

Resignation of Mutual Savings from US League of Savings Institutions

May 30, 1989

Gentlemen:

This letter is the formal resignation of Mutual Savings and Loan Association from the United States League of Saving Institutions.

Mutual Savings is a subsidiary of Wesco Financial Corporation, listed ASE, and Berkshire Hathaway Inc., listed NYSE, which are no longer willing to be associated with the league.

Mutual Savings does not lightly resign after belonging to the League for many years. But we believe that the League's current lobbying operations are so flawed, indeed disgraceful, that we are not willing to maintain membership.

Our savings and loan industry has now created the largest mess in the history of U.S. financial institutions. While the mess has many causes, which we tried to summarize fairly in our last annual report to stockholders, it was made much worse by (1) constant and successful inhibition over many years, through League lobbying, of proper regulatory response to operations of a minority of insured institutions dominated by crooks and fools, (2) Mickey Mouse accounting which made many insured institutions look sounder than they really were, and (3) inadequate levels of real equity capital underlying insured institutions' promises to holders of savings accounts.

It is not unfair to liken the situation now facing Congress to cancer and to liken the League to a significant carcinogenic agent. And, like cancer, our present troubles will recur if Congress lacks the wisdom and courage to excise elements which helped cause the troubles.

Moreover, despite the obvious need to a real legislative reform, involving painful readjustment, the League's recent lobbying efforts regularly resist minimal reform. For instance, the League supports (1) extension of accounting conventions allowing 'goodwill' (in the financial institutions' context translate 'air') to count as capital in relations with regulators and (2) minimization of the amount of real equity capital required as a condition of maintenance of full scale operations relying on federal deposit insurance.

In the face of a national disaster which League lobbying plainly helped cause, the League obdurately persists in prescribing continuation of loose accounting principles, inadequate capital, and, in effect, inadequate management at many insured institutions. The League responds to the savings and loan mess as Exxon would have responded to the oil spill from the Valdez if it had insisted thereafter on liberal use of whiskey by tanker captains.

It would be much better if the League followed the wise example, in another era, of the manufacturer which made a public apology to Congress. Because the League has clearly misled its government for a long time, to the taxpayers' great detriment, a public apology is in order, not redoubled efforts to mislead further.

We know that there is a school of thought that trade associations are to be held to no high standard, that they are supposed to act as the league is acting. In this view, each industry creates a trade association not to proffer truth or reason or normal human courtesy following egregious fault, but merely to furnish self-serving nonsense

and political contributions to counterbalance, in the legislative milieu, the self-serving nonsense and political contributions of other industries' trade associations. But the evidence is now before us that the type of trade association conduct, when backed as in the League's case by vocal and affluent constituents in every congressional district, has an immense capacity to do harm to the country. Therefore, the League's public duty is to behave in an entirely different way, much as major-league baseball reformed after the "Black Sox" scandal. Moreover, just as client savings institutions are now worse off because of the increased mess caused by League short-sightedness in the past, client institutions will later prove ill-served by the present short-sightedness of the League.

Believing this, Mr. Warren E. Buffett and I are not only causing Mutual Savings to resign from the U.S. League of Savings Institutions; we are also, as one small measure of protest, releasing to the media, for such attention as may ensue, copies of this letter of resignation.

Truly yours,
Charles T. Munger