

RELATED TOPICS

J.Crew Sale Going On Now



In Active on LinkedIn

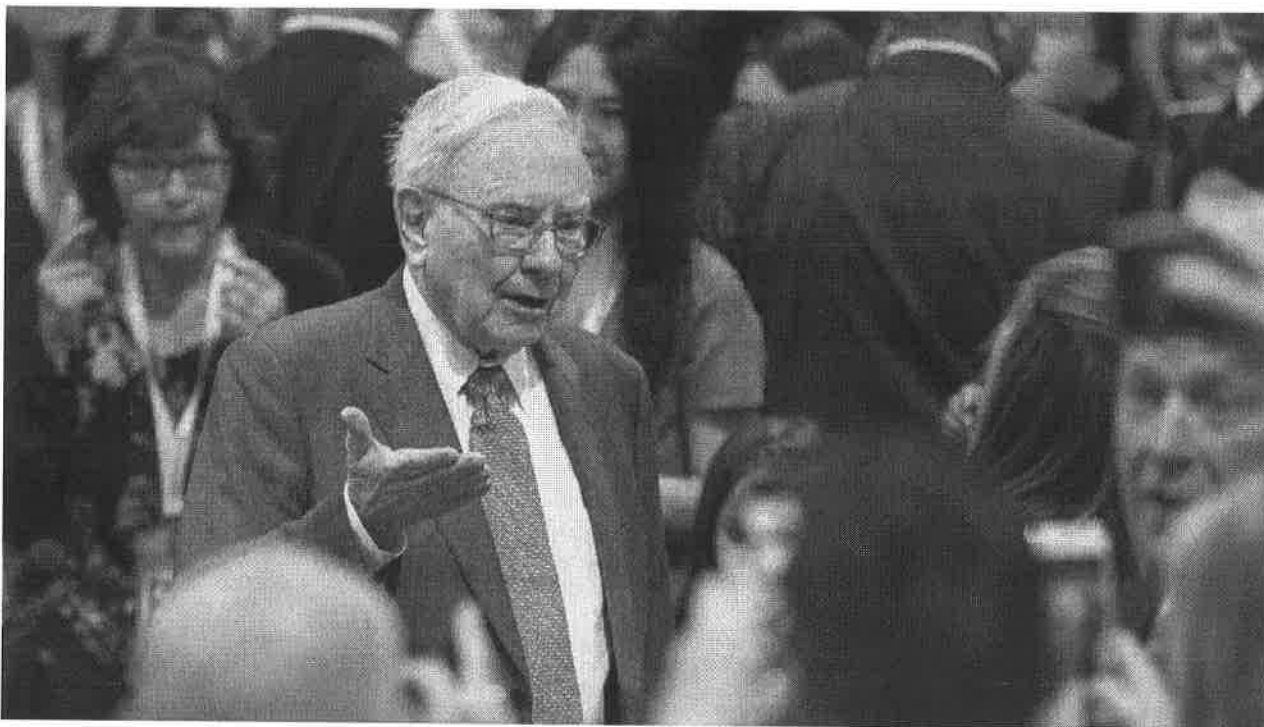
Never, Ever Take A Job Until You Answer These Ten Questions



LEADERSHIP

Warren Buffett Under Attack On Multiple Fronts

May 7, 2015, 12:32pm • 18,142 views



BETA



Susan Adams

Forbes Staff

Warren Buffett, the third-richest person in the world with a fortune worth \$70.8 billion, is the ultra-successful capitalist everyone loves. Known as the Oracle of Omaha, the 85-year-old still lives in the five-bedroom Nebraska house he bought in 1958 and drives himself around in an aging Cadillac. A cofounder with Bill Gates of The Giving Pledge, he exhorts fellow billionaires to give away their fortunes during their lifetimes. He has been a champion of higher tax rates for the nation's richest people and he was a major donor to Barack Obama's campaigns. His buy-and-hold investment style stands in contrast to financiers who acquire companies and then flip them in pursuit of quick returns.

But over the last month, Buffett has found himself under attack on multiple fronts. First came a report by the Center for Public Integrity and the *Seattle Times*, calling Buffett one of America's leading predatory home lenders through the Clayton Homes subsidiary of his Berkshire Hathaway holding company. Berkshire acquired Clayton Homes in 2003 for \$1.7 billion. The report, headlined, "The mobile-home trap: How a Warren Buffett empire preys on the poor," charges that

Maryville, TN-based Clayton Homes, the country's largest mobile home builder, engaged in deceptive practices that locked borrowers into terrible deals, including loan terms that changed after borrowers paid deposits, interest rates that exceeded 15%, surprise fees tacked onto loans and false promises that buyers could afford more debt and refinance later.

According to the report, Clayton Homes, through its many subsidiaries, "finances more mobile-home purchases than any other lender by a factor of six. It also sells property insurance on them and repossesses them when borrowers fail to pay." Berkshire benefits at every stage of the process, says the report. "Clayton even builds the homes with materials — such as paint and carpeting — supplied by other Berkshire subsidiaries." Berkshire and Buffett declined to comment for the story, but after it was published, they sent a statement to the *Seattle Times* saying the story was "misleading," though their statement cited no specific inaccuracies.

But then came Berkshire Hathaway's annual shareholders meeting, on May 2, and Buffett had to field a question from a shareholder who had read the *Seattle Times* report and accused Berkshire of predatory lending. Buffett defended Berkshire's investment in Clayton Homes, saying he was proud that the company made homes affordable for low-income people who don't have good credit scores. "I make no apologies whatsoever about Clayton's lending," he told shareholders, adding that he had "not gotten one call" from customers complaining about Clayton. He also said the article overstated Clayton's profits at 20%, when the net profits were in fact just 2%.

But predatory lending wasn't shareholders' only complaint. One shareholder used the word "brutal" to describe the cost-cutting moves by private equity firm 3G Capital, a partner with Berkshire since 2013 on deals including a plan, revealed in March, to buy Kraft Foods Group. 3G is run by Jorge Paulo Lemann, a media-shy billionaire and friend of Buffett. It is known as a firm that appoints its own executives after takeovers and cuts thousands of jobs at the companies it acquires. The disgruntled shareholder asked whether Buffett no longer "aspired to balance capitalism and compassion." In response, Buffett said he approved of 3G's efforts to make companies more efficient and that the firm had bought companies staffed

with “considerably more people in the job than needed.” By contrast, Berkshire has a history of buying businesses that are already well run, and thereby has built a reputation as a company that preserves jobs.

BETA

Buffett also fielded criticism of his investment in companies like Heinz and Coca-Cola which make products that are high in processed sugars, at a time of increasing concern over America’s obesity epidemic. Buffett conceded that his own diet is widely known to be unhealthy and observed that, “I don’t see smiles on the faces of people at Whole Foods.”

But while that line drew laughter from the crowd of 40,000 shareholders, who traditionally have asked tough questions at Berkshire’s annual meeting, yesterday Buffett was hit with criticism from an unfamiliar corner. At a hedge fund conference in Las Vegas, activist hedge fund manager Daniel Loeb, who runs the New York City-based fund Third Point, accused Buffett of failing to practice what he preaches. Without using the word “hypocrite,” Loeb pointed to taxes, hedge funds and activist investing as issues where Buffett says one thing and does another. “He criticizes hedge funds, but he used to run one,” said Loeb. “He criticizes activists, but he was the first activist. He says we should all pay more taxes, yet he avoids them himself.” Loeb’s comments created an awkward situation for conference organizer Anthony Scaramucci of SkyBridge Investments. “Warren Buffett, if you are listening, I’m sorry,” said Scaramucci. Buffett has not responded publicly to Loeb’s comments.

Some context to Loeb’s statements: He has been pressuring Dow Chemical, a company where Buffett has a sizable stake, to make changes including spinning off a division. In January, Dow CEO Andrew Liveris said he had met with Buffett, who said he was glad that Liveris was “running the company for the investors who will stay versus the investors who will leave.” Activists like Loeb are often criticized for focusing on short-term gains as opposed to long-term prosperity.

The Forbes eBook On Warren Buffett

The \$59 Billion Philanthropist, chronicling 50 years of Buffett’s investment savvy and

unprecedented giving, is available now for download.

BETA