Banks' profits may be early sign of recovery

Small gains could suggest federal fixes starting to work, experts say

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NEW YORK — Citigroup, its stock trading under $1 just a week ago, cleared $1.50. Other bank stocks rallied, too. The CEO of JPMorgan Chase said his bank, like Citi, made a profit for January and February.

Wall Street, which managed to avoid losing ground immediately after a big rally for the first time all year, held its breath. Were the banks actually showing the beginnings of a turnaround?

No one was saying the financial crisis was over. But stock in Citigroup, JPMorgan Chase and Wells Fargo all advanced again one day after Citigroup's CEO surprised investors by saying the bank ran at a profit in January and February.

Wall Street hopes a blitz of government efforts to repair the financial system may be starting to pay off — and it's fixes behind the scenes, not the headline-grabbing infusions of billions of dollars, that appear to be doing the trick.

For months now, the Federal Reserve and Treasury Department have been guaranteeing and buying corporate debt, paying interest on the cash banks have in reserve and purchasing mortgage-backed securities.

The first sign that those efforts are starting to work may have come when Citi CEO Vikram Pandit said in a letter to employees that the bank expects to post a quarterly operating profit for the first time since 2007.

Why? Because banks don't just loan out money — they borrow it themselves, too. And when they can borrow more cheaply, as the government rescue moves have helped them do, the bottom line looks a lot better.

"Cash flow will build up, like a river builds up in flood time," said Roy Smith, a professor of finance at the Stern School of Business at New York University, who said he thinks the banks could be on the road to recovery, barring any more market panics.