

U M P Q U A H O L D I N G S

C O R P O R A T I O N

March 2, 2009

Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., NW, Ste 1064
Washington, D.C. 20220

Re: Umpqua Holdings Corporation

Dear Mr. Barofsky:

This responds to your letter of February 6, 2009. We provide the following information with regard to the \$214,181,000 investment made by the Treasury in our company on November 14, 2008 under the Capital Purchase Program ("CPP"), which you refer to in your letter as the "TARP funds".

We provide the following information pursuant to your request:

1.

a. Our anticipated use of TARP funds:

We are the parent of Umpqua Bank, a commercial bank. As such, we loan the deposits that we hold for our customers and use our capital, including TARP funds, to support those lending activities. The Tarp funds create a capital cushion that allows us to maintain robust lending programs, with less concern about how those programs will impact our capital levels.

b. Whether TARP funds were segregated from other institutional funds:

We manage capital in the aggregate; hence the TARP funds were not segregated from our other institutional capital. However, we have the ability to, and will, track the use of TARP funds and we will calculate and report to our board our regulatory capital ratios with and without TARP funds.

c. Our actual use of TARP funds to date:

The proceeds from the preferred stock sale were used to purchase agency-generated mortgage-related investment securities, to support new mortgage loan funding, all of which were rated AAA. More importantly, the designation of the preferred stock as capital allows Umpqua Bank to continue to generate new loans given the higher level of regulatory capital.

d. Our expected use of unspent TARP funds:

In the fourth quarter of 2008, we advanced approximately \$350 million in new loan funding. We estimate funding to be around that level for Q1 2009 as well, but it may be

lower given overall lower borrowing demand.

We make consumer, mortgage, small business and commercial loans. In the past few months we have announced the following loan programs that we anticipate will be supported by the TARP capital:

- **Wine Industry:** Umpqua Bank has created a dedicated industry lending team in the Napa Valley region to provide targeted commercial funding to wineries and vineyards, and is now expanding this focus to Oregon and Washington.
- **Local Governments:** This is tailored financing to help cities, counties and state agencies meet infrastructure and operational needs.
- **Environmental:** Umpqua has created GreenStreet Lending, a residential and small business lending program, to provide affordable financing for consumers and businesses making energy efficient or alternative energy improvements. Umpqua's eco-banking division will also work with larger companies to explore opportunities to decrease their carbon footprint by making sustainable improvements.
- **Mortgage lending:** Umpqua is now providing multi housing development loans. These mortgages are available to customers looking to purchase condos in Umpqua Bank-financed developments. There are currently more than 15 developments in Oregon, Washington and California that qualify. Umpqua is also providing funds to qualified homebuyers seeking high value residential mortgages or "jumbo loans" of \$417,000 and above. In addition, we have established a specialized mortgage refinance unit to help customers in our servicing portfolio take advantage of attractive long term mortgage rates.

Our new loan products are available in each of the markets the bank serves, from Western Washington through Oregon and Northern California.

2. Executive compensation requirements under the Capital Purchase Program.

When the Treasury announced the Capital Purchase Program (CPP), it required participating banks to comply with section 111 of the Emergency Economic Stabilization Act of 2008 (EESA), which requires that participants meet appropriate standards for executive compensation and corporate governance for as long as Treasury holds an equity or debt position in the financial institution. When deciding to participate in the program, our board evaluated these requirements and the impact they would have on the Company, and considered them in light of the support this capital would provide to our lending programs.

Compensation Deduction is Capped. The amendment to section 162(m) reduces the \$1 million deduction limitation to \$500,000 for financial institutions participating in the CPP. For purposes of the \$500,000 deduction limit, all executive compensation is subject to the

deductibility cap, including performance-based compensation. This limitation on deductibility will not affect any officer's receipt of compensation, but creates a relatively small increase to the company's tax liability. (b) (4)

(b) (4)

No Excess Parachute Payments Allowed. The amendment to section 280G provides that the company may not pay an excess parachute payment to a senior executive officer when the Treasury is invested in the company. This is in addition to the existing 280G rules that make excess parachute payments non-deductible by the company and subject to a 20% excise tax levied against the executive. All of our employment and the benefit agreements with named executive officers have a "280G cutback" provision that, in essence, provides that the company will not pay and the executive will not receive an excess parachute payment. Therefore, this amendment to section 280G will have no additional affect on the company or the senior executive officers ("SEOs").

Clawback Provision. Treasury's interim final rule requires that a CPP participant recover any bonus or incentive compensation paid to an SEO based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate. Since 2007, the annual incentive plans and the LTI Plan agreements with our named executive officers have included similar clawback provisions.

Compensation Committee Certification. In accordance with our CPP agreement, the Compensation Committee reviewed the SEO incentive compensation arrangements with the company's senior risk officers and personnel acting in a similar capacity, to ensure that the SEO incentive compensation arrangements do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the institution. The Committee also approved the required certification to be included in our proxy statement. In December 2008, the Committee met with the CEO, the Chief Credit Officer, the Chief Auditor and the General Counsel to review certain reports and:

- (1) Discuss with the bank's senior risk officers the long term and short term risks that the bank faces that could threaten the value of the company;
- (2) Identify the features of the company's incentive compensation arrangements that could lead SEOs to take such risks; and
- (3) Limit any such feature in order to ensure that the SEOs are not encouraged to take risks that are unnecessary or excessive.

The primary financial component for incentive compensation at Umpqua is earnings per share, which is an audited number and credit quality has the most significant effect on earnings in this environment. The board regularly receives reports about key credit measures and the steps undertaken by management to address credit risk. In addition, the company has adopted compensation practices that discourage excessive or unnecessary risk-taking, such as:

- prohibiting the re-pricing of stock options;

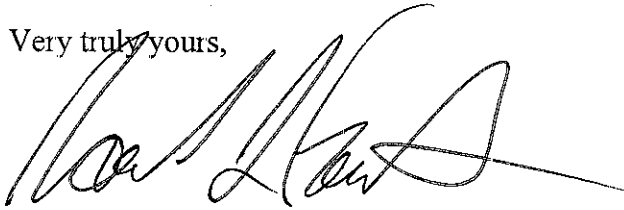
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- requiring executives to acquire and hold substantial ownership positions in company stock;
- implementing “claw-back” provisions in annual incentive plans; and
- adopting a “hold to retirement” policy with respect to 75% of the net gains from equity awards.

Say on Pay. As part of the *American Recovery and Reinvestment Act of 2009* effective February 17, 2009, Congress enacted new and revised executive compensation requirements that purport to affect the Company, as a participant in the CPP. As a result of that legislation, we included a “say on pay” resolution for consideration by our shareholders at the April 14, 2009 annual meeting.

The undersigned, an SEO of the company, certifies that, to the best of my knowledge, information and belief, the foregoing statements, representations and supporting information are accurate and this certification is made subject to the requirements and penalties prescribed in 18 USC §1001.

Very truly yours,



Ronald L. Farnsworth
EVP/Chief Financial Officer

pc: Ray Davis, President/CEO

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