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ATTORNEYS AT LAW

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Corporate & Financial Regulation

OCT 31 2013

Pennsylvania  
Insurance Department

ROBERT L. PRATTER  
rpratter@cpirlaw.com

October 29, 2013

VIA EMAIL AND FIRST CLASS MAIL

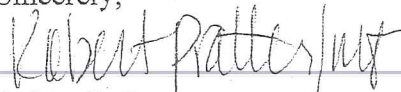
Kimberly A. Rankin  
Director, Bureau of Company Licensing and Financial Analysis  
Office of Corporate and Financial Regulation  
Pennsylvania Insurance Department  
1341 Strawberry Square  
Harrisburg, PA 17120

**Re: Form A Statement of Gregory Mark Shepard to Acquire Additional  
Class B Shares of Donegal Group Inc.**

Dear Ms. Rankin:

We have enclosed for the Department's information the letter from the Board of Governors of the Federal Reserve System ("FRB") dated October 22, 2013 stating that it has determined not to disapprove Mr. Shepard's notice ("Notice") to the FRB to acquire 10 percent or more of the Class B Shares of Donegal Group, Inc. We do not believe that this determination has any precedential or other effect on your review of the Form A in light of the differences in the laws and regulations governing the Notice and the focus of the FRB on the effect of the Notice on Union Community Bank, rather than DGI and its insurance affiliates. We also point out that although DGI submitted comments on the Notice, as stated in the FRB letter, DGI "lacked standing to participate in the CIBC proceedings, and comments on a notice filed pursuant to the CIBC Act are for informational purposes only." In sharp contrast, DGI has constitutional and statutory rights under Pennsylvania law to participate as a party in the Form A proceedings, including a hearing before the Department in furtherance of its opposition to the Form A, which will include information which the FRB did not consider.

Sincerely,



Robert L. Pratter  
for Cohen, Placitella & Roth, P.C.

RLL/mfr  
Enclosure

cc: Amy Daubert, Esquire  
Stephen J. Johnson, Deputy Insurance Commissioner  
J. Victor Peterson, Esquire

PHILADELPHIA, PA RED BANK, NJ LEMOYNE, PA BALA CYNWYD, PA PITTSBURGH, PA WASHINGTON, DC

TWO COMMERCE SQUARE 2001 MARKET STREET, SUITE 2900 PHILADELPHIA, PENNSYLVANIA 19103  
215.567.3500 / 888.375.7600 / FAX 215.567.6019 / cpirlaw.com

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

October 22, 2013

David H. Pittinsky, Esq.  
Ballard Spahr LLP  
1735 Market Street, 51st Floor  
Philadelphia, Pennsylvania 19103-7599

Dear Mr. Pittinsky:

The Board of Governors of the Federal Reserve System has reviewed the notice by Mr. Gregory Mark Shepard to acquire 10 percent or more of the Class B shares of Donegal Group, Inc., Marietta, Pennsylvania, and has determined not to disapprove the notice.

In taking this action, the Board considered your comments on the proposal. The Board's reasons for its action are explained in the enclosed letter.

Very truly yours,

A handwritten signature in cursive script that reads "Margaret McCloskey Shanks".

Margaret McCloskey Shanks  
Deputy Secretary of the Board

Enclosure

cc: H. Robert Tillman, Assistant Vice President  
Federal Reserve Bank of Philadelphia

J. Victor Peterson, Esq.  
Lathrop & Gage LLP



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

October 22, 2013

J. Victor Peterson, Esq.  
Lathrop & Gage LLP  
155 North Wacker Drive  
Suite 3050  
Chicago, Illinois 60606

Dear Mr. Peterson:

The Board of Governors of the Federal Reserve System has reviewed the notice filed under the Change in Bank Control Act of 1978<sup>1</sup> ("CIBC Act") by Gregory Mark Shepard ("Notificant") to acquire 10 percent or more of the Class B shares of Donegal Group, Inc. ("Donegal"), Marietta, and thereby indirectly acquire shares of Union Community Bank ("Bank"), Lancaster, both of Pennsylvania, pursuant to the CIBC Act and section 238.33 of Regulation LL.<sup>2</sup>

Under the CIBC Act, the Board is required to review notices in light of specific statutory factors, including the competitive effects of the proposal; the financial condition of the acquiring person and the future prospects of the institution; the competence, experience, and integrity of persons acquiring shares of a savings and loan holding company; and potential adverse effects of the proposal on the Deposit Insurance Fund.<sup>3</sup> In reviewing the statutory factors, the Board has reviewed information Notificant provided regarding his financial resources, the size of the proposed investment in Donegal, and the funding of the proposed investment. The Board also has considered the results of name checks, examination reports, and other supervisory information regarding Donegal and Bank, and information provided by Bank's primary banking regulator, the Federal Deposit Insurance Corporation ("FDIC").

As part of its consideration of Notificant's competence, experience, and integrity, the Board reviewed relevant information contained in the notice and

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<sup>1</sup> 12 U.S.C. § 1817(j).

<sup>2</sup> 12 CFR 238.33.

<sup>3</sup> 12 U.S.C. § 1817(j)(7).



public sources, as well as supplemental information provided by Notificant. No information was found that would require the Board to disapprove the notice.

The Board has considered the notice in light of the other factors required to be considered. With regard to the competitive effects of the proposal, the Board has concluded that the proposed investment would not result in a monopoly or lessening of competition. As for the financial condition of Notificant and the future prospects of Bank, the Board has determined that Notificant's financial condition is not likely to jeopardize the financial stability of Bank or prejudice the interests of Bank's depositors. In that regard, the Board has confirmed that Notificant has the resources to purchase the shares proposed. Moreover, the current majority shareholder of Donegal would continue to control a majority of Donegal's shares on consummation of the proposal. Further, the Board has not determined that the proposed investment would result in an adverse effect on the Deposit Insurance Fund. The FDIC and the Pennsylvania Department of Banking and Securities have advised the Board that they do not object to the proposal.

The Board received comments objecting to the notice from a commenter.<sup>4</sup> Pursuant to the Board's regulations, commenters lack standing to participate in CIBC Act proceedings, and comments on a notice filed pursuant to the CIBC Act are for informational purposes only.<sup>5</sup> Nevertheless, during its

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<sup>4</sup> The commenter stated that Notificant has a prior history of purchasing stock in publicly held insurance companies and of seeking to force the sale or merger of the companies. Notificant has represented that he would have no practical ability to force a merger or consolidation of Donegal because Notificant has no connection with Donegal's parent company, Donegal Mutual Insurance Company, which owns shares with approximately 66 percent of the total voting power of Donegal stock. The commenter also stated that Notificant had failed to fully and accurately respond to the information requested in his Interagency Biographical and Financial Report ("IBFR"). Notificant provided additional information supplementing and supporting his IBFR responses. The commenter also expressed concerns regarding Notificant's competence with respect to Notificant's stewardship of an insurance company that was placed in liquidation. Notificant represented that the insolvency of an insurance company for which he served as chairman and chief executive officer resulted from a number of factors, including unexpected changes in the market, that were beyond his control. The Board consulted the insurance company's primary regulator, which generally corroborated Notificant's account of events and stated that the agency made no allegations against Notificant in connection with the insolvency nor did the insolvency implicate any wrongdoing by Notificant. Finally, the commenter argued that Notificant is not financially capable of purchasing the shares he proposes to purchase. As noted above, the Board has confirmed that Notificant has the resources to purchase the shares.

<sup>5</sup> 12 CFR 238.33(c)(7).

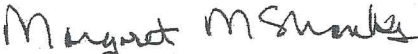
review of the notice, the Board considered the issues raised by the commenter to the extent relevant to the factors for consideration under the CIBC Act.

Based on the facts of record, the Board has determined not to disapprove the notice. This determination is specifically conditioned on compliance with all commitments made by Notificant in connection with the notice. Commitments relied on by the Board in reaching this decision are deemed to be conditions imposed in writing by the Board in connection with its finding and decision and, as such, may be enforced in proceedings under applicable law. Additionally, any material change in the facts and representations made in the notice could result in a different conclusion and should be immediately reported to staff at the Federal Reserve Bank of Philadelphia ("Reserve Bank").

Please advise the Reserve Bank in writing when the proposal has been consummated. If the proposal has not been consummated within one year of this date, or if its terms or conditions change, the Reserve Bank should be consulted to determine whether any additional action or notification is required.

The CIBC Act requires that, when a change in control occurs, each insured depository institution or depository institution holding company shall promptly report to the appropriate federal banking agency any change or replacement of its chief executive officer or any of its directors that occurs in the next 12 months, and shall provide a statement of the past and current business and professional affiliations of any new chief executive officer or directors.<sup>6</sup> We would appreciate your cooperation in ensuring that, if any such changes occur, the required information is submitted to the Reserve Bank.

Very truly yours,

  
Margaret McCloskey Shanks  
Deputy Secretary of the Board

cc: H. Robert Tillman, Assistant Vice President  
Federal Reserve Bank of Philadelphia  
David Pittinsky, Esq.  
Ballard Spahr LLP

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<sup>6</sup> 12 U.S.C. § 1817(j)(12).