 450, *Contingencies*. The specific factors considered in determining that a loan is impaired include borrower financial capacity, current economic, business and market conditions, collection efforts, collateral position and other factors deemed relevant. Generally, impaired loans are placed on non-accrual status and all cash receipts are applied to the principal balance. Continuation of accrual status and recognition of interest income is generally limited to performing restructured loans.

The Company has written down impaired, non-accrual loans as of September 30, 2011 to their estimated net realizable value, generally based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices.

Table of Contents**Non-Covered Non-Accrual Loans and Loans Past Due**

The following table summarizes our non-covered non-accrual loans and loans past due by loan class as of September 30, 2011 and December 31, 2010:

(in thousands)

	September 30, 2011						Total Non-covered Loans and Leases
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	
Commercial real estate							
Term & multifamily	\$ 10,707	\$ 19,452	\$ 5,118	\$ 35,277	\$ 46,990	\$ 3,460,707	\$ 3,542,974
Construction & development	-	-	-	-	4,604	170,674	175,278
Residential development	809	510	-	1,319	23,854	78,495	103,668
Commercial							
Term	1,828	1,782	12	3,622	8,608	601,341	613,571
LOC & other	4,056	1,836	345	6,237	15,800	793,531	815,568
Residential							
Mortgage	1,439	3,026	4,304	8,769	-	272,362	281,131
Home equity loans & lines	2,232	1,366	1,313	4,911	-	270,130	275,041
Consumer & other	109	53	624	786	-	31,347	32,133
Total	\$ 21,180	\$ 28,025	\$ 11,716	\$ 60,921	\$ 99,856	\$ 5,678,587	\$ 5,839,364
Deferred loan fees, net							(11,250)
Total							\$ 5,828,114
	December 31, 2010						Total Non-covered Loans and Leases
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	
Commercial real estate							
Term & multifamily	\$ 14,596	\$ 8,328	\$ 3,008	\$ 25,932	\$ 49,162	\$ 3,408,381	\$ 3,483,475
Construction & development	2,172	6,726	-	8,898	20,124	218,792	247,814
Residential development	640	-	-	640	34,586	112,587	147,813
Commercial							
Term	2,010	932	-	2,942	6,271	500,240	509,453
LOC & other	5,939	1,418	18	7,375	28,034	712,010	747,419
Residential							
Mortgage	1,314	1,101	3,372	5,787	-	216,629	222,416
Home equity loans & lines	1,096	1,351	232	2,679	-	275,906	278,585
Consumer & other	361	233	441	1,035	-	32,008	33,043
Total	\$ 28,128	\$ 20,089	\$ 7,071	\$ 55,288	\$ 138,177	\$ 5,476,553	\$ 5,670,018

Deferred loan fees, net	(11,031)
Total	\$ 5,658,987

Table of Contents**Non-Covered Impaired Loans**

The following table summarizes our impaired non-covered loans by loan class as of September 30, 2011 and December 31, 2010:

(in thousands)

	September 30, 2011		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	\$ 57,227	\$ 46,990	\$ -
Construction & development	28,098	22,061	-
Residential development	44,063	31,416	-
Commercial			
Term	14,547	11,798	-
LOC & other	50,384	15,802	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	21,320	21,320	650
Construction & development	3,762	2,742	40
Residential development	27,332	27,332	380
Commercial			
Term	677	677	3
LOC & other	-	-	-
Residential			
Mortgage	178	178	5
Home equity loans & lines	130	130	3
Consumer & other	-	-	-
Total:			
Commercial real estate	181,802	151,861	1,070
Commercial	65,608	28,277	3
Residential	308	308	8
Consumer & other	-	-	-
Total	\$ 247,718	\$ 180,446	\$ 1,081

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(in thousands)

	December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	\$ 62,605	\$ 49,790	\$ -
Construction & development	33,091	25,558	-
Residential development	63,859	39,011	-
Commercial			
Term	8,024	6,969	-
LOC & other	56,046	19,814	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	29,926	28,070	1,614
Construction & development	-	-	-
Residential development	46,059	44,504	906
Commercial			
Term	205	205	9
LOC & other	9,878	8,519	2,702
Residential			
Mortgage	179	179	8
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
Total:			
Commercial real estate	235,540	186,933	2,520
Commercial	74,153	35,507	2,711
Residential	179	179	8
Consumer & other	-	-	-
Total	\$ 309,872	\$ 222,619	\$ 5,239

Loans with no related allowance reported generally represent non-accrual loans. The Company recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of September 30, 2011 have already been written-down to their estimated net realizable value, based on disposition value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

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The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three months and nine months ended September 30, 2011 and 2010:

(in thousands)

	For the three months ended September 30, 2011		For the three months ended September 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	\$ 50,024	\$ -	\$ 48,540	\$ -
Construction & development	22,253	-	21,913	-
Residential development	33,406	-	30,233	-
Commercial				
Term	10,360	-	9,569	-
LOC & other	15,444	-	35,795	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
With an allowance recorded:				
Commercial real estate				
Term & multifamily	17,013	235	26,432	206
Construction & development	7,543	281	4,264	-
Residential development	28,924	310	51,261	205
Commercial				
Term	438	48	570	12
LOC & other	2,857	-	150	3
Residential				
Mortgage	178	1	4,461	69
Home equity loans & lines	65	2	35	1
Consumer & other	-	-	-	-
Total:				
Commercial real estate	159,163	826	182,643	411
Commercial	29,099	48	46,084	15
Residential	243	3	4,496	70
Consumer & other	-	-	-	-
Total	\$ 188,505	\$ 877	\$ 233,223	\$ 496

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	For the nine months ended September 30, 2011		For the nine months ended September 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	\$ 51,238	\$ -	\$ 57,557	\$ -
Construction & development	22,436	-	28,096	-
Residential development	36,527	-	37,251	-
Commercial				
Term	8,846	-	10,032	-
LOC & other	17,893	-	42,815	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
With an allowance recorded:				
Commercial real estate				
Term & multifamily	20,214	659	28,630	657
Construction & development	5,138	619	2,132	-
Residential development	34,431	1,005	57,133	1,143
Commercial				
Term	322	137	451	36
LOC & other	3,558	-	225	11
Residential				
Mortgage	178	4	4,642	190
Home equity loans & lines	32	2	26	1
Consumer & other	-	-	-	-
Total:				
Commercial real estate	169,984	2,283	210,799	1,800
Commercial	30,619	137	53,523	47
Residential	210	6	4,668	191
Consumer & other	-	-	-	-
Total	\$ 200,813	\$ 2,426	\$ 268,990	\$ 2,038

The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans.

Non-covered Credit Quality Indicators

As previously noted, the Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans (generally consumer loans) and non-homogeneous loans (generally all non-consumer loans). The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Minimal Risk A minimal risk loan, risk rated 1, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

Low Risk A low risk loan, risk rated 2, is similar in characteristics to a minimal risk loan. Margins may be smaller or protective elements may be subject to greater fluctuation. The borrower will have a strong demonstrated ability to produce profits, provide ample debt service coverage and to absorb market disturbances.

Modest Risk A modest risk loan, risk rated 3, is a desirable loan with excellent sources of repayment and no currently identifiable risk of collection. The borrower exhibits a very strong capacity to repay the credit in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have reserves to weather these cycles.

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Average Risk An average risk loan, risk rated 4, is an attractive loan with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk An acceptable risk loan, risk rated 5, is a loan with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

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Watch A watch loan, risk rated 6, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time. Borrowers rated Watch are characterized by elements of uncertainty, such as:

Borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.

The borrower may have experienced a minor, unexpected covenant violation.

Companies who may be experiencing tight working capital or have a cash cushion deficiency.

Loans may also be a Watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.

Delinquent payments, increasing and material overdraft activity, request for bulge and/or out-of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.

Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a Watch or worse risk rating.

Special Mention A Special Mention loan, risk rated 7, has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. A Special Mention loan has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. Such weaknesses include:

Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.

Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.

Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.

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This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.

Unlike a Substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard A substandard asset, risk rated 8, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans are classified as Substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between Special Mention and Substandard. The following are examples of well-defined weaknesses:

Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.

Borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.

Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.

Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.

Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Bank's primary source of repayment (unless this was the original source of repayment). If the collateral is under the Bank's control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be Special Mention or Watch.

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The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.

There is material, uncorrectable faulty documentation or materially suspect financial information.

Doubtful Loans classified as doubtful, risk rated 9, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a Doubtful rating will be temporary, while the Bank is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged off. The remaining balance, properly margined, may then be upgraded to Substandard, however must remain on non-accrual.

Loss Loans classified as loss, risk rated 10, are considered un-collectible and of such little value that the continuance as an active Bank asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged off now, even though partial or full recovery may be possible in the future.

Impaired Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as non-accrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans are not risk rated until they are greater than 30 days past due, and risk rating is based primarily on the past due status of the loan. The risk rating categories can be generally described by the following groupings for commercial, commercial real estate and homogeneous loans:

Special Mention A homogeneous special mention loan, risk rated 7, is 30-59 days past due from the required payment date at month-end.

Substandard A homogeneous substandard loan, risk rated 8, is 60-119 days past due from the required payment date at month-end.

Doubtful A homogeneous doubtful loan, risk rated 9, is 120-149 days past due from the required payment date at month-end.

Loss A homogeneous loss loan, risk rated 10, is 150 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 150- day time period elapses.

The risk rating categories can be generally described by the following groupings for residential and consumer and other homogeneous loans:

Special Mention A homogeneous retail special mention loan, risk rated 7, is 30-89 days past due from the required payment date at month-end.

Substandard A homogeneous retail substandard loan, risk rated 8, is an open-end loan 90-180 days past due from the required payment date at month-end or a closed-end loan 90-120 days past due from the required payment date at month-end.

Loss A homogeneous retail loss loan, risk rated 10, is a closed-end loan that becomes past due 120 cumulative days or an open-end retail loan that becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 120- or 180-day period elapses.

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The following table summarizes our internal risk rating by loan class as of September 30, 2011 and December 31, 2010:

(in thousands)

	September 30, 2011					
	Pass/Watch	Special Mention	Substandard	Loss	Impaired	Total
Commercial real estate						
Term & multifamily	\$ 3,013,772	\$ 305,644	\$ 155,248	\$ -	\$ 68,310	\$ 3,542,974
Construction & development	113,274	19,182	18,019	-	24,803	175,278
Residential development	24,890	10,848	9,182	-	58,748	103,668
Commercial						
Term	557,019	31,044	13,033	-	12,475	613,571
LOC & other	733,471	32,843	33,452	-	15,802	815,568
Residential						
Mortgage	272,362	4,465	435	3,691	178	281,131
Home equity loans & lines	271,039	2,560	204	1,108	130	275,041
Consumer & other	31,347	162	98	526	-	32,133
Total	\$ 5,017,174	\$ 406,748	\$ 229,671	\$ 5,325	\$ 180,446	\$ 5,839,364
Deferred loan fees, net						(11,250)
Total						\$ 5,828,114
	December 31, 2010					
	Pass/Watch	Special Mention	Substandard	Loss	Impaired	Total
Commercial real estate						
Term & multifamily	\$ 2,978,116	\$ 314,094	\$ 113,405	\$ -	\$ 77,860	\$ 3,483,475
Construction & development	145,108	25,295	51,853	-	25,558	247,814
Residential development	27,428	13,764	23,106	-	83,515	147,813
Commercial						
Term	472,512	17,658	12,109	-	7,174	509,453
LOC & other	646,163	30,761	42,162	-	28,333	747,419
Residential						
Mortgage	216,899	2,414	786	2,138	179	222,416
Home equity loans & lines	275,906	2,447	125	107	-	278,585
Consumer & other	32,008	595	29	411	-	33,043
Total	\$ 4,794,140	\$ 407,028	\$ 243,575	\$ 2,656	\$ 222,619	\$ 5,670,018
Deferred loan fees, net						(11,031)
Total						\$ 5,658,987

The percentage of impaired loans classified as special mention, substandard, and doubtful was 3.7%, 94.5%, and 1.8%, respectively, as of September 30, 2011.

Troubled Debt Restructurings

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At September 30, 2011 and December 31, 2010, impaired loans of \$80.6 million and \$84.4 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow.

Impaired restructured loans carry a specific allowance calculated and the allowance on impaired restructured loans is calculated consistently across the portfolios.

As a result of adopting the amendments in Accounting Standards Update No. 2011-02, the Company reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as troubled debt restructurings, the Company identified them as impaired under the guidance in Section 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. At the end of the first interim period of adoption (September 30, 2011), the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was \$5.4 million, and there was no allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss. In evaluating concessions made during the year, the Company frequently obtained adequate compensation for concessions made. As a result, few loans qualified as troubled debt restructuring under the new definitions outlined in Section 310-10-35.

Available commitments for troubled debt restructurings outstanding as of September 30, 2011 totaled \$348,000. As of December, 2010, no available commitments were outstanding on troubled debt restructurings.

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The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of September 30, 2011 and 2010:

(in thousands)

	September 30, 2011		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Term & multifamily	\$ 21,320	\$ 27,468	\$ 48,788
Construction & development	20,199	921	21,120
Residential development	34,895	16,991	51,886
Commercial			
Term	3,868	2,109	5,977
LOC & other	-	11,213	11,213
Residential			
Mortgage	178	-	178
Home equity loans & lines	130	-	130
Consumer & other	-	-	-
Total	\$ 80,590	\$ 58,702	\$ 139,292

	December 31, 2010		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Term & multifamily	\$ 28,697	\$ 3,185	\$ 31,882
Construction & development	5,434	-	5,434
Residential development	48,929	8,036	56,965
Commercial			
Term	904	725	1,629
LOC & other	298	11,040	11,338
Residential			
Mortgage	179	-	179
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
Total	\$ 84,441	\$ 22,986	\$ 107,427

The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appear relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

The types of modifications offered can generally be described in the following categories:

Rate Modification A modification in which the interest rate is modified.

Term Modification A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification A modification in which the payment amount is changed, other than an interest only modification described above.

Combination Modification Any other type of modification, including the use of multiple types of modifications.

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The following tables present newly restructured loans by type of modification that occurred during the three and nine months ended September 30, 2011 and 2010, respectively:

(in thousands)

Three months ended September 30, 2011

	Interest					
	Rate Modifications	Term Modifications	Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	\$ -	\$ -	\$ -	\$ -	\$ 7,631	\$ 7,631
Construction & development	-	-	-	-	-	-
Residential development	-	-	-	-	943	943
Commercial						
Term	-	-	-	-	5,241	5,241
LOC & other	-	-	-	-	943	943
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ 14,758	\$ 14,758

(in thousands)

Three months ended September 30, 2010

	Interest					
	Rate Modifications	Term Modifications	Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	\$ -	\$ -	\$ -	\$ -	\$ 3,573	\$ 3,573
Construction & development	-	-	-	-	5,534	5,534
Residential development	-	-	-	-	-	-
Commercial						
Term	-	-	-	-	-	-
LOC & other	-	-	-	-	-	-
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ 9,107	\$ 9,107

(in thousands)

Nine months ended September 30, 2011

	Interest					
	Rate Modifications	Term Modifications	Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	\$ -	\$ -	\$ -	\$ -	\$ 33,570	\$ 33,570

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Construction & development	-	-	-	-	13,760	13,760
Residential development	279	-	-	-	9,090	9,369
Commercial						
Term	-	-	-	70	5,311	5,381
LOC & other	-	-	-	-	4,050	4,050
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	130	-	-	-	130
Consumer & other	-	-	-	-	-	-
Total	\$ 279	\$ 130	\$ -	\$ 70	\$ 65,781	\$ 66,260

(in thousands)

Nine months ended September 30, 2010

	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	\$ -	\$ -	\$ -	\$ -	\$ 3,573	\$ 3,573
Construction & development	-	-	-	-	5,534	5,534
Residential development	-	-	-	-	391	391
Commercial						
Term	-	-	-	-	-	-
LOC & other	-	1,371	-	-	-	1,371
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-
Total	\$ -	\$ 1,371	\$ -	\$ -	\$ 9,498	\$ 10,869

For the periods presented in the tables above, the outstanding recorded investment was the same pre and post modification.

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The following tables represent financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2011 and 2010, respectively:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Commercial real estate				
Term & multifamily	\$ 196	\$ -	\$ 9,642	\$ 5,553
Construction & development	-	-	-	-
Residential development	-	-	1,767	-
Commercial				
Term	70	661	140	661
LOC & other	-	-	-	-
Residential				
Mortgage	-	-	-	944
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
Total	\$ 266	\$ 661	\$ 11,549	\$ 7,158

Note 6 Covered Assets and FDIC Indemnification Asset**Covered Loans**

Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as covered loans and reported separately in our statements of financial condition. Covered loans are reported exclusive of the expected cash flow reimbursements expected from the FDIC.

Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Because of the significant fair value discounts associated with the acquired portfolios, the concentration of real estate related loans (to finance or secured by real estate collateral) and the decline in real estate values in the regions serviced, and after considering the underwriting standards of the acquired originating bank, the Company elected to account for all acquired loans under ASC 310-30. Under FASB ASC 805 and ASC 310-30, loans are to be recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. We have aggregated the acquired loans into various loan pools based on multiple layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

Acquired loans were first segregated between those designated as performing versus those designated as non-performing. In this application, performing and non-performing loans were defined in accordance with the scoping requirements of ASC 310-30, that is the non-performing loans individually exhibited evidence of deteriorated credit quality since origination for which it is probable that we will not be able to collect all contractually required payments receivable. Our Credit Quality and Credit Review teams identified these non-performing credits on a loan-by-loan basis during the due diligence process. Generally, identified non-performing loans tended to be risk rated substandard or worse on the acquired institution's books. Collectively, the non-performing loans would be considered the classic application of ASC 310-30. The remaining performing notes were accounted for under ASC 310-30 by analogy due to the significant fair value discounts associated with the pools resulting from the underwriting standards of the acquired bank (that often contributed to the bank's failure), the concentration of loans for the purpose of, and collateralized by, real estate, and the general economic condition of the regions each acquired bank serviced. We deem analogizing all loans to ASC 310-30 acceptable as a significant component of the fair value discount applied to each loan pool is attributed to estimated credit losses that are anticipated to occur over the life of each respective loan pool.

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Once notes were separated based on their expected future performance, they were further segregated based on specific loan types (purpose/collateral) and then their principal cash flow and interest rate characteristics. The most significant loan type categories utilized (in no particular order) were commercial residential development, commercial construction, farmland, 1st lien single family mortgages, 2nd lien single family loans, single family revolving lines of credit, multifamily mortgages, owner occupied commercial real estate, non-owner occupied commercial real estate, commercial loans, commercial lines of credit, consumer installment loans, and consumer lines of credit. Next, groups of loans were segregated based on repayment characteristics, specifically whether the notes' principal balances were amortizing or interest-only. Lastly, loans were separated by various interest rate characteristics, such as whether the interest rate was fixed or variable. For those loans whose interest rates were variable, they were also segregated by their underlying indices (e.g. PRIME, Federal Home Loan Bank, or constant maturity treasury) and whether or not there were interest rate floors.

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The following table presents the number of pools, number of loans and acquired unpaid principal balance, by performing (Analogized ASC 310-30), non-performing (Classic ASC 310-30) and in total, separately for each institution acquired in 2010.

(dollars in millions)

	Evergreen	Rainier Pacific	Nevada Security
Performing loans ("Analogized ASC 310-30"):			
Number of Pools	15	19	19
Number of Loans	1,263	3,647	402
Acquired Unpaid Principal Balance	\$ 247.9	\$ 516.9	\$ 224.2
Non-performing loans ("Classic ASC 310-30"):			
Number of Pools	8	10	9
Number of Loans	127	39	106
Acquired Unpaid Principal Balance	\$ 120.6	\$ 44.5	\$ 103.4
Total Portfolio			
Number of Pools	23	29	28
Number of Loans	1,390	3,686	508
Acquired Unpaid Principal Balance	\$ 368.5	\$ 561.4	\$ 327.6

The fair value of each loan pool was computed by discounting the expected cash flows at their estimated market discount rate. Cash flows expected to be collected at acquisition date were estimated by applying certain key assumptions to each loan pool, such as credit loss rates, prepayment speeds, and resolution terms related to non-performing loans, against the contractual cash flows of the underlying loans. Credit loss estimates for each pool were determined by considering factors such as, underlying collateral types, collateral locations, estimated collateral values, and credit quality indicators such as risk ratings. Market discount rates were determined using a buildup approach which included assumptions with respect to funding cost and funding mix, a market participant's required rate of return on equity capital, servicing costs and a liquidity premium.

The following table reflects the estimated fair value of the acquired loans at the acquisition dates:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010	Total
Commercial real estate				
Term & multifamily	\$ 141,076	\$ 331,869	\$ 154,119	\$ 627,064
Construction & development	18,832	562	9,481	28,875
Residential development	16,219	10,340	15,641	42,200
Commercial				
Term	27,272	14,850	18,257	60,379
LOC & other	23,965	18,169	11,408	53,542
Residential				
Mortgage	11,886	39,897	1,539	53,322
Home equity loans & lines	8,308	31,029	4,421	43,758
Consumer & other	4,935	11,624	641	17,200
Total	\$ 252,493	\$ 458,340	\$ 215,507	\$ 926,340

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the "accretable yield". The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

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The following table presents a reconciliation of the undiscounted contractual cash flows, nonaccretable difference, accretable yield, and fair value of covered loans for each respective acquired loan portfolio at the acquisition dates:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010	Total
Undiscounted contractual cash flows	\$ 498,216	\$ 821,972	\$ 396,134	\$ 1,716,322
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(124,131)	(125,774)	(115,021)	(364,926)
Undiscounted cash flows expected to be collected	374,085	696,198	281,113	1,351,396
Accretable yield at acquisition	(121,592)	(237,858)	(65,606)	(425,056)
Estimated fair value of loans acquired at acquisition	\$ 252,493	\$ 458,340	\$ 215,507	\$ 926,340

The covered loan portfolio also includes revolving lines of credit with funded and unfunded commitments. Funds advanced at the time of acquisition are included in the loan pools and are accounted for under ASC 310-30. Any additional advances on these loans subsequent to the acquisition date may or may not be covered depending on the nature of the disbursement and the terms of each respective loss-sharing agreement, and are not accounted for under ASC 310-30.

The covered loans acquired are and will continue to be subject to the Company's internal and external credit review and monitoring. To the extent there is experienced or projected credit deterioration on the acquired loan pools subsequent to amounts estimated at the previous remeasurement date, this deterioration will be measured, and a provision for credit losses will be charged to earnings. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to acquisition date in a manner consistent with the allowance for non-covered loan and lease losses. These provisions will be mostly offset by an increase to the FDIC indemnification asset, which is recognized in non-interest income.

Covered Loans

The following table presents the major types of covered loans as of September 30, 2011 and December 31, 2010:

(in thousands)

	September 30, 2011			Total
	Evergreen	Rainier	Nevada Security	
Commercial real estate				
Term & multifamily	\$ 106,832	\$ 266,445	\$ 132,851	\$ 506,128
Construction & development	9,641	924	7,518	18,083
Residential development	7,414	231	9,988	17,633
Commercial				
Term	16,386	7,076	12,129	35,591
LOC & other	9,710	15,355	5,848	30,913
Residential				
Mortgage	7,431	29,734	1,873	39,038
Home equity loans & lines	5,179	22,234	3,348	30,761
Consumer & other	2,415	5,941	50	8,406
Total	\$ 165,008	\$ 347,940	\$ 173,605	686,553

Allowance for covered loans	(14,423)
Total	\$ 672,130

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(in thousands)

	December 31, 2010			Total
	Evergreen	Rainier	Nevada Security	
Commercial real estate				
Term & multifamily	\$ 124,743	\$ 303,585	\$ 141,314	\$ 569,642
Construction & development	14,470	854	9,389	24,713
Residential development	11,024	2,497	11,372	24,893
Commercial				
Term	18,895	10,881	13,000	42,776
LOC & other	11,876	14,320	9,031	35,227
Residential				
Mortgage	8,129	35,026	1,669	44,824
Home equity loans & lines	6,740	25,214	3,726	35,680
Consumer & other	2,793	8,071	-	10,864
Total	\$ 198,670	\$ 400,448	\$ 189,501	788,619
Allowance for covered loans				(2,721)
Total				\$ 785,898

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at September 30, 2011 was \$233.1 million, \$433.9 million and \$276.4 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to \$286.6 million, \$481.7 million and \$295.4 million, for Evergreen, Rainier, and Nevada Security, respectively, at December 31, 2010.

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference.

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the accretable yield. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

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The following table presents the changes in the accretable yield for the three and nine months ended September 30, 2011 and 2010 for each respective acquired loan portfolio:

(in thousands)

	Three months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ 67,469	\$ 143,997	\$ 68,594	\$ 280,060
Accretion to interest income	(6,095)	(9,263)	(5,592)	(20,950)
Disposals	(1,668)	(5,138)	(486)	(7,292)
Reclassifications from nonaccretable difference	1,773	2,374	4,953	9,100
Balance, end of period	\$ 61,479	\$ 131,970	\$ 67,469	\$ 260,918

	Three months ended September 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ 83,935	\$ 205,682	\$ 65,049	\$ 354,666
Accretion to interest income	(14,655)	(9,311)	(4,857)	(28,823)
Disposals	(1,731)	(4,236)	(230)	(6,197)
Reclassifications (to)/from nonaccretable difference	(3,910)	8,662	(1,218)	3,534
Balance, end of period	\$ 63,639	\$ 200,797	\$ 58,744	\$ 323,180

	Nine months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ 90,771	\$ 172,615	\$ 73,515	\$ 336,901
Accretion to interest income	(21,708)	(26,374)	(16,641)	(64,723)
Disposals	(8,641)	(14,585)	(3,293)	(26,519)
Reclassifications from nonaccretable difference	1,057	314	13,888	15,259
Balance, end of period	\$ 61,479	\$ 131,970	\$ 67,469	\$ 260,918

	Nine months ended September 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Additions resulting from acquisitions	121,592	237,858	65,606	425,056
Accretion to interest income	(21,414)	(20,910)	(5,410)	(47,734)
Disposals	(4,556)	(7,624)	(320)	(12,500)
Reclassifications to nonaccretable difference	(31,983)	(8,527)	(1,132)	(41,642)
Balance, end of period	\$ 63,639	\$ 200,797	\$ 58,744	\$ 323,180

The significant reclassification to nonaccretable difference presented for the nine months ended September 30, 2010 in the Evergreen and Rainier portfolios represent the refinement and finalization of the initial cash flow estimates that occurred at the end of the first quarter of 2011. The estimated fair value of the loan portfolios and expected credit losses continued to be based on a weighted average pool-level basis. However, the undiscounted contractual cash flows estimate was refined to be based off of the underlying individual loans and resulted in a reduction in the undiscounted contractual cash flows and a corresponding decrease in accretable yield. As these acquisitions occurred in the first

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quarter of 2010, the Company elected to reflect these changes, beginning in the second quarter of 2010, in the reclassification to nonaccretable difference line item of the accretable yield reconciliation, rather than adjust the acquisition date balance disclosure as the estimated fair values did not change. The updated initial cash flows did not have a material impact on or result in retrospective adjustments to the Company's consolidated financial statements.

Table of Contents**Allowance for Covered Loan and Lease Losses**

The following table summarizes activity related to the allowance for covered loan and lease losses by covered loan portfolio segment for the three and nine months ended September 30, 2011, respectively:

(in thousands)

Three Months Ended September 30, 2011

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	\$ 6,282	\$ 3,193	\$ 498	\$ 246	\$ 10,219
Charge-offs	(381)	(454)	(17)	(56)	(908)
Recoveries	421	240	15	16	692
Provision	2,882	1,247	225	66	4,420
Balance, end of period	\$ 9,204	\$ 4,226	\$ 721	\$ 272	\$ 14,423

(in thousands)

Nine Months Ended September 30, 2011

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	\$ 2,465	\$ 176	\$ 56	\$ 24	\$ 2,721
Charge-offs	(2,279)	(190)	(1,630)	(1,147)	(5,246)
Recoveries	992	293	110	110	1,505
Provision	8,026	3,947	2,185	1,285	15,443
Balance, end of period	\$ 9,204	\$ 4,226	\$ 721	\$ 272	\$ 14,423

The following table presents the allowance and recorded investment in by covered loan portfolio segment as of September 30, 2011:

(in thousands)

September 30, 2011

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for covered loans and leases:					
Loans acquired with deteriorated credit quality ⁽¹⁾	\$ 8,758	\$ 3,553	\$ 686	\$ 242	\$ 13,239
Collectively evaluated for impairment ⁽²⁾	446	673	35	30	1,184
Total	\$ 9,204	\$ 4,226	\$ 721	\$ 272	\$ 14,423
Covered loans and leases:					
Loans acquired with deteriorated credit quality ⁽¹⁾	\$ 538,928	\$ 42,313	\$ 65,252	\$ 6,057	\$ 652,550
Collectively evaluated for impairment ⁽²⁾	2,916	24,191	4,547	2,349	34,003

Total	\$ 541,844	\$ 66,504	\$ 69,799	\$ 8,406	\$ 686,553
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- (1) In accordance with ASC 310-30, the valuation allowance is netted against the carrying value of the covered loan and lease balance.
- (2) The allowance on covered loan and lease losses includes an allowance on covered loan advances on acquired loans subsequent to acquisition.

There was a \$667,000 valuation allowance on covered loans and no allowance on covered loan advances on acquired loans subsequent to acquisition at September 30, 2010.

The valuation allowance on covered loans was reduced by recaptured provision of \$901,000 and \$1.3 million, respectively, for the three and nine months ended September 30, 2011. There was no recaptured provision for the three and nine months ended September 30, 2010.

Covered Credit Quality Indicators

Covered loans are risk rated in a manner consistent with non-covered loans. As previously noted, the Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating groupings are described fully in Note 5. The below table includes both loans acquired with deteriorated credit quality accounted for under ASC 310-30 and covered loan advances on acquired loans subsequent to acquisition.

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The following table summarizes our internal risk rating grouping by covered loans, net class as of September 30, 2011 and December 31, 2010:

(in thousands)

	September 30, 2011					Total
	Pass/ Watch	Special Mention	Substandard	Doubtful	Loss	
Commercial real estate						
Term & multifamily	\$362,374	\$52,623	\$73,433	\$11,987	\$59	\$500,476
Construction & development	2,117	939	7,894	5,842	-	16,792
Residential development	1,303	216	8,255	5,599	-	15,373
Commercial						
Term	21,303	809	7,412	3,403	-	32,927
LOC & other	20,134	2,521	6,379	317	-	29,351
Residential						
Mortgage	38,881	-	9	-	-	38,890
Home equity loans & lines	30,120	-	69	-	-	30,189
Consumer & other	8,132	-	-	-	-	8,132
Total	\$484,364	\$57,108	\$103,451	\$27,148	\$59	\$672,130

	December 31, 2010					Total
	Pass/ Watch	Special Mention	Substandard	Doubtful	Loss	
Commercial real estate						
Term & multifamily	\$485,238	\$32,150	\$44,833	\$7,421	\$-	\$569,642
Construction & development	6,155	3,799	7,640	4,841	-	22,435
Residential development	6,625	1,322	12,907	3,852	-	24,706
Commercial						
Term	31,760	2,119	7,087	1,634	-	42,600
LOC & other	22,960	4,246	7,183	838	-	35,227
Residential						
Mortgage	44,524	-	300	-	-	44,824
Home equity loans & lines	34,998	-	627	-	-	35,625
Consumer & other	10,827	-	12	-	-	10,839
Total	\$643,087	\$43,636	\$80,589	\$18,586	\$-	\$785,898

Covered Other Real Estate Owned

All OREO acquired in FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement are referred to as covered OREO and reported separately in our statements of financial position. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral's net realizable value, less selling costs.

Covered OREO was initially recorded at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. Any subsequent valuation adjustments due to declines in fair value will be charged to non-interest expense, and will be mostly offset by non-interest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

The following table summarizes the activity related to the covered OREO for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 30,153	\$ 28,290	\$ 29,863	\$ -
Acquisition	-	-	-	26,939
Additions to covered OREO	3,256	7,784	11,924	10,453
Dispositions of covered OREO	(5,044)	(4,806)	(11,501)	(6,119)
Valuation adjustments in the period	(5,326)	(920)	(7,247)	(925)
Balance, end of period	\$ 23,039	\$ 30,348	\$ 23,039	\$ 30,348

FDIC Indemnification Asset

The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, *Business Combinations*. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC indemnification asset.

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Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered assets. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification asset represents the amounts recoverable from the FDIC for future expected losses, and the amounts due from the FDIC for claims related to covered losses the Company have incurred less amounts due back to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC indemnification asset for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$36,118	\$35,999	\$44,811	\$116,928
Change in FDIC indemnification asset	177	372	1,062	1,611
Transfers to due from FDIC and other	(3,420)	(2,991)	(5,750)	(12,161)
Balance, end of period	\$ 32,875	\$ 33,380	\$ 40,123	\$ 106,378

	Three months ended September 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ 72,068	\$ 54,598	\$ 98,688	\$225,354
Change in FDIC indemnification asset	(8,231)	(3,593)	(124)	(11,948)
Transfers to due from FDIC and other	(13,109)	(1,709)	(12,232)	(27,050)
Balance, end of period	\$ 50,728	\$ 49,296	\$ 86,332	\$186,356

	Nine months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ 40,606	\$ 43,726	\$ 62,081	\$146,413
Change in FDIC indemnification asset	2,027	(4,549)	1,487	(1,035)
Transfers to due from FDIC and other	(9,758)	(5,797)	(23,445)	(39,000)
Balance, end of period	\$ 32,875	\$ 33,380	\$ 40,123	\$106,378

	Nine months ended September 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Acquisitions	71,755	76,603	99,160	247,518
Change in FDIC indemnification asset	(7,292)	(3,743)	(40)	(11,075)
Transfers to due from FDIC and other	(13,735)	(23,564)	(12,788)	(50,087)
Balance, end of period	\$ 50,728	\$ 49,296	\$ 86,332	\$186,356

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The following table presents the changes in the Company's mortgage servicing rights (MSR) for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Balance, beginning of period	\$16,350	\$12,895	\$14,454	\$12,625
Additions for new mortgage servicing rights capitalized	1,693	1,616	4,100	3,624
Acquired mortgage servicing rights	-	-	-	62
Changes in fair value:				
Due to changes in model inputs or assumptions ⁽¹⁾	(590)	(890)	(564)	(761)
Other ⁽²⁾	(841)	(167)	(1,378)	(2,096)
Balance, end of period	\$16,612	\$13,454	\$16,612	\$13,454

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.

(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of September 30, 2011 and December 31, 2010 was as follows:

(dollars in thousands)

	September 30, 2011	December 31, 2010
Balance of loans serviced for others	\$ 1,848,220	\$ 1,603,414
MSR as a percentage of serviced loans	0.90%	0.90%

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the *Condensed Consolidated Statements of Operations*, was \$1.2 million and \$3.5 million for the three and nine months ended September 30, 2011, as compared to \$1.0 million and \$2.8 million for the three and nine months ended September 30, 2010.

Key assumptions used in measuring the fair value of MSR as of September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Constant prepayment rate	18.13%	18.54%
Discount rate	8.60%	8.62%
Weighted average life (years)	4.8	4.5

Note 8 Non-covered Other Real Estate Owned

The following table presents the changes in non-covered other real estate owned (OREO) for the three and nine months ended September 30, 2011 and 2010:

(in thousands)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Balance, beginning of period	\$ 34,409	\$ 25,653	\$ 32,791	\$ 24,566
Additions to OREO	11,332	11,972	36,654	29,867
Dispositions of OREO	(8,954)	(5,159)	(27,140)	(20,246)
Valuation adjustments in the period	(2,000)	(442)	(7,518)	(2,163)
Balance, end of period	\$ 34,787	\$ 32,024	\$ 34,787	\$ 32,024

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The following is information about the Company's wholly-owned trusts (Trusts) as of September 30, 2011:

(dollars in thousands)

Trust Name	Issue Date	Issued and Outstanding Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	\$ 20,619	\$ 14,080	Floating (4)	11.62%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	21,352	Floating (5)	11.62%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	6,594	Floating (6)	11.64%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	6,582	Floating (6)	11.64%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	20,932	Floating (7)	11.69%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	12,784	Floating (8)	11.65%	December 2037	December 2012
		134,024	82,324				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,343	10.875%	8.22%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	5,906	10.200%	8.24%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,391	Floating (9)	3.10%	December 2031	December 2006
Humboldt Bancorp Statutory Trust III	September 2003	27,836	30,638	Floating (10)	2.57%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,230	Floating (5)	3.04%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,186	Floating (11)	3.83%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	3.95%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.15%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.15%	September 2033	September 2008
		96,037	102,624				
	Total	\$ 230,061	\$ 184,948				

- (1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
- (2) Contractual interest rate of junior subordinated debentures.
- (3) Effective interest rate based upon the carrying value as of September 2011.
- (4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
- (5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
- (6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
- (7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
- (8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
- (9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
- (10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
- (11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
- (12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The Trusts are reflected as junior subordinated debentures in the Condensed Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Condensed Consolidated Balance Sheets, and totaled \$6.9 million at September 30, 2011 and December 31, 2010.

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On January 1, 2007, the Company selected the fair value measurement option for certain pre-existing junior subordinated debentures (the Umpqua Statutory Trusts). The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. In 2007, the Company issued two series of trust preferred securities and elected to measure each instrument at fair value. Accounting for the junior subordinated debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost are presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances

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through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Condensed Consolidated Balance Sheets. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and is expected to effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer to be able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

Due to inactivity in the junior subordinated debenture market and the inability to obtain observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we noted no significant change to the slope or shape of the forward LIBOR swap curve in the current period that would result in a significant change in the fair value of these liabilities.

The Company's specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market's required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010, that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable (after excluding the one-time goodwill impairment charge recognized in 2009); and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include: given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increased of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act, will increase the cost of compliance and restrict our ability to conduct business consistent with historical practices, and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the loss-share agreement. To the extent assumptions ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimated fair value of these liabilities. The extent we involve or engage these external third parties correlates to management's assessment of the current subordinated debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company's own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist's review is limited to a review the reasonableness of Management's assessment of inputs. Based on the procedures and methodology as described above, the Company has determined that the underlying inputs and assumptions have not materially changed since that last full-scope third-party valuation as of December 31, 2010.

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Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. For the three and nine months ended September 30, 2011, we recorded a loss of \$554,000 and \$1.6 million and, for the three and nine months ended September 30, 2010, we recorded a loss of \$554,000 and a gain of \$5.5 million, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

As noted above, the Dodd-Frank Act limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. As the Company had less than \$15 billion in assets at December 31, 2009, under the Dodd-Frank Act, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in Tier 1 capital. At September 30, 2011, the Company's restricted core capital elements were 18.2% of total core capital, net of goodwill and any associated deferred tax liability.

Note 10 Commitments and Contingencies

Lease Commitments The Company leases 141 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three and nine months ended September 30, 2011 was \$4.2 million and \$12.3 million, respectively, compared to \$4.0 million and \$11.3 million respectively, in the comparable periods in 2010. Rent expense was offset by rent income for the three and nine months ended September 30, 2011 of \$286,000 and \$758,000, respectively, compared to \$275,000 and \$750,000, respectively, in the comparable periods in 2010.

Financial Instruments with Off-Balance-Sheet Risk The Company's financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of the Bank's business and involve elements of credit, liquidity, and interest rate risk.

The following table presents a summary of the Bank's commitments and contingent liabilities:

(in thousands)

	As of September 30, 2011
Commitments to extend credit	\$ 1,209,497
Commitments to extend overdrafts	\$ 223,400
Forward sales commitments	\$ 201,370
Commitments to originate loans held for sale	\$ 173,082
Standby letters of credit	\$ 60,530

The Bank is a party to financial instruments with off-balance-sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve elements of credit and interest-rate risk similar to the risk involved in on-balance sheet items recognized in the *Condensed Consolidated Balance Sheets*. The contract or notional amounts of those instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any covenant or condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash

requirements. While most standby letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The

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amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral varies but may include cash, accounts receivable, inventory, premises and equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees but did incur losses of \$110,000 in connection with standby letters of credit during the three and nine months ended September 30, 2011. The Bank was not required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the three and nine months ended September 30, 2010. At September 30, 2011, approximately \$32.5 million of standby letters of credit expire within one year, and \$28.0 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was \$288,000 as of September 30, 2011.

Mortgage loans sold to investors may be sold with servicing rights retained, for which the Bank makes only standard legal representations and warranties as to meeting certain underwriting and collateral documentation standards. In the past two years, the Bank has had to repurchase fewer than 10 loans due to deficiencies in underwriting or loan documentation and has not realized significant losses related to these repurchases. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings The Bank owns 468,659 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4881 per Class A share. As of September 30, 2011, the value of the Class A shares was \$85.72 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Company was \$19.6 million as of September 30, 2011, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

In the ordinary course of business, various claims and lawsuits are brought by and against the Company, the Bank and Umpqua Investments. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company's consolidated financial condition or results of operations.

Concentrations of Credit Risk The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 80% of the Company's non-covered loan and lease portfolio at September 30, 2011, and 82% at December 31, 2010. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Company's primary market areas in particular, such as was seen with the deterioration in the residential development market since 2007, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

The Bank recognizes the credit risks inherent in dealing with other depository institutions. Accordingly, to prevent excessive exposure to any single correspondent, the Bank has established general standards for selecting correspondent banks as well as internal limits for allowable exposure to any single correspondent. In addition, the Bank has an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

Note 11 Derivatives

The Company may use derivatives to hedge the risk of changes in the fair values of interest rate lock commitments, residential mortgage loans held for sale, and mortgage servicing rights. None of the Company's derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

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The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates (MBS TBAs) in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2011 and 2010. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2011, the Bank had commitments to originate mortgage loans held for sale totaling \$173.1 million and forward sales commitments of \$201.4 million.

The Company's mortgage banking derivative instruments do not have specific credit risk-related contingent features. The forward sales commitments do have contingent features that may require transferring collateral to the broker/dealers upon their request. However, this amount would be limited to the net unsecured loss exposure at such point in time and would not materially affect the Company's liquidity or results of operations.

Effective in the second quarter of 2011, the Bank began executing interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of September 30, 2011, the Bank had 26 interest rate swaps with an aggregate notional amount of \$135.6 million related to this program.

In connection with the interest rate swap program with commercial customers, the Bank has agreements with its derivative counterparties that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations.

The Bank also has agreements with its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if the Bank were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels.

As of September 30, 2011 the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$5.0 million. The Bank has minimum collateral posting thresholds with certain of its derivative counterparties, and has been required to post collateral against its obligations under these agreements of \$4.5 million as of September 30, 2011. If the Bank had breached any of these provisions at September 30, 2011, it could have been required to settle its obligations under the agreements at the termination value.

The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the *Condensed Consolidated Balance Sheets*, and the fair values of such derivatives as of September 30, 2011 and December 31, 2010:

(in thousands)

Derivatives not designated as hedging instrument	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Interest rate lock commitments	Other assets/Other liabilities	\$ 2,097	\$ 306	\$ 26	\$ 170
Interest rate forward sales commitments	Other assets/Other liabilities	104	754	1,788	191
Interest rate swaps	Other assets/Other liabilities	4,793	-	4,972	-
Total		\$ 6,994	\$ 1,060	\$ 6,786	\$ 361

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The following table summarizes the types of derivatives, their locations within the *Condensed Consolidated Statements of Operations*, and the gains (losses) recorded during the three and nine months ended September 30, 2011 and 2010:

(in thousands)

Derivatives not designated as hedging instrument	Income Statement Location	Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
Interest rate lock commitments	Mortgage banking revenue	\$ 1,844	\$ (8)	\$ 1,936	\$ 1,198
Interest rate forward sales commitments	Mortgage banking revenue	(6,732)	(2,183)	(8,714)	(6,532)
Interest rate swaps	Other income	(264)	-	(178)	-
Total		\$ (5,152)	\$ (2,191)	\$ (6,956)	\$ (5,334)

Table of Contents**Note 12 Shareholders Equity**

On February 3, 2010, the Company raised \$303.6 million through a public offering by issuing 8,625,000 shares of the Company's common stock, including 1,125,000 shares pursuant to the underwriters' over-allotment option, at a share price of \$11.00 per share and 18,975,000 depository shares, including 2,475,000 depository shares pursuant to the underwriter's over-allotment option, also at a price of \$11.00 per share. Fractional interests (1/100th) in each share of the Series B Common Stock Equivalent were represented by the 18,975,000 depository shares; as a result, each depository share would convert into one share of common stock. The net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were \$288.1 million. The net proceeds from the offering were used to redeem the preferred stock issued to the United States Department of the Treasury (U.S. Treasury) under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), to fund FDIC-assisted acquisition opportunities and for general corporate purposes.

On February 17, 2010, the Company redeemed all of the outstanding Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued to the U.S. Treasury under the TARP CPP for an aggregate purchase price of \$214.2 million. As a result of the repurchase of the Series A preferred stock, the Company incurred a one-time deemed dividend of \$9.7 million due to the accelerated amortization of the remaining issuance discount on the preferred stock.

On March 31, 2010, the Company repurchased the common stock warrant issued to the U.S. Treasury pursuant to the TARP CPP, for \$4.5 million. The warrant repurchase, together with the Company's redemption in February 2010 of the entire amount of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued to the U.S. Treasury, represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the U.S. Treasury.

On April 20, 2010, shareholders of the Company approved an amendment to the Company's Restated Articles of Incorporation. The amendment, which became effective on April 21, 2010, increased the number of authorized shares of common stock to 200,000,000

(from 100,000,000). As a result of the effectiveness of the amendment, as of the close of business on April 21, 2010, the Company's

Series B Common Stock Equivalent preferred stock automatically converted into newly issued shares of common stock at a

conversion rate of 100 shares of common stock for each share of Series B Common Stock Equivalent preferred stock. All shares of Series B Common Stock Equivalent preferred stock and representative depository shares ceased to exist upon the conversion. Trading in the depository shares on NASDAQ (ticker symbol UMPQP) ceased and the UMPQP symbol voluntarily delisted effective as of the close of business on April 21, 2010.

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was \$942,000 and \$2.9 million for the three and nine months ended September 30, 2011, respectively, as compared to \$1.2 million and \$2.6 million for the three and nine months ended September 30, 2010, respectively. The total income tax benefit recognized related to stock-based compensation was \$377,000 and \$1.2 million for the three and nine months ended September 30, 2011, respectively, as compared to \$481,000 and \$1.1 million for the comparable periods in 2010, respectively.

On June 17, 2011, the Company's Compensation Committee modified restricted stock awards and option grants that were originally issued to fourteen executive officers on January 31, 2011, as follows:

Added performance vesting conditions linking total shareholder return, compared to the return of a regional bank stock total return index;

Awards will cliff vest after three years instead of time vest over a four year period, but only to the extent that the performance conditions are met; and