Dodd-Frank Overhaul: Three Stocks to Own Right Now

The U.S. Senate passed S. 2155 that would offer relief from a number of Dodd-Frank provisions. According to JDSUPRA:

“The Act would also reduce the regulatory burdens on financial institutions, particularly financial institutions with total assets of less than $10 billion. Bank holding companies with up to $3 billion in total assets would be permitted to comply with less restrictive debt-to-equity limitations instead of consolidated capital requirements. This change should promote growth by smaller bank holding companies, organically or by acquisition. Larger institutions should benefit from the higher asset thresholds that would apply to systemically important banks subject to enhanced prudential standards. The higher thresholds may lead to increased merger activity between and among regional and super regional banks.”

At the core of the overhaul is an assumption that the financial overhaul under Dodd-Frank was far too aggressive and harmed smaller banks in the process, all while attempting to rein in the bigger financial firms that caused the 2008 crisis.

At the moment, banks with assets of $50 billion or more are considered systemic financial institutions and are therefore subjected to stricter oversight. However, as it turns out, that $50 billion figure was far too low, which in turn harmed the smaller banks.

Even former Massachusetts’ representative, Barney Frank just admitted it was a mistake. “That’s too low. That was a mistake. We should have made it much higher” as noted by the ABA Banking Journal. "When it comes to lending and job creation, the regional banks are obviously very, very important. I hope that if we get some regulatory changes, we give some regulatory relaxation to those banks.”

Such a move could free up many regional banks from dealing with heightened regulatory scrutiny that was only meant to rein in the bigger banking institutions.

Three stocks that could do well if all proceeds according to plan, include:

**Bank of New York Mellon Corporation (NYSE:BK)** provides a range of financial products and services to institutions, corporations, and high net worth individuals in the United States and internationally. The company operates through two segments, Investment Management and Investment Services. It offers investment management, custody, foreign exchange, fund broker-dealer, collateral and liquidity, clearing, corporate trust, global payment, trade finance, and cash management services, as well as securities finance and depositary receipts. The company also provides mutual funds, separate accounts, and wealth management and private banking services; and trust and registered investment advisory services. In addition, it engages in leasing, corporate treasury, derivative and other trading, corporate and bank-owned life insurance, renewable energy investment, and business exit activities.

Another reason to like BK is its technical over-extension into oversold territory. After catching support at $54.77, we believe the stock could refill a bearish gap at $57.50, near-term.
State Street Corporation (NYSE:STT) provides a range of financial products and services to institutional investors worldwide. The company offers investment servicing products and services, including custody; product and participant level accounting; daily pricing and administration; master trust and master custody; record-keeping; cash management; foreign exchange, brokerage, and other trading services; securities finance; deposit and short-term investment facilities; loans and lease financing; investment manager and alternative investment manager operations outsourcing; performance, risk, and compliance analytics; and financial data management to support institutional investors. It also provides investment management services, such as investment management, investment research, and investment advisory services to corporations, public funds, and other sophisticated investors, as well as offers passive and active asset management strategies across equity, fixed-income, alternative, multi-asset solutions, and cash asset classes. The company offers its products and services to mutual funds, collective investment pools, corporate and public retirement plans, insurance companies, foundations, endowments, and investment managers.

According to NASDAQ:

The Dodd-Frank Act contained a provision that required banks to calculate supplementary leverage ratio, considering cash or customer deposits held with the Federal Reserve at the same
level of risk as assets like sub-prime mortgages or junk bonds. It was aimed at keeping banks from taking big risks without proper plans to handle any downturn. However, this rule had a major adverse impact on the custody banks like State Street Corporation, Northern Trust Corporation, and The Bank of New York Mellon Corporation. Custody banks safeguard assets and securities of large asset managers, hedge funds and other banks rather than conducting traditional banking activities. Despite sending these deposits to the Fed for safekeeping, these financial institutions had to factor them in while calculating the amount capital it requires to hold. The bill proposed by the Senate makes an exception to this rule. It allows the custodian banks to set aside the money they received from clients and immediately sent to the Fed or some other central bank for safety. Thus, it would lead to a comparable reduction in the amount of capital they would require to hold.

Huntington Bancshares (NASDAQ:HBAN) operates as a holding company for The Huntington National Bank that provides commercial, small business, consumer, and mortgage banking services. The company's Consumer and Business Banking segment offers financial products and services, such as checking accounts, savings accounts, money market accounts, certificates of deposit, consumer loans, and small business loans; and investments, mortgages, insurance, interest rate risk protection, and foreign exchange and treasury management services. Its Commercial Banking segment provides corporate risk management services; institutional sales, trading, and underwriting services; treasury management services; and other financing solutions, as well as lends real estate developers, REITs, and other customers. The company's Vehicle Finance segment offers financing for automobiles, light-duty trucks, recreational vehicles, and marine craft at franchised dealerships; and financing the acquisition of new and used vehicle inventory of franchised dealerships. Its Regional Banking and The Huntington Private Client Group segment provides deposits, lending, other banking, wealth management, investment and portfolio management, fiduciary administration, trust, retirement plan and trust, and institutional and mutual fund custody services. The company provides online, mobile, and telephone banking services, as well as ATM services.

Recommendations:

- Buy shares of BK at market prices
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