UMPQUA HOLDINGS CORP
Form 10-Q
August 05, 2016

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: June 30, 2016
or
[ ] 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	93-1261319
(State or Other Jurisdiction of Incorporation or Organization)	(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.

[X] 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).

[X] 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.

[X] 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 [X] 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: 220,195,666 shares outstanding as of July 31, 2016

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except shares)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks (restricted cash of $111,070 and $58,813)	$369,535	$277,645
Interest bearing cash and temporary investments (restricted cash of $1,186 and $3,938)	535,828	496,080
Total cash and cash equivalents	905,363	773,725
Investment securities		
Trading, at fair value	10,188	9,586
Available for sale, at fair value	2,482,072	2,522,539
Held to maturity, at amortized cost	4,382	4,609
Loans held for sale ($542,917 and $363,275, at fair value)	552,681	363,275
Loans and leases	17,355,240	16,866,536
Allowance for loan and lease losses	(131,042)	(130,322)
Net loans and leases	17,224,198	16,736,214
Restricted equity securities	47,542	46,949
Premises and equipment, net	312,647	328,734
Goodwill	1,787,651	1,787,793
Other intangible assets, net	40,620	45,508
Residential mortgage servicing rights, at fair value	112,095	131,817
Other real estate owned	16,437	22,307
Bank owned life insurance	295,444	291,892
Deferred tax asset, net	63,038	138,082
Other assets	278,149	203,351
Total assets	$24,132,507	$23,406,381
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$5,475,986	$5,318,591
Interest bearing	12,782,488	12,388,598
Total deposits	18,258,474	17,707,189
Securities sold under agreements to repurchase	360,234	304,560
Term debt	902,999	888,769
Junior subordinated debentures, at fair value	258,660	255,457
Junior subordinated debentures, at amortized cost	101,093	101,254
Other liabilities	348,889	299,818
Total liabilities	20,230,349	19,557,047
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, shares authorized: 400,000,000 in 2016 and 2015; issued and outstanding: 220,482,147 in 2016 and 220,171,091 in 2015	3,517,240	3,520,591
Retained earnings	362,258	331,301
Accumulated other comprehensive income (loss)	22,660	(2,558)

Total shareholders' equity	3,902,158	3,849,334
Total liabilities and shareholders' equity	$24,132,507	$23,406,381

See notes to condensed consolidated financial statements

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

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
INTEREST INCOME				
Interest and fees on loans and leases	$210,290	$217,143	$428,218	$431,018
Interest and dividends on investment securities:				
Taxable	11,963	11,517	25,018	23,306
Exempt from federal income tax	2,183	2,410	4,418	4,891
Dividends	365	169	731	270
Interest on temporary investments and interest bearing deposits	652	549	1,132	1,374
Total interest income	225,453	231,788	459,517	460,859
INTEREST EXPENSE				
Interest on deposits	8,540	7,381	16,953	14,484
Interest on securities sold under agreement to repurchase	32	43	68	91
Interest on term debt	3,848	3,492	8,034	6,956
Interest on junior subordinated debentures	3,835	3,406	7,562	6,743
Total interest expense	16,255	14,322	32,617	28,274
Net interest income	209,198	217,466	426,900	432,585
PROVISION FOR LOAN AND LEASE LOSSES	10,589	11,254	15,412	23,891
Net interest income after provision for loan and lease losses	198,609	206,212	411,488	408,694
NON-INTEREST INCOME				
Service charges on deposits	15,667	14,811	30,183	29,085
Brokerage revenue	4,580	4,648	8,674	9,417
Residential mortgage banking revenue, net	36,783	40,014	52,209	68,241
Gain on investment securities, net	162	19	858	135
Gain on loan sales, net	5,640	8,711	8,011	15,439
Loss on junior subordinated debentures carried at fair value	(1,572)	(1,572)	(3,144)	(3,127)
BOLI income	2,152	2,043	4,291	4,345
Other income	11,247	12,428	19,528	21,472
Total non-interest income	74,659	81,102	120,610	145,007
NON-INTEREST EXPENSE				
Salaries and employee benefits	107,545	110,807	214,083	218,251
Occupancy and equipment, net	37,850	34,868	76,145	67,018
Communications	5,296	5,894	10,859	10,688
Marketing	3,004	2,038	5,854	5,074
Services	11,529	10,866	22,200	24,993
FDIC assessments	3,693	3,155	7,414	6,369
(Gain) loss on other real estate owned, net	(1,457)	480	(68)	2,294
Intangible amortization	2,328	2,807	4,888	5,613
Merger related expenses	6,634	21,797	10,084	35,879
Goodwill impairment	—	—	142	—
Other expenses	12,089	9,206	20,899	18,358
Total non-interest expense	188,511	201,918	372,500	394,537
Income before provision for income taxes	84,757	85,396	159,598	159,164
Provision for income taxes	30,470	30,612	57,742	57,251

Net income	$54,287	$54,784	$101,856	$101,913

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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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	$54,287	$54,784	$101,856	$101,913
Dividends and undistributed earnings allocated to participating securities	32	93	61	177
Net earnings available to common shareholders	$54,255	$54,691	$101,795	$101,736
Earnings per common share:				
Basic	$0.25	$0.25	$0.46	$0.46
Diluted	$0.25	$0.25	$0.46	$0.46
Weighted average number of common shares outstanding:				
Basic	220,421	220,463	220,324	220,406
Diluted	220,907	221,150	221,001	221,088

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	$54,287	$54,784	$101,856	$101,913
Available for sale securities:				
Unrealized gains (losses) arising during the period	10,346	(24,303)	41,997	(11,563)
Income tax (expense) benefit related to unrealized gains	(4,004)	9,721	(16,253)	4,625
Reclassification adjustment for net realized gains in earnings	(162)	(19)	(858)	(135)
Income tax expense related to realized gains	63	9	332	54
Other comprehensive income (loss), net of tax	6,243	(14,592)	25,218	(7,019)
Comprehensive income	$60,530	$40,192	$127,074	$94,894

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

(in thousands, except shares)	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income (Loss)	Total
BALANCE AT JANUARY 1, 2015	220,161,120	$3,519,316	$246,242	$ 12,068	$3,777,626
Net income			222,539		222,539
Other comprehensive loss, net of tax				(14,626)	(14,626)
Stock-based compensation		14,383			14,383
Stock repurchased and retired	(844,215)	(14,589)			(14,589)
Issuances of common stock under stock plans and related net tax benefit	854,186	1,481			1,481
Cash dividends on common stock ($0.62 per share)			(137,480)		(137,480)
Balance at December 31, 2015	220,171,091	$3,520,591	$331,301	$ (2,558)	$3,849,334
BALANCE AT JANUARY 1, 2016	220,171,091	$3,520,591	$331,301	$ (2,558)	$3,849,334
Net income			101,856		101,856
Other comprehensive income, net of tax				25,218	25,218
Stock-based compensation		5,245			5,245
Stock repurchased and retired	(604,716)	(9,374)			(9,374)
Issuances of common stock under stock plans and related net tax benefit	915,772	778			778
Cash dividends on common stock ($0.32 per share)			(70,899)		(70,899)
Balance at June 30, 2016	220,482,147	$3,517,240	$362,258	$ 22,660	$3,902,158

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

(in thousands)	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$101,856	$101,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	10,114	12,011
Gain on sale of investment securities, net	(858)	(135)
Gain on sale of other real estate owned, net	(1,530)	(193)
Valuation adjustment on other real estate owned	1,462	2,487
Provision for loan and lease losses	15,412	23,891
Change in cash surrender value of bank owned life insurance	(4,366)	(5,439)
Depreciation, amortization and accretion	30,059	24,411
Loss on sale of premises and equipment	4,211	2,481
Additions to residential mortgage servicing rights carried at fair value	(14,843)	(20,101)
Change in fair value of residential mortgage servicing rights carried at fair value	34,565	10,154
Change in junior subordinated debentures carried at fair value	3,203	2,920
Stock-based compensation	5,245	7,985
Net increase in trading account assets	(602)	(6)
Gain on sale of loans	(80,169)	(77,395)
Change in loans held for sale carried at fair value	(13,809)	282
Origination of loans held for sale	(1,810,425)	(1,859,380)
Proceeds from sales of loans held for sale	1,972,727	1,794,637
Goodwill impairment	142	—
Change in other assets and liabilities:		
Net (increase) decrease in other assets	(16,958)	57,791
Net increase in other liabilities	57,836	4,468
Net cash provided by operating activities	293,272	82,782
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(247,620)	(619,131)
Proceeds from investment securities available for sale	319,919	337,088
Proceeds from investment securities held to maturity	282	344
Purchases of restricted equity securities	(600)	—
Redemption of restricted equity securities	7	72,417
Net change in loans and leases	(1,084,966)	(817,613)
Proceeds from sales of loans	311,669	164,868
Net change in premises and equipment	(15,572)	(42,580)
Proceeds from bank owned life insurance death benefits	814	4,184
Proceeds from sales of other real estate owned	10,228	15,187
Net cash used in investing activities	$(705,839)	$(885,236)

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

(in thousands)	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit liabilities	$552,670	$255,823
Net increase in securities sold under agreements to repurchase	55,674	12,390
Proceeds from term debt borrowings	285,000	—
Repayment of term debt borrowings	(270,015)	(114,999)
Dividends paid on common stock	(70,528)	(66,235)
Proceeds from stock options exercised	778	1,558
Repurchase and retirement of common stock	(9,374)	(11,307)
Net cash provided by financing activities	544,205	77,230
Net increase (decrease) in cash and cash equivalents	131,638	(725,224)
Cash and cash equivalents, beginning of period	773,725	1,605,171
Cash and cash equivalents, end of period	$905,363	$879,947
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$35,820	$33,054
Income taxes	$12,851	$17,223
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$25,218	$(7,019)
Cash dividend declared on common stock and payable after period-end	$35,296	$33,098
Transfer of loans to loans held for sale	$265,741	$—
Change in GNMA mortgage loans recognized due to repurchase option	$(7,881)	$3,493
Transfer of loans to other real estate owned	$4,546	$2,577
Transfers from other real estate owned to loans due to internal financing	$256	$—

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation conform to accounting principles generally accepted in the United States of America. The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The condensed consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2015 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2015 Annual Report filed on Form 10-K. All references in this report to "Umpqua," "we," "our," "us," the "Company" or similar references mean Umpqua Holdings Corporation, and include our consolidated subsidiaries where the context so requires. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser. The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company. Pivotus Ventures, Inc., a wholly-owned subsidiary of Umpqua Holdings Corporation, focuses on advancing bank innovation by developing new bank platforms that could have a significant impact on the experience and economics of banking.

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions subsequent to June 30, 2016 for potential recognition or disclosure. 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. In the second quarter of 2016, the loan portfolio was analyzed for correct classification of certain commercial and commercial real estate loan types, as a result of this analysis, loan classifications were updated in the current period. The prior period loan classifications have been updated to be comparable to the current period presentation in note 3 -Loans and Leases and note 4 -Allowance for Loan and Lease Losses and Credit Quality.

During the first quarter of 2016, Umpqua identified an error related to the accounting for loans sold to Ginnie Mae (“GNMA”) that have become past due 90 days or more. Pursuant to GNMA purchase and sales agreements, Umpqua has the unilateral right to repurchase loans that become past due 90 days or more. As a result of this unilateral right, once the delinquency criteria has been met, and regardless of whether the repurchase option has been exercised, the loan should be recognized, with an offsetting liability, to account for these loans that no longer meet the true-sale criteria. The Company has continued to grow the portfolio of GNMA loans sold and serviced, which has led to an increasing number and amount of delinquent loans. As such, the Company has recorded an adjustment to record the balance of the GNMA loans sold and serviced that are over 90 days past due, but not repurchased, as loans, with a corresponding other liability. Management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to the prior period financial statements taken as a whole. To provide consistency in the amounts reported in the comparable periods, the Company has recognized the delinquent GNMA loans for which the Company has the unconditional repurchase option, as well as the corresponding other liability, for the periods reported. As of December 31, 2015, this change resulted in an increase in loans and leases, net loans and leases, total assets, other liabilities, and total liabilities of $19.2 million. This change did not affect net income or shareholders' equity for any period.

Application of new accounting guidance

As of April 1, 2016, Umpqua adopted the Financial Accounting Standards Board's (FASB) Accounting Standard Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09, seeks to simplify several aspects of the accounting for employee share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. As required by ASU 2016-09, all adjustments are reflected as of the beginning of the fiscal year, January 1, 2016. By applying this ASU, the Company no longer adjusts common stock for the tax impact of shares released, instead the tax impact is recognized as tax expense in the period the shares are released. This simplifies the tracking of the excess tax benefits and deficiencies, but could cause volatility in tax expense for the periods presented. The statement of cash flows has been adjusted to reflect the provisions of this ASU. The application of this ASU did not have a material impact on the financial statements.

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Note 2 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
Obligations of states and political subdivisions	$284,421	$ 13,956	$ (271)	$298,106
Residential mortgage-backed securities and collateralized mortgage obligations	2,158,709	25,233	(2,019)	2,181,923
Investments in mutual funds and other equity securities	1,959	84	—	2,043
	$2,445,089	$ 39,273	$ (2,290)	$2,482,072
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$4,382	$ 868	$ —	$5,250
	$4,382	$ 868	$ —	$5,250

(in thousands)	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
Obligations of states and political subdivisions	$300,998	$ 12,741	$ (622)	$313,117
Residential mortgage-backed securities and collateralized mortgage obligations	2,223,742	7,218	(23,540)	2,207,420
Investments in mutual funds and other equity securities	1,959	43	—	2,002
	$2,526,699	$ 20,002	$ (24,162)	$2,522,539
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$4,609	$ 981	$—	$5,590
	$4,609	$ 981	$—	$5,590

Investment securities that were in an unrealized loss position as of June 30, 2016 and December 31, 2015 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position.

June 30, 2016

(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:						
Obligations of states and political subdivisions	$—	$ —	$2,029	$ 271	$2,029	$ 271
Residential mortgage-backed securities and collateralized mortgage obligations	9,803	28	241,289	1,991	251,092	2,019
Total temporarily impaired securities	$9,803	$ 28	$243,318	$ 2,262	$253,121	$ 2,290

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December 31, 2015

(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:						
Obligations of states and political subdivisions	$2,530	$ 83	$8,208	$ 539	$10,738	$ 622
Residential mortgage-backed securities and collateralized mortgage obligations	1,256,994	14,465	334,981	9,075	1,591,975	23,540
Total temporarily impaired securities	$1,259,524	$ 14,548	$343,189	$ 9,614	$1,602,713	$ 24,162

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors the published credit ratings of these securities for material rating or outlook changes. As of June 30, 2016, 92% of these securities were rated A3/A- or higher by rating agencies. Substantially all of the Company's obligations of states and political subdivisions are general obligation issuances. All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at June 30, 2016 are issued or guaranteed by government sponsored enterprises. 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 be settled at a price at least equal to 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 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, these investments are not considered other-than-temporarily impaired.

The following table presents the maturities of investment securities at June 30, 2016:

(in thousands)	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$4,655	$4,665	$—	$—
Over three months through twelve months	101,270	102,536	4	4
After one year through five years	1,607,293	1,630,492	188	496
After five years through ten years	531,111	540,023	367	857
After ten years	198,801	202,313	3,823	3,893
Other investment securities	1,959	2,043	—	—
	$2,445,089	$2,482,072	$4,382	$5,250

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 losses on the sale of securities available for sale for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended			
	June 30, 2016		June 30, 2015	
	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$275	$ —	$—	$ —
Residential mortgage-backed securities and collateralized mortgage obligations	270	383	226	207
	$545	$ 383	$226	$ 207

	Six Months Ended			
	June 30, 2016		June 30, 2015	
	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$971	$ —	$—	$ —
Residential mortgage-backed securities and collateralized mortgage obligations	270	383	542	407
	$1,241	$ 383	$542	$ 407

The following table presents, as of June 30, 2016, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

(in thousands)	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$699	$723
To state and local governments to secure public deposits	1,563,608	1,589,716
Other securities pledged principally to secure repurchase agreements	570,194	576,532
Total pledged securities	$2,134,501	$2,166,971

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Note 3 – Loans and Leases

The following table presents the major types of loans and leases, net of deferred fees and costs, as of June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016	December 31, 2015
Commercial real estate		
Non-owner occupied term, net	$3,377,464	$3,226,836
Owner occupied term, net	2,581,786	2,582,874
Multifamily, net	3,004,890	3,151,516
Construction & development, net	367,879	271,119
Residential development, net	111,941	99,459
Commercial		
Term, net	1,440,704	1,408,676
LOC & other, net	1,116,876	1,036,733
Leases and equipment finance, net	884,506	729,161
Residential		
Mortgage, net	2,882,076	2,909,306
Home equity loans & lines, net	989,814	923,667
Consumer & other, net	597,304	527,189
Total loans and leases, net of deferred fees and costs	$17,355,240	$16,866,536

The loan balances are net of deferred fees and costs of $63.3 million and $47.0 million as of June 30, 2016 and December 31, 2015, respectively. Net loans include discounts on acquired loans of $67.1 million and $105.6 million as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, loans totaling $10.0 billion were pledged to secure borrowings and available lines of credit.

The outstanding contractual unpaid principal balance of purchased impaired loans, excluding acquisition accounting adjustments, was $449.0 million and $540.4 million at June 30, 2016 and December 31, 2015, respectively. The carrying balance of purchased impaired loans was $330.9 million and $438.1 million at June 30, 2016 and December 31, 2015, respectively.

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The following table presents the changes in the accretable yield for purchased impaired loans for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended June 30,	
	2016	2015
Balance, beginning of period	$114,335	$185,587
Accretion to interest income	(9,977)	(15,149)
Disposals	(2,748)	(8,343)
Reclassifications from nonaccretable difference	9,769	3,267
Balance, end of period	$111,379	$165,362

	Six Months Ended June 30,	
	2016	2015
Balance, beginning of period	$132,829	$201,699
Accretion to interest income	(24,175)	(28,432)
Disposals	(11,261)	(15,256)
Reclassifications from nonaccretable difference	13,986	7,351
Balance, end of period	$111,379	$165,362

Loans and leases sold

In the course of managing the loan and lease portfolio, at certain times, management may decide to sell loans and leases. The following table summarizes the carrying value of loans and leases sold by major loan type during the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Commercial real estate				
Non-owner occupied term, net	$8,765	$7,181	$17,274	$7,181
Owner occupied term, net	8,242	16,641	17,903	19,960
Multifamily, net	400	—	129,830	435
Commercial				
Term, net	1,426	1,080	2,920	3,420
Residential				
Mortgage, net	135,731	51,680	135,731	118,433
Total	$154,564	$76,582	$303,658	$149,429

As of June 30, 2016, the Company had transferred $9.8 million of portfolio residential mortgage loans to held for sale that are expected to be sold during the third quarter of 2016. These portfolio loans were transferred to held for sale at the lower of cost or fair value, and no loss was incurred upon transfer.

Note 4 – Allowance for Loan and Lease Loss and Credit Quality

The Bank's methodology for assessing the appropriateness of the Allowance for Loan and Lease Loss ("ALLL") consists of three key elements: 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, we believe all risk-based activities within the loan and lease portfolios are simultaneously considered.

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Formula Allowance
When loans and leases are originated or acquired, they are assigned a risk rating that is reassessed periodically during the term of the loan or lease through the credit review process. The Bank'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 and leases. Risk factors are assigned to each portfolio segment based on management's evaluation of the losses inherent within each segment. Segments 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 and lease risk rating system and loan delinquency, and reflect the increased level of inherent losses associated with more adversely classified loans and leases.

Risk factors may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans and leases; regulatory exam results; changes in the level of adversely classified loans and leases; improvement or deterioration in local economic conditions; and any other factors deemed relevant.

Specific Allowance
Regular credit reviews of the portfolio 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 or estimated note sale price, 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 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 represents the allocated allowance for loan and lease losses. There is currently no unallocated allowance.

Management believes that the ALLL was adequate as of June 30, 2016. There is, however, no assurance that future loan and lease 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.

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. 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 charge-off and recovery experience; and other pertinent information.

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

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Activity in the Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for loan and lease losses by loan and lease portfolio segment for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended June 30, 2016				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$51,450	$ 50,781	$ 20,897	$ 7,115	$130,243
Charge-offs	(564)	(9,594)	(294)	(2,230)	(12,682)
Recoveries	220	1,274	293	1,105	2,892
(Recapture) Provision	(522)	9,894	(750)	1,967	10,589
Balance, end of period	$50,584	$ 52,355	$ 20,146	$ 7,957	$131,042

	Three Months Ended June 30, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$55,340	$ 44,042	$ 16,221	$ 4,501	$120,104
Charge-offs	(2,102)	(3,714)	(138)	(1,488)	(7,442)
Recoveries	1,265	1,113	108	669	3,155
Provision	3,840	4,077	1,773	1,564	11,254
Balance, end of period	$58,343	$ 45,518	$ 17,964	$ 5,246	$127,071

(in thousands)	Six Months Ended June 30, 2016				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$54,293	$ 47,487	$ 22,017	$ 6,525	$130,322
Charge-offs	(1,066)	(14,249)	(631)	(4,586)	(20,532)
Recoveries	720	2,447	524	2,149	5,840
(Recapture) Provision	(3,363)	16,670	(1,764)	3,869	15,412
Balance, end of period	$50,584	$ 52,355	$ 20,146	$ 7,957	$131,042

	Six Months Ended June 30, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$55,184	$ 41,216	$ 15,922	$ 3,845	$116,167
Charge-offs	(3,431)	(12,651)	(536)	(3,369)	(19,987)
Recoveries	1,488	2,184	139	3,189	7,000
Provision	5,102	14,769	2,439	1,581	23,891
Balance, end of period	$58,343	$ 45,518	$ 17,964	$ 5,246	$127,071

The valuation allowance on purchased impaired loans was increased by provision expense, which includes amounts related to subsequent deterioration of purchased impaired loans of $1.4 million for both the three and six months ended June 30, 2016, respectively, and $0 and $1.6 million for the three and six months ended June 30, 2015, respectively. The increase due to the provision expense of the valuation allowance on purchased impaired loans was offset by recaptured provision of $71,000 and $847,000 for the three and six months ended June 30, 2016, respectively, and $0 and $185,000 for the three and six months ended June 30, 2015, respectively.

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The following table presents the allowance and recorded investment in loans and leases by portfolio segment as of June 30, 2016 and 2015:

(in thousands)	June 30, 2016				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for loans and leases:					
Collectively evaluated for impairment	$47,427	$51,466	$19,351	$7,885	$126,129
Individually evaluated for impairment	363	456	—	—	819
Loans acquired with deteriorated credit quality	2,794	433	795	72	4,094
Total	$50,584	$52,355	$20,146	$7,957	$131,042
Loans and leases:					
Collectively evaluated for impairment	$9,139,255	$3,412,760	$3,821,080	$596,460	$16,969,555
Individually evaluated for impairment	34,906	19,929	—	—	54,835
Loans acquired with deteriorated credit quality	269,799	9,397	50,810	844	330,850
Total	$9,443,960	$3,442,086	$3,871,890	$597,304	$17,355,240

(in thousands)	June 30, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for loans and leases:					
Collectively evaluated for impairment	$53,018	$42,665	$17,294	$5,176	$118,153
Individually evaluated for impairment	774	377	—	—	1,151
Loans acquired with deteriorated credit quality	4,551	2,476	670	70	7,767
Total	$58,343	$45,518	$17,964	$5,246	$127,071
Loans and leases:					
Collectively evaluated for impairment	$8,689,870	$2,924,846	$3,366,001	$458,189	$15,438,906
Individually evaluated for impairment	37,711	26,458	—	—	64,169
Loans acquired with deteriorated credit quality	400,925	19,535	64,097	1,120	485,677
Total	$9,128,506	$2,970,839	$3,430,098	$459,309	$15,988,752

The loan and lease balances are net of deferred fees and costs of $63.3 million and $38.8 million at June 30, 2016 and June 30, 2015, respectively.

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the RUC and unfunded commitments for the three and six months ended June 30, 2016 and 2015:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$3,482	$3,194	$3,574	$3,539
Net change to other expense	49	(330)	(43)	(675)
Balance, end of period	$3,531	$2,864	$3,531	$2,864

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(in thousands)	Total
Unfunded loan and lease commitments:	
June 30, 2016	$4,006,031
June 30, 2015	$3,216,725

Asset Quality and Non-Performing Loans and Leases

We manage asset quality and control credit risk through diversification of the loan and lease portfolio and the application of policies designed to promote sound underwriting and loan and lease monitoring practices. The Bank's Credit Quality Administration is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of non-performing, past due loans and leases 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 and lease loss experience, estimated loan and lease losses, growth in the loan and lease portfolio, prevailing economic conditions and other factors.

Non-Accrual Loans and Leases and Loans and Leases Past Due

The following table summarizes our non-accrual loans and leases and loans and leases past due, by loan and lease class, as of June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016						
	Greater than 30 to 59 Days Past Due	60 to 89 Days Past Due	Greater than 90 Days and Accruing	Total Past Due	Non-Accrual	Current & Other (1)	Total Loans and Leases
Commercial real estate							
Non-owner occupied term, net	$1,438	$304	$ 1,023	$2,765	$ 1,492	$3,373,207	$3,377,464
Owner occupied term, net	2,903	1,165	505	4,573	5,190	2,572,023	2,581,786
Multifamily, net	516	—	—	516	514	3,003,860	3,004,890
Construction & development, net	—	—	—	—	—	367,879	367,879
Residential development, net	—	—	—	—	—	111,941	111,941
Commercial							
Term, net	11	252	317	580	10,748	1,429,376	1,440,704
LOC & other, net	918	945	—	1,863	817	1,114,196	1,116,876
Leases and equipment finance, net	4,402	3,923	933	9,258	6,375	868,873	884,506
Residential							
Mortgage, net (2)	—	5,093	30,012	35,105	—	2,846,971	2,882,076
Home equity loans & lines, net	2,682	891	1,310	4,883	—	984,931	989,814
Consumer & other, net	3,082	1,115	271	4,468	—	592,836	597,304
Total, net of deferred fees and costs	$15,952	$13,688	$ 34,371	$64,011	$ 25,136	$17,266,093	$17,355,240

(1) Other includes purchased credit impaired loans of $330.9 million.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $11.3 million at June 30, 2016.

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(in thousands)	December 31, 2015						
	Greater than 30 to 59 Days Past Due	60 to 89 Days Past Due	Greater than 90 Days and Accruing	Total Past Due	Non-Accrual	Current & Other (1)	Total Loans and Leases
Commercial real estate							