Mark Patterson: 'It's A Sham. The Banks Are Insolvent'

The chairman of $7 billion distressed Private Equity firm MatlinPatterson calls a spade a spade and in the process exposes the entire Geithner plan for the complete sham that it is. His comments before the Qatar Global Investment Forum were captured by the Daily Telegraph's Evans-Pritchard earlier, and Zero Hedge republishes the piece in its entirety as it presents every nuance of our predicament with masterful simplicity.

The US Treasury's effort to stabilise the banking system through the TARP programme is a hopelessly ill-conceived policy that enriches speculators at public expense, according to the buy-out firm supposed to be pioneering the joint public-private bank rescues.

"The taxpayers ought to know that we are in effect receiving a subsidy. They put in 40pc of the money but get little of the equity upside," said Mark Patterson, chairman of MatlinPatterson Advisers.

The comments are likely to infuriate **Tim Geithner, the US Treasury Secretary,** because **MatlinPatterson** took advantage of the TARP's matching funds to buy **Flagstar Bancorp** (NYSE: FBC) in Michigan. His confession appears to validate concerns that the bail-out strategy is geared towards Wall Street. Under the convoluted deal agreed earlier this year, MatlinPatterson has come to own 80pc of the shares while the US government has ended up with under 10pc.

Mr Patterson said the US Treasury is out of its depth and seems to be trying to put off drastic action by pretending that the banking system is still viable.

"It's a sham. The banks are insolvent. The US government is trying to sedate the public because they are down to the last $100bn (£66bn) of the $700bn TARP funds. They think they're doing this for the greater good of society," he said, speaking at the Qatar Global Investment Forum.

Mr Patterson said it would be better for the US to bite the bullet as Britain has done, accepting that crippled lenders must be nationalised. "At least the British are not hiding the bail-out," he said.

MatlinPatterson said private equity and hedge funds were deluding themselves in hoping to go back to business as usual after the trauma of the last 18 months.

"This is not a normal recession and there will be no V-shaped recovery. The crisis has destroyed leveraged companies. We're going to see a catastrophic increase in the number of LBO's (leveraged buyouts) going into default because they're knee-deep in debt and no solution exists since they can't refinance," he said.

"Alfa hedge funds have been making their money by gambling with excessive leverage, so the knife that cuts off leverage is going to cut off their heads as well," he said.

Like many bears, Mr Patterson expects the great crunch to end in deliberate inflation, deemed a lesser evil than outright depression.

"The US government has thrown 29pc of GDP at this crisis compared to 8pc in the early 1930s. The Fed's balance sheet has risen from $900bn to $2.7 trillion to bail out the system. America has to do it because the only way out is to debase the currency, but that is going to lead to some very high inflation three years down the road," he said.

Matlin Patterson, however, has missed the Spring rebound, the most powerful rise in equities in over 70 years. "We shorted the equity rally because we thought it was lunatic. We've kept adding positions seven times, and we're still holding," he said. Ouch!

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