



# Audit Report



OIG-20-038

## FINANCIAL REGULATION AND OVERSIGHT

### Safety and Soundness: Failed Bank Limited Review – Resolute Bank

June 24, 2020

Office of Inspector General  
Department of the Treasury

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

June 24, 2020

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**MEMORANDUM FOR** BRIAN BROOKS  
ACTING COMPTROLLER OF THE CURRENCY

**FROM:** Susan Barron /s/  
Deputy Assistant Inspector General for Financial Sector  
Audits

**SUBJECT:** Failed Bank Limited Review of Resolute Bank, Maumee,  
Ohio

This memorandum presents the results of our review of the failure of Resolute Bank, which operated one office in Maumee, Ohio. Resolute Bank was an insured, full-service federal stock savings association chartered in 2006. The bank had been a subsidiary of PrinCap Holdings One LLC since 2013, which owned approximately 92 percent of outstanding bank shares.<sup>1</sup> As of June 30, 2019, the bank had total assets of \$27.1 million. On October 25, 2019, the Office of the Comptroller of the Currency (OCC) closed Resolute Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. As of May 31, 2020, FDIC estimated the loss to the Deposit Insurance Fund to be \$2.2 million.

Because the loss to the Deposit Insurance Fund is less than \$50 million as set forth by section 38(k) of the Federal Deposit Insurance Act, we limited our review of Resolute Bank's failure to (1) ascertaining the grounds identified by OCC for appointing FDIC as receiver, and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss. In performing our review, we (1) examined documentation related to the appointment of FDIC as receiver, (2) reviewed OCC reports of examination for the 5-year period before the bank's failure, and (3) interviewed OCC examination personnel. We performed our fieldwork from January 2020 through March 2020.

We also reviewed the Government Accountability Office's Standards for Internal Control in the Federal Government and identified Control Environment and Control Activities as the internal control components that are significant to our audit

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<sup>1</sup> Princeton Capital Holdings LLC ultimately controlled PrinCap Holdings One LLC through Princeton Capital LLC, the bank's upper tier holding company.

objectives.<sup>2</sup> As part of the Control Environment component, we determined that two underlying principles are most significant to our objectives: (1) the oversight body and management should demonstrate a commitment to integrity and ethical values and (2) management should demonstrate a commitment to recruit, develop, and retain competent individuals. For the Control Activities component, the underlying principles that are most significant to our objectives are (1) management should design control activities to achieve objectives and respond to risks and (2) management should implement control activities through policies. To evaluate the implementation of these internal control components and principles, we interviewed OCC personnel and reviewed reports of examination and OCC guidance on problem bank supervision. We did not identify any weaknesses or items requiring further inquiry regarding internal controls. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Cause of Resolute Bank's Failure**

OCC appointed FDIC as receiver based on the following grounds: (1) Resolute Bank experienced substantial dissipation of assets or earnings due to unsafe or unsound practices, (2) the bank was in an unsafe or unsound condition to transact business, (3) the bank's unsafe or unsound practices or conditions were likely to cause insolvency or substantial dissipation of assets or earnings, (4) the bank's unsafe or unsound practices or conditions were likely to weaken the institution's condition, (5) the bank had incurred or was likely to incur losses that would deplete all or substantially all of its capital, and there was no reasonable prospect for the institution to become adequately capitalized without federal assistance, (6) the bank was undercapitalized and had no reasonable prospect of becoming adequately capitalized, (7) the bank was undercapitalized and failed to submit an acceptable capital restoration plan to OCC, and (8) the bank was critically undercapitalized.

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<sup>2</sup> The Government Accountability Office's Standards for Internal Control in the Federal Government (1) provides managers criteria for designing, implementing, and operating an effective internal control system, (2) defines the standards through components and principles and explains why they are integral to an entity's internal control system, and (3) clarifies which processes management considers part of internal control.

The primary cause of Resolute Bank's failure was the board and management's poor planning and lack of oversight over bank operations. The board and management ventured into mortgage banking operations, focusing on the origination and sale of government insured and guaranteed loans, without a valid strategic or capital plan. Ineffective oversight of these ventures, combined with excessive overhead expenses, resulted in operating losses and critically deficient earnings, asset quality, and capital. Corporate governance deficiencies also contributed to the bank's failure; specifically insufficient oversight by the board and management, and weak communication between management and members of the board. These corporate governance problems kept the board and management from addressing OCC's Matters Requiring Attention and other bank operation issues.

## **Conclusion**

Based on our review of the causes of Resolute Bank's failure and the grounds identified by OCC for appointing FDIC as receiver, we determined that there were no circumstances surrounding the bank's failure that would necessitate an in-depth review. We provided a draft of this memorandum to OCC management for comment. In its response, OCC management stated that it takes no exception with our conclusions. We provide a list of the recipients of this memorandum as Attachment 1.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you have any questions, you may contact me at (202) 927-5776.

Attachment

**Department of the Treasury**

Deputy Secretary  
Office of Strategic Planning and Performance Improvement  
Office of the Deputy Chief Financial Officer, Risk and Control  
Group

**Office of the Comptroller of the Currency**

Comptroller of the Currency  
Liaison Officer

**Office of Management and Budget**

OIG Budget Examiner

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