UMPQUA HOLDINGS
CORPORATION
Parent company for Umpqua Bank and Umpqua Investments, Inc.

August 1, 2011

BY ELECTRONIC MAIL

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

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn.: Elizabeth M. Murphy, Secretary

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary

Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552
Attn.: Alfred M. Pollard, General Counsel

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn.: Comments, Robert E. Feldman, Executive Secretary

Department of Housing and Urban Development
Regulations Division
Office of General Counsel
451 7th Street, SW, Room 10276
Washington, DC 20410-0500

Re: Proposal to Establish Credit Risk Retention Requirements
76 Federal Register 24090, April 29, 2011

Ladies and Gentlemen:

On behalf of Umpqua Bank, thank you for the opportunity to comment on the proposed rules implementing the Qualified Residential Mortgage (QRM) and risk retention provisions of Section 921 of the Dodd-Frank Act. Umpqua Bank helped craft, and endorses the position and comments of the American Bankers Association regarding the proposed rules. However, we will limit our comments to QRM, risk retention, and servicing, as we do not securitize mortgages. (Umpqua sells most of its mortgages directly to Fannie Mae and Freddie Mac, but services all of them.)

The proposed rule would have a devastating impact on the ability of potential first-time home buyers and moderate-to-low income individuals from owning a home. It could potentially shut out these Americans from the mortgage marketplace for decades. Further, the impact on smaller community banks would be devastating. In a very short period of time, many banks would pile up credit risk retained under the proposed rules, greatly reducing the capital necessary to lend. Finally, the proposed rules would worsen the glut of existing homes on the market due to foreclosures, further depressing home values and stunting new home starts. Rents are up nationally as potential homeowners cannot meet stringent underwriting requirements, despite double digit home value decreases and low mortgage interest rates.

For these reasons, Umpqua Bank strongly urges the Agencies to both withdraw the proposed rules and consider the systemic risk posed by them to America's fragile economy. Nearly all economists agree a housing market recovery is essential to overall economic recovery. The proposed rules would derail that recovery.

About Umpqua Bank

Umpqua Bank, headquartered in Roseburg, Ore., is a subsidiary of Umpqua Holdings Corporation (NASDAQ: UMPQ), and has 185 locations in Oregon, Northern California, Washington and Nevada with assets of approximately $12 billion. Umpqua Bank has been recognized nationally by *The Economist*, *The Wall Street Journal*, *The New York Times*, *BusinessWeek*, *Fast Company* and CNBC for its innovative customer experience and industry-leading banking strategy. For the past five years in a row, the company has been included on *FORTUNE* magazine's list of the country's "100 Best Companies to Work For."

Critical Issues

Umpqua Bank's concerns fall into the following general categories:

- The proposal lacks sufficient clarity to enable the industry to provide meaningful comments on the feasibility and economic impact of the proposal and should be re-considered.
- The Agencies should conduct appropriate economic analysis to evaluate the impact of this or any other version of the proposal on the availability of credit to consumers.
- The QRM standard should be redefined.
- The various permissible forms of risk retention should be restructured and expanded to make them workable.
- The risk retention requirement should terminate after a reasonable time.
- The other qualified asset exemptions provided in the proposal must be rewritten to ensure they are workable.

Umpqua Bank strongly believes the draft proposal is so flawed it must be withdrawn and re-issued. We believe fundamental concepts in the proposal, such as how to measure the retained risk, are so unclear it is impossible for banks to provide well-reasoned responses.

Importantly, the exceptions to the risk retention requirements fail to comport with Congressional intent both with respect to the narrowness with which they are crafted as well as the destructive impact on the availability of credit to consumers.

Section 941 granted the Agencies significant discretion when promulgating their regulations to establish the scope of the QRM exemption, and to employ a range of amounts of retained economic interests from zero percent to five percent that would be reflective of the underwriting standards of particular assets, and finally, to exempt entire classes of assets where warranted. Yet the proposal is an "all or nothing" approach to the retention requirements with zero percent retention for very narrowly crafted asset classes, and five percent retention for all other assets, with nothing in-between. These narrow qualified asset exemptions are not workable, with the result that five percent retention will become the standard, leading ultimately to a severe constriction of capital available to support mortgage lending for otherwise creditworthy borrowers.

Umpqua Bank believes the necessary changes warrant a new proposal after additional consultation with industry participants. Given the time-consuming and burdensome interagency process specified in the proposal for seeking interpretations, exceptions, waivers, *etc*., it is imperative the Agencies provide final rules that are clear and straightforward to ensure that lenders will be able to understand what is required of them and be able to comply.

Qualified Residential Mortgage and Qualified Mortgage

Section 941 of the Dodd- Frank Act requires the regulators to jointly define a "qualified residential mortgage" or QRM. Loans backed exclusively by assets meeting the QRM definition will be exempt from risk retention requirements. The regulators were charged with taking into consideration "underwriting and product features that historical loan performance date indicate result in a lower risk of default."

As a general rule, Umpqua believes the QRM standard needs to be reconsidered and re-proposed to conform more closely to the Qualified Mortgage (QM) standard proposed by the Federal Reserve Board and which will ultimately be implemented by the Consumer Financial Protection Bureau (CFPB). Section 941 of Dodd-Frank requires the QRM definition cannot be broader than the QM definition. ***Umpqua Bank questions the rationale and appropriateness of seeking to define QRM before the QM has been finalized.*** Logic dictates before a subset (the QRM) can be determined, the full set (QM) must be firmly established. Given the QM comment period runs until July 22, 2011, and the rule cannot be finalized until a Director of the CFPB has been confirmed, it is difficult to imagine how the regulators can expect to finalize a workable QRM rule prior to those actions occurring. While a rule certainly can be implemented – and potentially altered when the QM rule is finalized, a better public policy approach would be to ensure a workable QM definition is in place before attempting to implement a QRM subset.

Beyond the public policy argument for defining QM prior to defining QRM, we also believe the QRM definition should much more closely track the QM definition. At their core, both definitions were intended to improve underwriting – largely through better determinations of borrowers' ability to repay and through restrictions on loan features to more traditional, simplified and understandable attributes. Umpqua Bank has always adhered to those standards and strongly endorses a broad and robust QM standard. The QM will ultimately define the outer boundaries of what constitutes an acceptable loan – loans outside the QM definition will carry such potential severe liability they will not be made in meaningful number. While the QRM was envisioned as a high quality, low risk subset of loans, regulation and market forces have so narrowed the scope of lending, virtually all loans being made today are safe, sound and low risk loans. As a result, virtually all loans falling into the QM category should also qualify for QRM status. If the universe of loans is now well underwritten, without non-traditional or dangerous features, and which pose low risk to borrowers, it is hard to justify quarantining off a further subset of loans into a QRM status – resulting in higher costs and less credit availability.

The QM proposal endorsed by Umpqua Bank is far superior to the QRM proposal in that the QM proposal provides underwriting discretion to loan originators while the QRM proposal leaves originators little discretion. Where the QM proposal requires originators to establish and document a borrower's ability to repay using a range of measurements – including debt to income ratios, employment status and history and credit history, the QRM rule uses a hard and fast formulation – including a minimum 20 percent down payment, strict debt-to-income ratios, and severe credit history restrictions.

The QRM as proposed will restrict credit and increase borrower costs unnecessarily. If applied broadly, most loans currently being made would not qualify for QRM status, thereby increasing costs for borrowers and limiting credit. While credit MAY be available for those who cannot meet the QRM, it will come at a higher cost that reflects the costs to originators retaining the five percent risk.

The QRM also ignores changes already made in the marketplace (and required under new regulations and statutes), such as new appraisal standards, Truth in Lending Act changes and others. The result of these changes is most loans originated today are well underwritten, high quality loans. Nevertheless, most loans still would not qualify for QRM status if the proposed rules applied today.

Regardless of the form of QM or QRM, the government will have a robust role in regulating mortgage lenders, practices and products. ***We strongly urge that the entire approach to QRM be reconsidered and more closely aligned with the QM proposal.***

Down Payment Requirements

The proposal requires a high down payment requirement of 20%, with even higher levels of 25% for refinance loans and 30% for cash out refinance loans.

The high down payment requirements run counter to the intent of Congress, which specifically considered and rejected including a down payment requirement in the statute.

Borrowers who maintain good credit but who lack substantial down payments will be forced into more expensive mortgages under the proposal. Loans falling outside the QRM designation will require more capital and additional costs associated with the retention of risk. These costs will be passed on to borrowers (if the private market even offers loans outside of the QRM standard).

The Center for Responsible Lending (CRL) has determined, based upon the latest available data, it would take the average American Family 16 years to save a 20 percent down payment – assuming that the family directs every penny of savings toward the down payment.

Table 1

Years for Median Income Family to Save for Down Payment

	20% Down Payment	10% Down Payment	5% Down Payment	3.5% Down Payment
Median Sales Price	$172,900	$172,900	$172,900	$172,900
Down payment + Closing Costs (est. @ 5%)	$41,496	$25,071	$16,858	$14,394
# of Years Needed to Save @national saving rate of 5.2% of gross household income ($2625per year)	16 years	9.5 years	6.5 years	5.5 years

Source: Center for Responsible Lending Issue Brief, *Don't Mandate Large Down Payments on Home Loans*.

The proposed rule runs counter to the Congressional intent of improving underwriting, instead merely imposing a rigid underwriting requirement that is so onerous that it will increase costs, or deny credit entirely, or force otherwise credit worthy borrowers into already over strained government backed programs.

The proposal would also harm existing homeowners who wish to refinance. CoreLogic, Inc. has determined nearly 25 million current homeowners would be shut out of the QRM definition (and thus face higher costs or inability to access credit) because they do not have 25 percent equity in their home.

While there is no debate that higher down payments result in better loan performance, there is also ample evidence to show that low down payment mortgages which are well underwritten and documented have more than manageable default rates. Both Moody's Analytics and CoreLogic, Inc. have demonstrated lower down payment requirements have only moderate impact on default rates, while changes to other underwriting and loan features, such as reduced documentation, subprime credit and negatively amortizing loans are dramatically more likely to default.

The table below from Moody's Analytics shows how foreclosure risk increases according to certain loan attributes.

Table 2:

Incremental Foreclosure Risk by Loan Attribute

Negatively amortizing ARM	3-4 times
Reduced documentation	3 times
Subprime credit	2-3 times
Non-owner occupied	2-3 times
Amortizing ARM	1.5-2 times
Over 45% total debt-to-income	1.5 times
Cash-out refinance	1.5 times

Incremental risk relative to the performance of the base loan shown in Table 1 that is similar in all respects except for the risk factor being analyzed.

Source: MGIC

The following table from CoreLogic, Inc. shows the effect of increasing the down payment requirement from five percent to 10 percent and from five percent to 20 percent on loans made between 2002 and 2008, and the impact such increases would have on borrowers' ability to meet the QRM definition. While the reduction of the default rate is minimal (especially compared with the changes in default rates based upon other loan attributes, as detailed by Moody's), the impact on borrowers' ability to meet QRM is dramatic.

Table 3

QRM: Impact of Raising Down Payments Requirements on Default Rates and Borrower Eligibility

Origination Year	2002	2003	2004	2005	2006	2007	2008
Reduction in default rate* by increasing QRM down payment from 5% to 10%	0.2%	0.1%	0.3%	0.3%	0.2%	0.5%	0.2%
Proportion of borrowers not eligible for QRM at 10% Down	7.6%	6.6%	9.0%	8.4%	10.9%	14.7%	8.4%
Reduction in default rate* by increasing QRM down payment from 5% to 20%	0.6%	0.3%	0.7%	0.8%	0.8%	1.6%	0.6%
Proportion of borrowers not eligible for QRM at 20% Down	19.2%	16.7%	23.0%	22.9%	25.2%	28.2%	20.7%

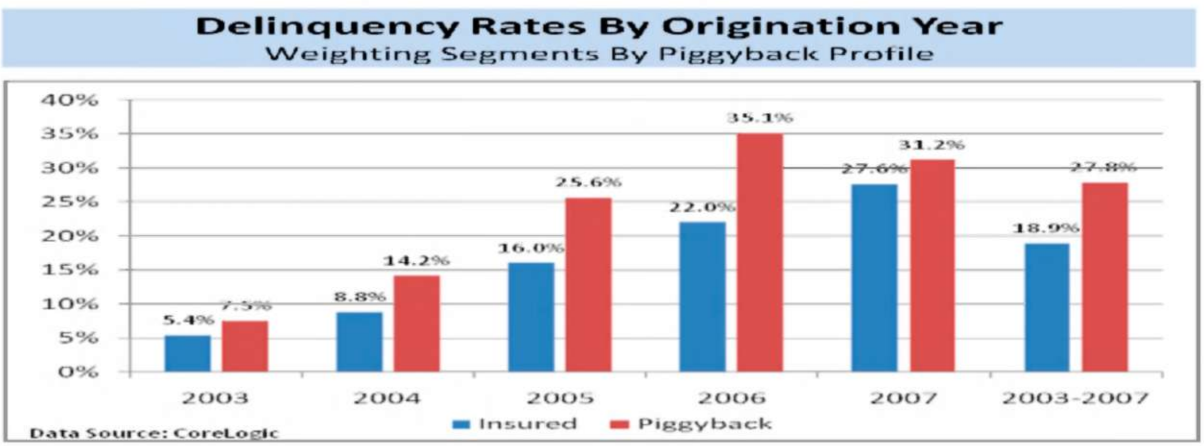
* Default = 90 or more days delinquent, plus in process of foreclosure, plus loans foreclosed.

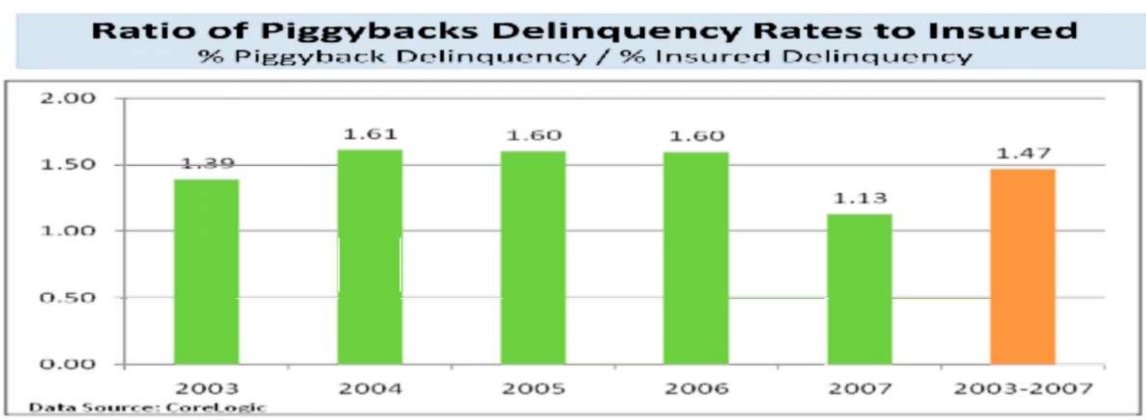
The proposed QRM ignores compelling data that demonstrate sound underwriting and product features, like documentation of income and type of loan, have a much larger impact on reducing default rates than do high down payments. **Therefore, we urge the down payment requirements be reconsidered.**

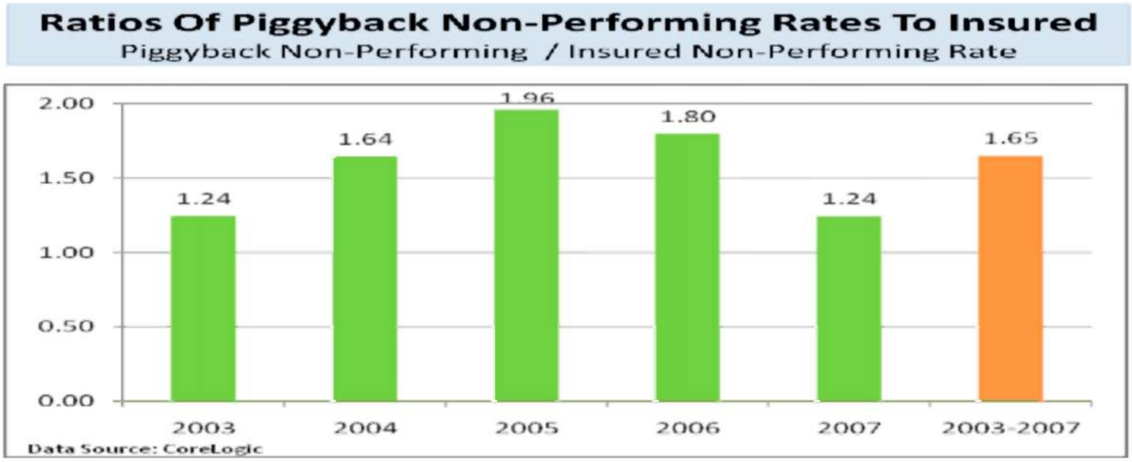
Private Mortgage Insurance

Mortgage insurers' independent underwriting standards provide greater credit risk discipline for lenders and serves as a second underwriting for PMI loans. Private capital committed by PMI provides an incentive to work with borrowers and investors to prevent foreclosures.

The Mortgage Insurance Companies of America (MICA) has data (also from CoreLogic) which shows on low down payment loans, those with PMI have a lower risk of default than comparable piggyback (uninsured) loans. According to the MICA data, insured loans became delinquent 32 percent less frequently, cured 54 percent more frequently, and have performed 65 percent better than comparable piggyback loans.







It is very important to note piggyback loans have had a minimal impact to government sponsored mortgage programs. Banks have in most cases accepted deficiency losses on piggyback loans, as have mortgage insurance companies. This is a critical source of private shared risk.

Many members of Congress – including supporters of the Dodd/Frank Act – have in recent weeks written to the regulatory agencies with concerns the proposed QRM rule did not fully comprehend the intent of Congress to allow mortgage insurance as a factor in QRM status. In a May 31, 2011 letter, over 163 Members of the House of Representatives wrote that "The law recognizes that private capital does not exclusively come from a lender or an investor; it can be provided by a private mortgage insurer. The QRM regulations should reflect this important reality, which was Congress' intent in clarifying this point in the Act."

PMI provides significant benefit in offsetting potential losses and in helping borrowers with low down payments qualify for loans. It should be considered as an offsetting factor, which might reduce down payment requirements for QRM status, or serve as a compensating factor for higher debt to income or other borrower factors.

Debt to Income Ratios

The proposed QRM definition requires a borrower to have a "front-end" debt-to-income ratio (the ratio of the borrower's monthly housing debt to the borrower's monthly gross income) that does not exceed 28 percent. The borrower's back end ratio (total monthly debt to monthly gross income) cannot exceed 36 percent. ABA believes these ratios are unworkable, and will result in QRM loans being more difficult and expensive for otherwise low risk borrowers to obtain. Instead of setting such hard and fast ratios, we strongly urge the regulators to provide for more lender discretion, and here the proposed QM standard should serve as the guide. Under the QM proposal, creditors must assess the consumer's repayment ability taking into account one of the following—the ratio of total debt obligations to income, or the income the consumer will have after paying debt obligations. The proposed QM rule does not identify maximum DTI or minimum residual income level; the proposal only states the creditor may look to widely accepted government and non-government underwriting standards.

In contrast, the proposed QRM rule sets such strict and inflexible standards, not just for DTI, but also for down payment and other factors, that the proposed rule effectively takes underwriting decisions away from the originator and replaces them with a strict formula which may result in unusual and inappropriate results. This is particularly true with regard to credit history issues, as discussed in the next paragraph.

Credit History

The credit history restrictions included in the proposal are some of the most strict and severe in the proposal.

If the QRM is to include credit history standards, then objective methodologies that meet empirically derived, demonstrably and statistically sound credit scoring mechanisms (including credit scores) should be a part of the final rule.

One credit scoring company, Fair Isaac and Company (FICO), has researched the QRM credit history standards and found them to be less than sufficiently predictive. In their research, they found the minimum FICO score that met the QRM delinquency standards was as low as 472. The maximum FICO score that failed to meet the QRM delinquency standards was as high as 845. With a general FICO range between 300 (poor credit risk) and 850 (excellent credit risk) it is readily apparent a borrower with a near perfect score of 845 should be QRM eligible, while one with a score as low as 472 should likely not qualify. The median FICO score for a US borrower today is 713. This demonstrates the proposed approach could lead to the inclusion of many high credit risk borrowers as well as to the exclusion of borrowers who represent an excellent credit risk – the wrong conclusion on both counts.

For these reasons we recommend the credit history criteria be eliminated from the definition of QRM. Instead, we recommend the model followed in the QM proposal be adopted. Under the QM proposed rule, creditors may look to widely accepted governmental and non-governmental underwriting standards to define and verify "credit history." Creditors may consider factors such as the number and age of credit lines, payment history, and any judgments, collections, or bankruptcies. To verify credit history, a creditor may look to credit reports from credit bureaus, or other nontraditional credit references contained in third-party documents, such as rental payment history or public utility payments. The proposed QM standard provides lenders with a number of options for verifying credit history, and most importantly, does not require replacement of credit scoring mechanisms with specific credit history requirements which will increase compliance burden and likely reduce accuracy, transparency and effectiveness of credit history reviews.

Servicing Standards

Umpqua Bank is gravely concerned with the inclusion of servicing standards for loans meeting the requirements of the QRM. Neither the legislative history nor the plain language of the Dodd/Frank Act provides any evidence that Congress intended to include servicing standards as a part of risk retention. Nevertheless, the proposed rule mandates that loan documents include policies and procedures that require commencement of loss mitigation efforts after 90 days of delinquency; allow for loan modifications if the resulting net present value would be greater than foreclosure; address how the lender will service any second lien loan on the same property (if the lender services both loans); and include servicing compensation arrangements that are consistent with the creditor's commitment to engage in loss mitigation activities. Lenders must also agree to not transfer servicing to any servicer who does not maintain such policies and procedures.

Simply stated, the QRM proposal is not the time or the place for these standards. As noted above, there is no legislative mandate to include them, and doing so runs counter to order and common sense. As the regulators have noted in the release accompanying the proposed rule, interagency guidance on servicing standards is being undertaken. To implement servicing standards as a part of this rule, for only QRM loans, takes a piecemeal approach that will have the ironic effect of imposing servicing standards only on the most high quality, low risk loans (if the goals of the QRM are met). Meanwhile, other loan products go without servicing standards, or may face different or conflicting standards when the guidance is rolled out. A far better approach would be to introduce such standards on a uniform and consistent basis and to provide notice and comment on a unified proposal.

We also have grave concerns about placing such standards within the loan documents themselves. Doing so invites borrowers to raise noncompliance as a defense to foreclosure. In the current litigious environment such claims, whether valid or not, can easily be expected. It is bad public policy to effectively grant borrowers a private right of action to enforce these regulatory requirements, absent a clear Congressional mandate to do so.

Servicing standards should be a matter of regulatory compliance only, and should be proposed and considered separately from the QRM definition.

Vertical Risk Retention

Umpqua Bank supports the use of a vertical risk slice as an acceptable method of risk retention. Under the proposal, a sponsor holding a vertical slice would retain at least five percent of each class of ABS interests issued as part of the transaction. The sponsor would be required to retain at least five percent of the par value (if any), fair value and number of shares or units of each class of ABS interest, regardless of whether the class has a par value, was issued in certificated form, or was sold to unaffiliated investors. This form of risk retention would align the interests of the sponsor and investors, regardless of the priority of payments of principal and interest allocated to any particular class. Moreover, a sponsor who also is a servicer or an affiliate of the servicer of the assets and who owns a portion of each class of ABS interests would have little incentive to take actions for the benefit of a single class of interests. Additionally, it seems likely sale accounting treatment will be available for securitizations by a sponsor (including one that is the servicer or is affiliated with the servicer) who retains a five percent vertical slice. The vertical risk slice is easy to calculate, thereby facilitating transparency to investors and review and monitoring by the Agencies.

We encourage the Agencies to adopt as an additional permissible form of risk retention a variant of the vertical slice –a participation interest in each *asset* backing an issuance of ABS rather than five percent of each *ABS interest* issued in an ABS transaction. The issuing entity would hold a 95 percent portion of the asset with the sponsor holding the remaining five percent interest. Both interests would share equally, on a pro rata basis, in all principal and interest payments, expenses of the issuing entity and losses on the assets. Because all assets would be serviced under the same pooling and servicing agreement, there would be no differences in how the participation interest held by the sponsor would be serviced.

Holding of Retained Risk

We also urge the Agencies to provide that the risk retention requirement be permitted to sunset at a reasonable period after the sale of a loan. While Congress intended to incent lenders and issuers to originate prudently underwritten loans, that incentive – risk retention – works only to the extent losses may be avoided as a result of higher underwriting standards. A default due to poor underwriting is most likely to occur near the time of loan origination, and diminishes over time. Thereafter, losses are most likely the result of economic changes or the borrower's particular situation, rather than as a function of underwriting.

We believe a sunset provision would realize Dodd-Frank's policy objective of incenting prudent underwriting while, at the same time, substantially reducing both the cost and negative effects of this proposal. A risk retention sunset would allow originating institutions to engage in meaningful transfer of mortgage credit risk off their balance sheet, greatly reduce the potential amount of capital that originators facing risk retention would need to hold, while still preserving the incentives to maintain solid underwriting standards and procedures.

Summary and Conclusion

Umpqua Bank firmly believes the broad and robust QM it has endorsed, together with a host of other regulatory and market forces, is more than sufficient to protect consumers while allowing them to qualify for a repayable mortgage and own the home of their dreams. As such, the proposed QRM and risk retention proposal poses huge risks to the ability of consumers to obtain affordable mortgages and for banks to offer them. The potential economic impacts to the already depressed housing market will be catastrophic and will only delay of the nation's economic recovery. **We respectfully ask the agencies exercise their wide discretion to withdraw the rule and reconsider it in its proper context under the QM**.

Thank you for your consideration of these comments. Please contact me if I can provide additional information at 541-434-2997 or stevenphilpott@umpquabank.com.

Sincerely,

Steven L. Philpott
EVP/General Counsel

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