philippine studies

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Philippine Studies vol. 31, no. 3 (1983): 189–215

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This essay has three related purposes: first, to examine the evolution of the four types of financial institutions which played major roles in mortgage finance before 1941; secondly, to discover flows of mortgage capital in order to contribute to a better understanding of the linkages between the export economy and its cycles on the one hand and the magnitude of private construction in Manila on the other; and finally, to use the analytical insights gained to better understand the causes underlying the residential construction boom of the 1920s and the dearth of new construction during 1934-35.

It is always a tradeoff as to whether capital will be committed to increase productive capacity on the one hand, or to enhance infrastructure and the supply of housing on the other. Countries with different economies and political traditions have approached this problem of allocation in different ways. Among the less industrialized countries, modern China has sought to resolve this question by severely restricting migration to cities. Most other less developed countries have had essentially open migration systems, and as a result the rate of urban population growth has usually led to a more or less chronic housing shortage. Manila is no exception. In some countries, ideology and social goals have resulted in the government becoming the chief supplier of housing. In other lands, the availability and cost of mortgage capital to individual family units have been crucial variables. The urban Philippines fits the latter case.

Large numbers of less affluent Manila families continue to rely on money lenders for high cost short term loans, on *abuloy* from their union or a loan from their employer to rebuild after a typhoon or fire, and on their own efforts to finance and gradually improve self-built housing. By contrast, the erection and acquisition of middle class housing in the city – the housing which now occupies many of the sprawling suburbs – has relied heavily on formal channels of mortgage credit. Since World War II, the Social Security System, whether through mortgage or salary loans, the government banks, and some insurance companies have been major sources of mortgage credit. Because both the modern institutional financing of middle class housing and the suburban subdivision itself evolved during the generation before the war, it is worthwhile to examine that period.

The value of new dwellings and other privately owned buildings constructed in Manila during the 1900-1941 period was a highly cyclical phenomenon. The timing of these cycles was related to foreign demand for commodity exports, the principal engine of the economy, but construction tended to lag so far behind as to become countercyclical (*Fig. 1*). Thus, the major peaks of capital flow into new construction often coincided with markedly reduced opportunities for profitable investment in export crop production or in new corporate ventures. The picture that emerges is one in which four new kinds of institutions, rather than revitalized older ones, were responsible for mobilizing the "intermittent-export-boom-period" savings of various segments of Philippine society, for making some of this capital available for mortgages to particular sorts of persons in particular amounts according to some policy, and thereby promoting or discouraging residential construction.

MORTGAGE FINANCE INSTITUTIONS

During the last half of the nineteenth century, there were banking institutions in Manila operating to facilitate the growing commercialization of the Philippine economy. Some of these banks were also investment vehicles for the religious orders of Spanish friars. Two of these latter institutions continued to operate after 1900 under the management of Spaniards or creoles. Religious institutions also continued to make occasional loans directly. Two other banks were established as part of the British interest in developing international commerce in Philippine commodities and British manufactures, and these also continued to operate after 1900.[1] The major interests of the borrowers from all of these institutions were said to be in crop loans and the export commodities trade. One of the Church-connected institutions, the Monte de Piedad, also offered small loans on pawned items.[2] The resources of these early banks were occasionally overtaxed just to meet the demand for crop loans. The scanty data at hand make it difficult to credit any institution with a significant role in the urban construction boom of 1903-5, but it is apparently true that the aggregate outstanding loans of these banks for all purposes tripled between 1903 and 1906 (*Fig. 2*). The magnitude of loans which facilitated new construction, if any, is unknown.

The financing of subsequent "value-of-construction" booms makes clear that there was no lack of Filipino entrepreneurship, but rather there was great need for new institutional rules and environments within which Filipino capital could be mobilized. Four new kinds of institutions eventually played important roles: a postal savings bank, mutual building and loan associations, Filipino owned insurance companies, and a national bank.[3]

THE POSTAL SAVINGS BANK

The need for the introduction of new credit institutions was recognized by Governor General (later U.S. President) William Howard Taft soon after the imposition of American suzerainty. Taft had noticed the usefulness of postal savings institutions in other colonies, and he promoted such a bank in the Philip-

[See list of abbreviations at the end of article].

1. The two British banks were the Chartered Bank of India, Australia, and China (headquartered in London), which opened an agency in Manila in 1872, and the Hong Kong and Shanghai Banking Corporation (headquartered in Hong Kong), which opened a branch in 1875. Both granted credits on export commodities and imported merchandise, both engaged in the transfer of funds to other lands. Both had earlier done business in the city through independent agents. See Compton MacKenzie, *Realms of Silver, One Hundred Years of Banking in the East* (London: Routledge and Kegan Paul, 1954), pp. 132-41, 151, 162, 192-93; and Maurice Collis, *Wayfoong, The Hong Kong and Shanghai Banking Corporation* (London: Faber and Faber, Ltd., 1965), pp. 98-102.

2. The Monte de Piedad y Caja de Ahorros was operated on a Church endowment, and its governing board was appointed by the Archbishop of Manila. Victor S. Clark, "Labor Conditions in the Philippines," *Bulletin of the [U.S.] Bureau of Labor*, No. 58 (May 1905), p. 850.

3. A fifth kind apparently miscarried. "Mortgage Bank Is Now Assured," *Manila Times* (hereafter *MT*), 21 January 1913, p. 3. Mauro Prieto of the Germinal cigar factory was behind the scheme.

pines in the belief that it would be accessible to the mass of the population in a way that existing banks were not, and that it could provide safety and reasonable interest and thereby encourage "thrift" amongst persons of modest means.[4] The new Postal Savings Bank (PSB) began operation during 1906 and within a year had established a nationwide network of 233 offices. To promote the bank, the Bureau of Education was persuaded in 1910 to offer cash prizes to teachers with the highest percentage of students making a deposit in the PSB. The link between the PSB and the public school system was long lasting. By 1915 there were more than 54,000 depositors and this total would double by 1920. At its peak in 1930 there were 983 branches and almost 337,000 individual depositors (97 percent Filipinos), half of whom were students saving small amounts. The PSB thus mobilized the savings of a great many ordinary and even juvenile Filipinos all over the archipelago. Despite this national coverage, however, the concentration of higher and middling incomes in Manila frequently led to half of the deposits in the system being made in the capital city.[5]

The record of net annual deposits with the PSB shows a time series which might be expected to demonstrate the predicted pattern – a rapid build up of deposits over withdrawals during the export booms and, conversely, heavy net withdrawals in the export slumps (*Fig. 3*). The periods 1908-12, 1916-20, and 1924-34 exhibit that pattern, if one keeps in mind that the boom in coconut oil production through early 1919, and in cigar production through most of 1920, gave Manila a boyant export economy which was in great contrast to that of the abaca growing regions. This may be strong enough to prove the point, but it

4. Taft ordered the feasibility report and then, as Secretary of War, pushed establishment of the bank. See E.W. Kemmerer's report on "The Advisability of Establishing a Postal Savings Bank in the Philippine Islands" (13 July 1904) and Taft's letter to Governor Luke Wright (29 August 1905) – both in U.S. Bureau of Insular Affairs (BIA) file 13550. BIA files are found in record group 350 in the U.S. National Archives.

5. Bureau of Education Circular No. 141 (October 1910); PSB monthly reports for May 1907 and December 1928 in BIA files 13550-24 and 13550-52; *Statistical Bulletin of the Philippine Islands*, 1920, p. 30; *Philippine Statistical Review*, 1933, No. 3, p. 142, and Philippine Islands, Bureau of Posts, unpublished "Annual Report" (hereafter "ARBP") in the manuscript "Report of the Philippine Commission" for 1 July 1913-31 December 1914, pp. 319-20. In 1914 Manila accounted for 49.6 percent of all PSB deposits. See also Director Topacio's plan to promote small deposits in the PSB through the public schools. "'Bank Week' is Suggested . . .," *Cablenews*, 23 January 1920, p. 1 and also "Bataan Students Are Bank Depositors," *Tribune*, 29 March 1931.

leaves us with no clear understanding of why deposits remained significant during the export depression of 1913-14, or why net withdrawals were recorded during the export boom of 1922-24. (The heavy net deposits during 1935, a very poor year for exports and a time when several competing financial institutions were forced to suspend dividends altogether, were due to depositors switching their savings to the PSB to take advantage of the government guarantee of safety and interest.[6]) All this begs the question of the rates of interest the PSB offered to depositors in relation to those offered by other financial institutions. Such information would likely help to explain the heavy net withdrawals during 1922-24. Unfortunately, data are thus far available for only scattered dates. We shall subsequently see, however, that the somewhat early decline of net PSB deposits during 1929 and 1930 coincides with a time when much higher rates of interest were being paid by building and loan associations.

A variable proportion of the PSB assets were invested in real estate mortgages (*Fig. 3*), and some of this was lent outside metropolitan Manila. Nevertheless, the effect during the second Juglar construction boom (an eight or nine year cycle) is apparent as the PSB's mortgage portfolio quadrupled and thereby added approximately ₱1 million in new mortgage credits during the five years commencing on 1 January 1910 (*Fig. 2*). A rapid expansion in PSB mortgage credits is also observable during, and only during, the subsequent "value-of-construction" expansions of 1919-20 (₱2 million in new credits) and 1926-29 (₱2 million in new credits). The last two cases reflect the bank's need to invest rapidly accumulating funds as net deposits fairly soared during the export prosperity of 1918-19 and again during 1927-29 (*Fig. 3*). These three cases were not identical since during 1913-14 and 1919-20 there were declining investment opportunities in the raw commodities export sector and the countercyclical construction boom offered a timely alternative, whereas this was not the situation during 1927-28.

It is possible to reconstruct the changing investment priorities of the PSB. During 1910-14 more than 40 percent of annual net deposits received by the bank were recycled in the form of new real estate mortgage credits. But 1915, well into the foreign trade

6. "ARBP," 1934, p. 58.

depression of 1913-16, was the bank's first experience with net withdrawals. The extraordinary expansion of mortgage credits during that year was possible only by sharply reducing the PSB's usual time deposits in other banks. This final expansion of credit was exactly counter to the cyclical trend in construction (*Fig. 1*). Thereafter the bank allowed its mortgage portfolio to stagnate during 1916-18, despite a renewed surge of net deposits. Instead, most of its new assets went again into time deposits and secondarily into World War I "Liberty Loans" to the United States. The PSB joined the new construction boom only in 1919, a year after that trend was well established, and then only in the face of record net deposits generated by the recent export surge. The PSB's investment policy of 1919 thus represents another total reversal as it suddenly committed ₱1 million to the mortgage credit pool, an amount equal to 96 percent of that year's record net deposits. To expedite the placement of its new resources, the bank reduced its mortgage lending rate from 8 to 7 percent.[7] The PSB continued to funnel new credit into mortgages at a very high rate during the runaway construction boom of 1920, but since net deposits were declining sharply, it could accomplish this only by again decreasing its time deposits with other banks by nearly two-thirds (*Table 1*). This massive one year shift in commitments neatly fits with the boom mentality of Philippine investment during the period under scrutiny.

It is difficult to isolate the effect of one bank's mortgage policies on construction in Manila, but in general the PSB's commitment or lack of commitment of new pesos to real estate mortgages either lags a year behind (1915, 1918, and 1925) or corresponds closely to the overall trends of real construction. But the abrupt cessation of loans to individuals and firms in January 1921 was a calculated decision which may have helped to precipitate the "value-of-construction" decline in that year.[8] This decision, and the subsequent net removal of assets from the mortgage pool over the next several years were forced by a statutory limit of 50 percent on such investments. Net withdrawals over two years forced the PSB to trim its mortgage portfolio. The net withdrawals of 1921 followed the export cycle and may have been

7. "Postal Savings Lessens Interest," *MT*, 6 April 1919, p. 7.
8. "No More Private Loans by Postal Savings Insti.," *MT*, 20 January 1921, p. 1.

Table I
Distribution of Investments
PSB 1918-21[1]

Investments (000's of pesos)	1918	1919	1920	1921
Real Estate Mortgages	1,308	2,320	3,209	2,955
Time Deposits	1,270	1,520	590	880
Loans to Provinces and Municipalities	0	50	486	588
"Liberty Loan" to the U.S.	350	350	350	0
etc., inclu. bonds	1,878	1,720	1,853	1,714
Total	4,806	5,960	6,488	6,137

1. The data are for 31 December in each case.
Source: "ARBP," in manuscript RGGPI, 1920 and 1921, pp. 2642-43.

related to the near financial panic experienced during that year. A deeper understanding will require data on relative interest rates. But in aggregate effect, a wholly new financial institution mobilized the savings of individuals all over the country and then used a varying percentage of this capital to facilitate both construction and home ownership in Manila.

BUILDING AND LOAN ASSOCIATIONS

The mutual building and loan association was another new form of financial institution, a form explicitly modeled after similar institutions in the United States and introduced in order to increase urban home construction and ownership in the Philippines. Two such institutions were organized in Manila in time to participate in the construction boom of 1910-14. The Manila Building and Loan Association (MBLA) was the first of these. An early bank examiner reported that "its business is conducted on the same general lines as that of similar institutions in the United States . . . . Loans are made only to members, and are made on real estate, or on stock" in the association. "The profits of the Association are divided yearly in the form of dividends to the holders" of shares purchased on a regular installment plan.[9] Holders of a paid-in-advance form of stock then received a fixed dividend of 7 percent. The stated rate of interest on mortgages was 10 percent, but since this was paid on the whole principal over the entire life of the mortgage (then one to five years), the effective rate of interest could exceed 16 percent. The legal limit was 18 percent. The 20 percent stock dividends which the MBLA paid in its first years (1906-7) attracted further stock purchases by installment share members and this allowed the association to steadily increase its mortgage commitments. These more than doubled during the construction expansion between mid-1909 and mid-1913.

The MBLA was founded and managed by resident Americans, and insurance agent E.E. Elser served as either manager/director or manager/president during most of the association's existence. However, the list of directors and officers always included one or two Filipinos, such as the widely known academic, Conrado Benitez, who served during the 1930s. During 1906-9, 48 percent of the mortgages issued to individuals by the MBLA went to Filipinos (or at least to persons with Hispanic or indigenous surnames). By 1924 Filipinos comprised 89 percent of the 786 stockholders, but still held only 55 percent of the outstanding mortgages to individuals. The largest mortgage loans continued to go to Americans.[10] The MBLA demonstrated the feasibility of this business form, and it might logically have served as a training ground for Filipino managers, but it did not.

9. Quoted and calculated from "Bank Examiner's Report of Condition" of the MBLA as of 30 June 1907, pp. 1-3, BIA file 15213. On the evolution and operation of American building and loan (later savings and loan) associations following the lead of late eighteenth century British home building societies, see Alan Teck, *Mutual Savings Banks and Savings and Loan Associations: Aspects of Growth* (Columbia University Press, 1968), chap. 1 and pp. 40-41. According to Teck (p. 26), there were almost 6,000 building and loan associations in the U.S. in 1893. A master's thesis by Constantina S. Peña, "Building and Loan Associations in the Philippines: A Study of Their Growth, Operation, and Regulation," (Economics, University of the Philippines, 1934), is listed in C.A. Nemenzo's *Graduate Theses in Philippine Universities and Colleges, 1908-1969.* However, I was unable to locate any record of this work in the U.P. economics and Filipiniana collections.

10. "Bank Examiner's Report of Condition" of MBLA as of 30 April 1913, and 30 June 1924, BIA file 15213.

The quick success of the MBLA was just as quickly exceeded by another mutual building and loan association, El Hogar Filipino, whose founder and manager, Antonio Melian, had nothing to do with MBLA, but rather came to Manila after "lengthy service" with "El Hogar Argentino" of Buenos Aires and a similar institution in Madrid. He was also said to have made "a thorough study of the Standard Building and Loan Associations in the United States and Great Britain."[11] El Hogar's first thirty-two months of operation coincided with the peak of construction activity during 1911-13, and the growth of the association's resources and mortgage portfolio can only be described as meteoric (*Fig. 2*). If the MBLA was an American institution, El Hogar was not, and most of its real estate loans (89 percent as of August 1913) went to persons with Hispanic or indigenous surnames. Despite its formal organization as a "mutual" association requiring that all distributed earnings be mutually shared by depositors, El Hogar was also an investment vehicle for Ayala y Compania, one of the most successful Spanish creole and mestizo family businesses in the Philippines. Antonio Melian himself married into the Ayala family, and El Hogar's board of directors included at various times before 1930, his wife's brothers Enrique and Fernando Zobel, her first cousin Antonio Roxas, as well as Enrique's son Jacobo Zobel and son-in-law Jose McMicking. Another of Enrique's sons, Alfonso Zobel served for a time as treasurer of El Hogar in the 1930s. To complete the interlock of family interests, Melian became a partner of Ayala y Cia and a director of the Zobel Building Company.[12]

The spirit of the legislation authorizing favorable tax treatment for mutual building and loan associations was intended to encourage urban home ownership, but El Hogar's leadership was looking for broader opportunities. By 1917 El Hogar had made extensive loans on sugar, rice, and coconut lands, and during the middle and later 1920s its commitment to coconut growers was

11. "Bank Examiner's Report of Condition" of El Hogar as of 16 August 1913, pp. 1-2, BIA file 25334.

12. Ayala's diversified interests during this period included haciendas, a sugar central, a major block of shares in the San Miguel brewery, a domestic steamship line, insurance, and real estate development in addition to mortgage finance. The strength of its non-export commodities interests is notable. Ninotchka Rosca, "The Oldest Corporation in the Philippines," *The Fookien Times Philippines Yearbook 1975*, pp. 158-63 and BIA file 25334.

intensified. It made "comparatively very few loans on improved urban properties" during this latter period.[13] In 1926 the Insular government tried unsuccessfully to "oust" El Hogar from exercise of its corporate privileges on grounds which included the "permanent and self-perpetuating" nature of its board of directors, the "unreasonably excessive" annual "royalty" paid to its founder, and especially because the association was heavily engaged in making large agricultural and business loans rather than restricting itself to urban mortgage finance.[14]

The MBLA and other, subsequently founded, mutual building and loan associations operating in the capital confined their activities primarily to urban real estate loans in the metropolitan area. We are left in some doubt, however, as to their direct impact in facilitating construction. The MBLA, for example, regularly made loans to individuals on residential properties, but for years one of its largest outstanding loans was to a member of its own board of directors who used it to speculate on an extensive undeveloped suburban tract.[15] In its first full year of operation (1924), the La Urbana association executed "31 contracts . . . for the purpose of building homes for its members." But a bank examiner's report on the same association in 1927 indicates that only 17.2 percent of its

> outstanding loans on real estate . . . was actually employed for the construction of buildings. The rest was granted for the purpose of redeeming mortgaged properties from other mortgagors, for the acquisition of properties, for repairs and completion of building constructions and [etc.][16]

13. "Bank Examiner's Report of Condition" of El Hogar as of 16 August 1913; 15 September 1917, and 31 January 1928 (p. 4), all in BIA file 25334. On 30 April 1929, loans on real estate in the city of Manila comprised only 42 percent of El Hogar's outstanding loans; 13 percent had financed real estate acquisition and construction in other urban areas, especially Iloilo and Cebu cities, and 45 percent was loaned on agricultural land or to business firms ("Report,' pp. 6-8). El Hogar was not the only building and loan association to have broken this rule, though it seems to have been by far the most flagrant case. In October 1916, the MBLA held three mortgages (out of its total of 92) on properties outside of Greater Manila. Only one of the three *may* have involved cropland.

14. The action against El Hogar was in litigation and appeal during 1926-28. The government's case (including the points quoted from pp. 2-3) and the association's reply to its shareholders are found in BIA files 25334-2 and 25334-6. See also *MT*, 6 October 1926, p. 1 and other articles in the same newspaper on 7, 13, 19, and 24 October 1926.

15. The loan on a large tract in Tondo and Navotas was finally foreclosed during 1931 after apparently being carried for thirteen years. "Bank Examiner's Report of Condition," MBLA, as of 8 November 1918, pp. 2, 23, and 25; December 1931, p. 5, and 31 May 1932, p. 15, BIA file 15213.

16. "Bank Examiner's Report of Condition," La Urbana, as of 31 December 1924, p. 39 (the thirty-one "homes" included three small apartment buildings) and as of 31 May 1927, p. 8, BIA file 28169.

The business of the El Ahorro association in 1932 was the same: to finance the construction of new buildings, to cancel existing mortgages incurred in the process of construction, to finance building improvements, and to acquire title to real estate.[17] Two of its largest loans financed first the construction and later the transfer of ten rental dwellings on a single suburban property. During the industry's declining years of 1936-40, 22.8 percent of all building and loan association loans made in Manila were given for the purpose of new construction.[18] In 1933 the management of La Previsora Association noted that "in the modern sense . . . building associations actually do not build homes for their members . . ."[19] But whether in the direct financing of new construction or in the indirect purchase of an existing building, which made the original capital available again for possible new construction, it is clear that the impact of mortgages granted by all building and loan associations was comparatively great during the value of construction booms of 1911-14 and 1925-32 (*Fig. 2*). During the latter period the associations were officially described as having "immense resources" and great influence in the promotion of home building.[20]

INSURANCE COMPANIES

Insurance companies formed a third apparently new set of institutions active in making real estate loans in Manila. There were a number of these, but unfortunately the archival record of their activities is poor. A few surviving examiner's reports for 1918 disclose an interlocking set of companies under the "Filipinas, Compania de Seguros." Antonio Melian of El Hogar and Ayala y Cia was also the founder of this company (1913). Initially Filipinas underwrote fire insurance policies, including those on the properties mortgaged to El Hogar Filipino. Within five years it was also underwriting marine, life, auto accident, and earthquake

17. "Bank Examiner's Report of Condition," El Ahorro, as of 21 May 1932, p. 7, BIA file 28646.
18. The data are actually for 1936-38 and 1940. Calculated from *ARBC*, 1936, p. 25; 1937, p. 35; 1938, p. 40, and 1940.
19. "La Previsora Filipina Is Among Leading Building & Loan Societies," *Tribune*, 1 April 1933, p. A-14.
20. *Report of the Governor General of the Philippine Islands*, 1929, p. 126.

policies. For several years a majority of the company's rapidly growing assets were invested in mortgages on buildings in the business district of Manila. During the value of construction boom years of 1913-14, Filipinas added more than ₱700,000 to the available mortgage pool – more new pesos during the full construction boom than were added by either the MBLA or the PSB. (*Fig. 2*).

By 1918 Filipinas had also become, in effect, a holding company for two specialized insurance companies – the newly-formed Philippine Guaranty Co. and Enrique Zobel's Insular Life Assurance Co. Filipinas was also used to hold a sizeable interest in El Hogar Filipino.[21] All three insurance entities made significant direct investments in mortgage loans during this period and almost all of those loans outstanding in 1918 were on Manila properties. Some were on business premises, and 10 percent were made to Manila Chinese, but almost all of the balance went to individuals with Spanish or indigenous surnames.[22]

The Ayalas had clearly discovered that mortgage finance could be profitable, whether conducted through a building and loan association or an interlocking set of insurance companies. So far as the insurance business is concerned, their mortgage finance activities were clearly beneficial. In 1923, to take one year as an example, sixty-four insurance companies were transacting business in the Philippines. Only eight of these had their home offices in the archipelago. Half of the marine insurance business was being written by two British companies based in Hong Kong and Shanghai. Fire insurance underwriting was highly fragmented, but only one Philippine based company (Filipinas) was in the top ten in terms of net premiums received; Philippine companies (Insular Life and Filipinas) had issued only 28 percent of the life policies then in force.[23] Most insurance companies were principally engaged outside of the Philippines. London, Liverpool, Hong

21. "Examiner's Report," as of 10 October 1918, esp. p. 4, BIA file 27570. See also the "Examiner's Report" on El Hogar as of 16 August 1913, p. 3, BIA file 25334. There are similar reports on the Philippine Guaranty Co., which began operation in June 1917 (BIA file 27561), and the Insular Life Insurance Co., founded in 1910 (BIA file 27510).

22. "Examiner's Reports" on Insular Life and Philippine Guaranty as of October 1918, BIA files 27510 and 27561.

23. Calculated from *Annual Report of the Treasurer of the Philippine Islands*, 1923, pp. 75-84. In 1922 the Filipinas group garnered 78 percent of the income earned by Philippine based insurance companies.

Kong, Shanghai, and Montreal; various cities in the United States, France, Japan, and New Zealand, and even Semarang served as home bases. The investment policies of most of these companies were controlled by the home office, and few regularly invested in Manila real estate mortgages. The impact of the Ayala-Melian Filipinas group was to capture some of the payments made for risk management, most of which would otherwise have been invested abroad, and to invest a percentage in the development of Manila, through the granting of mortgage credits.

Thus, three new kinds of financial institutions – the PSB, building and loan associations, and the Filipinas group of insurance companies – came of age quickly. The increase in their mortgage investment during the "value-of-construction" boom lasting from 1910 through 1914 was an amount equal to about one-third of the total expenditure for strong materials construction in the city during the same period. Some of the same institutions, in particular the PSB, were active in financing the urban construction boom of 1917-20. Unfortunately, comparative data for the insurance companies and El Hogar are not available.

THE PHILIPPINE NATIONAL BANK

In fact, however, the most important credit institution in the construction boom of 1917-20 was not one of the new institutions described above, or an old line bank. It was the new (1916) Philippine National Bank (PNB), an institution which mobilized public and private capital as well as deposited tax revenues awaiting redistribution and which "ambiguously combined elements of central, developmental, speculative, and wildcat banking."[24] The construction boom of 1917-20 precisely coincides with the freewheeling period of the bank's existence when it performed as both an instrument for developing and increasing Filipino participation in the national economy (and especially in the commodities export boom during World War I) and as a vehicle for extending easy credit to members of the Philippine elite who were

24. Stanley, *A Nation in the Making,* p. 236. Stanley (pp. 232-48) provides an authoritative critical assessment of the early years of the PNB in the context of the Wilsonian and Philippine legislative policy of Filipinizing both the government and the economy.

well connected with the ruling legislative party. To the extent that the construction boom of 1917-20 was due to the availability of mortgage credit, it was primarily due to the resources mobilized by the PNB. This is hinted at in the rapid increase of total bank loans and discounts during 1916-20 (*Fig. 2*), although much of that went for very large loans to facilitate the construction of modern centrifugal sugar mills.[25]

The sudden decline in the value of real construction during 1921 has already been related to the new lending policy of the PSB inaugurated during January of that year, and even the MBLA was applauded for "weather[ing] the storm during the financial depression" by issuing only two real estate loans during the first nine months of 1921.[26] When examined in detail, however, the decline turns out to have been most drastic in real value per construction permit – that is to say, that it was the construction of larger buildings which slumped. The most important causes of this slump were no doubt the interlocking deflation and near financial panic, and the installation of a conservative management group to unravel the apparent chaos caused by past promotional policies and irregularities at the PNB. The old PNB management claimed, under mounting pressure, to have followed "a policy of contraction" during 1919, but according to Stanley a real program of "careful contraction" in loan operations and institution of thorough methods of accounting was actually begun only at the end of 1920.[27] This contraction in PNB operations failed to appear in the trend of reported loans and discounts until 1923, but it proved to be a long term policy which was only reversed with the inauguration of the Commonwealth government in late 1935 (*Fig. 2*). By way of comparison, an unprecedented number of American banks also failed or experienced severe financial difficulties during 1921 as a result of the sharp deflation of agricultural land values which had risen during the speculative climate of the World War I commodities boom.

25. Ibid, p. 243.

26. "Examiner's Report" on the MBLA as of 30 September 1921, p. 18, BIA file 15213.

27. "National Bank Report Shows Big Profits," *Manila Daily Bulletin,* 3 March 1920, p. 1, and Stanley, *A Nation in the Making,* p. 246.

FINANCING THE HOUSING BOOM OF THE 1920s

Construction during the middle to later 1920s was primarily residential. At the same time, the PNB was contracting. This was the essential environment within which the mutual building and loan associations flourished. In rapid succession beginning in 1923, four new associations were organized. A similar pattern was followed by all four. Each was begun by a small investor group which then dominated the board of the directors of the association. At the end of the first calendar year of operation a large and unsustainable dividend was declared (in one case despite a small paper loss) and a glowing, sometimes inflated, prospectus was distributed. The high initial dividends attracted a rapid growth of share deposits and thereby facilitated further rapid expansion in the value of mortgage loans contracted. The rise of each association was spectacular and the competition of each new high dividend paying association tended to retard or halt the growth of earlier, now lower dividend associations (*Fig. 4*). This is most clearly traced in the declining loans of the MBLA during 1924-25 as the growth of La Urbana apparently precipitated some switching of shares (deposits) from the former. La Urbana eventually paid 12 percent on all of its shares for 1924, 1925, and 1926,[28] but by 1930 its dividend rate had declined to 8 percent, and it was facing competition from two more recently formed associations offering much higher returns (*Table 2*).

This sizeable capital flow into the mortgage granting building and loan associations during 1925-31 came at the expense of the banks and was caused by the spread in interest rates. In 1930, for example, the banks were paying a relatively low 5.5 percent on accumulative shares. By 1929, two years before the peak, the associations had attracted more than 16,000 member shareholders.[29] There were various problems in the ethical and effective

28. La Urbana's directors were initially unwilling to adhere to the regulations regarding *mutual* associations that required that distributed earnings be paid equally on all forms of stock. They were not unique in this regard. The controlling investors in La Urbana were Spaniards associated with Manila's tobacco industry. President Enrique Carrion was the general manager of La Insular, one of the largest cigar and cigarette factories in the city. General manager and vice president Enrique Vasquez Prada came to Manila as an accountant with Tabacalera and had a background in the banking department of the Sociedad Anonima of Barcelona. Zoilo M. Galang, *Encyclopedia of the Philippines*, 3rd ed. (Manila: Exequiel Floro, 1950-58), vol. 18, pp. 169-70.

29. "Lower Rates on Deposits Are Opposed," *Tribune*, 6 May 1930, p. 1 and *Statistical Bulletin of the Philippine Islands*, 1929, p. 184. A small percentage of these shareholders belonged to building and loan associations in provincial cities.

Table 2
Rate of Dividends Paid on Accumulative Shares
Mutual Building and Loan Associations in Manila
1930-34

Association	Year Founded	Rate of Dividends Paid 1930	1931	1932	1933	1934
Manila Building and Loan	1904	7.5	7.5	7.0	n/a	n/a
El Hogar Filipino	1910	9.0	9.0	8.0	n/a	0.0[1]
La Urbana	1923	8.0	8.0	7.5	5.0	0.0
La Previsora	1926	12.5	7.3	5.3	n/a	5.0
El Ahorro Insular	1929	20.0	16.0	14.0	10.7	n/a
La Salvacion	1932	–	–	10.0	10.0	9.0

1. El Hogar paid no dividends from April 1934 until 30 September 1936.

Sources: "Bank Examiner's Report of Condition," La Previsora, as of 31 December 1932; "Comparative Statement" (for 1930-32), BIA file 28303 plus individual reports for 1933 and 1934; and *MDB,* 4 February 1936, p. 4, and 6 January 1937, p. "A".

management of most associations, but their aggregate contribution in mobilizing funds for residential construction and real estate acquisition was quite remarkable (*Fig. 2*).[30]

Apparently no authoritative source traces the relative importance of the several sources of mortgage credit year by year. Table 3, however, summarizes the relative importance of various sources during chance periods in 1918-19 and 1930 when the local news-

30. Various internecine feuds and possible conflicts of interest are outlined in the following examiner's reports: in the "confidential" sections of the reports on La Previsora as of 15 September 1931, 31 December 1932, and 30 June 1933, BIA file 28303; in the "confidential" section of the report on El Ahorro as of 12 April 1930 and in the report as of 21 May 1932, p. 18, BIA file 28646; for La Urbana as of 29 May 1926, "General Comment" and as of 8 January 1930, pp. 12-14, BIA file 28169; and for MBLA as of 27 September 1929, p. 4 (when loans to directors equalled 26 percent of the total real estate loans outstanding), and as of 18 February 1933, p. 15, BIA file 15213. See also footnote 13 above.

Table 3
Sources of Real Estate Mortgage Credit to Individuals[1]
Manila, Selected Months of 1918-19 and 1930

Lender Category	10 Sept. 1918 – 11 March 1919 Percent of Mortgages Recorded	10 Sept. 1918 – 11 March 1919 Median Value of Mortgage	1 Apr. 1930 – 30 May 1930 Percent of Mortgages Recorded	1 Apr. 1930 – 30 May 1930 Median Value of Mortgage
Banks	36.4	14,000	13.8	7,000
(PNB)	(31.8)	(15,000)	(3.1)	(9,500)
(PSB)	(4.5)	(10,000)	(3.9)	(5,000)
Individuals	28.2	6,000	25.3	5,000
Building & Loan Assn's.	8.2	4,800	35.1	3,000
Insurance Co.'s	13.6	8,000	10.7	3,000
(Filipinas Group)	(8.2)	(8,000)	(7.8)	(3,000)
Government[2]	8.2	4,000	7.6	7,000
Other Business Organizations	3.6	*	5.3	3,500
Religious Orders	1.8	*	2.2	*
Total Percent	100.0		100.0	
N	110		225	

1. Mortgages granted to identifiable corporations and companies have been excluded.
2. Includes the "Director of Lands" in both years and the "Pension and Investment Board" in 1930, but excludes government banks.
* N too small to yield a meaningful value.

Sources: MT, 10 September 1918-11 March 1919 and *Tribune*, 1 April-30 May 1930. The *Manila Times* carried no further listings of mortgages during 12-31 March 1919.

papers carried a regular record of individual mortgages. These data confirm the great importance of the PNB in 1918-19 and its much diminished role a decade later. They confirm the emergence of the building and loan group as a major source of mortgage credits in amounts small enough to suggest that their loans were going to persons who genuinely had need of such financing. Table 3 also indicates that despite the increasing variety and sophistication of lending institutions, individual lenders continued to play an important role in mortgage finance. In 1918-19, at least, very few of these individuals were financing the purchase of a property they wished to sell and none were lending to persons with the same surname. We may conclude that most were investing on their own account.[31]

THE CONSTRUCTION SLUMP OF 1934-35

DEPRESSION, DEFLATION, AND FINANCIAL CRISIS

By the standard of earlier cycles, the severe construction slump of 1934-35 was anomalous, that is, it coincided with an export peak and a sudden plunge rather than with the usual export expansion phase. One may note, however, that the Philippine export surge which peaked in 1934 was far more important to the port of Iloilo than to Manila directly, because it was almost wholly due to an unusual and temporary advance in sugar exports to the United States. Although considerably improved over the decline of 1931-32, Manila's volume of real exports in 1934 was no greater than in 1929. Further evidence of the unremarkable economy prevailing in the city during this export boom is the fact that the annual production of electricity for the metropolitan region showed only marginal change between 1933 and 1936.[32] The psychology of this particular (1932-34) export boom was also different. Rather than the euphoria of 1918, the *hacenderos* and sugar millers of 1934 were expanding production in order to secure a larger quota of what they knew would quickly become a much smaller pie as soon as the expected American import restrictions were enacted. Indeed these restrictions were applied at the end of 1934.

The exaggerated construction slump of 1934-35 resulted from the effects of the Great Depression, the sugar export peak of 1934

31. During the governor generalship of Frank Murphy (1933-35), a "New Dealer," civil libertarian, and consistent friend of those with less in life, the Philippine government took considerable interest in private money lending. See "Biggest Alleged City Userer Investigated," *Herald*, 17 August 1934, p. 3 and the *Anti-Usury Bulletin* published during 1935-36.

32. *PSR*, 1934, p. 31 and 1937, p. 445 and *Yearbook of Phil. Statistics, 1940*, p. 157.

not withstanding. Severe deflation and rising urban unemployment in both the private and public sectors were the precipitate causes. Small retailer bankruptcies, nominal salary cuts, and loss of employment caused mortgage payments to be missed. As large numbers of borrowers fell seriously behind, government examiners encouraged lending institutions to foreclose in order to preserve their institutional solvency.[33] But the strong deflationary trend resulted in a sharp drop in the nominal value of property. Thus building and loan associations, whose activities were largely restricted to mortgage loans, and the PSB entered a downward spiral as more and more of their outstanding loans became "unproductive assets," as nominal losses were incurred on the sale of deflated foreclosed properties, and as these same sales further depressed the already slack real estate market.[34] The experience of individual institutions, of course, was related in part to how conservative their valuation of both property offered as collateral and the likely earning capacity of prospective borrowers had been all along. Thus the somewhat more carefully managed La Urbana had about 35 percent of its loans in arrears three months or more at the end of 1932, while the less cautious La Previsora was struggling with a 52 percent arrearage rate. Since the worst deflation was during 1930-32, the smaller the proportion of loans outstanding from before and during the first years of this period, the better. Although foreclosed properties were offered for sale, real estate owned by the associations expanded steadily as a per-

33. *Rosenstock's Manila City Directory*, 1931-32, p. 10 and 1932-33, p. 2; "Slashed Salaries for City Employees, Officials," *Herald*, 3 January 1933, p. 3 (most were cut 10 percent); "Fuente Helps City Laborers, Asks Board to Restore 1933 Wages," *Manila Daily Bulletin*, 24 January 1934, p. 2, and "Bank Examiner's Report of Condition," El Ahorro, as of 21 May 1932, p. 7, BIA file 28646. One city bureaucrat lost his job checking and approving plans for strong materials house construction because few such plans were submitted during the slump. "Auditor Warns City Hall Idlers," *Tribune*, 17 August 1934, pp. 1 and 2 and also 18 August 1934, pp. 1 and 7.

34. For example, the Postal Savings Bank lost an amount equal to about 12 percent of its outstanding real estate loans during 1935 because of depreciation below the outstanding mortgage value of the properties it claimed through foreclosure during that year. "ARBP," 1935, p. 46b. See also "Real Estate Demand Grows," *Tribune*, 2 April 1935, Sect. IV, pp. 6 and 8. Members of the Philippine Legislature became alarmed about the financial health of the building and loan associations, particularly after some of them began to miss dividend payments in 1934. See House Resolution No. 67 adopted 9 November 1932; House Resolution No. 32 adopted 10 October 1934, and House Resolution No. 55, adopted 8 November 1934 in BIA file 28269, and *Tribune*, 28 October-2 November 1934.

centage of the declining balance of mortgage loans outstanding (*Table 4*).

Table 4
Real Estate Owned by Various Financial Institutions as a Percentage of Real Estate Loans Outstanding Manila, 1930-35[1]

Institution	1930	1931	1932	1933	1934	1935
Postal Savings Bank (PSB)	2.6	2.0	2.6	12.0	13.3	30.2
Manila BLA (MBLA)	0.6	12.8	n/g	17.7	27.8	24.6
La Urbana[2] (LU)	1.0	2.5	3.3	6.0	14.5	10.9
La Previsora (LP)	0.3	0.5	5.8	14.3	16.6	14.7[3]
El Ahorro (EA)	0.0	2.3	2.3	4.7	9.1	19.1
La Salvacion	–	–	0	0	0	0
MBLA, LU, LP, and EA Combined	0.8	3.9	(3.6)	9.1	16.1	14.8

1. Various months. All real estate was acquired through foreclosure.
2. It is possible that the real estate owned by La Urbana is understated due to the exclusion of "loans in litigation."
3. On 29 June 1935, property owned by La Previsora *plus* the proceeds from recent sales of foreclosed properties equaled 31.9 percent of its real estate loans outstanding ("Examiner's Report," BIA file 28303).

Sources: "ARBP," 1933-35; *ARBC*, 1930-34, and the examiner's reports for the several building and loans associations for various dates.

All this produced a crisis in both share-depositor and investor-management confidence and resulted in mounting applications for share redemption. The lack of provision for withdrawal on demand saved the associations from immediate collapse, but as foreclosed properties were sold or loans repaid, the cash was withdrawn from most of the associations. These redemptions resulted in a severe constriction, even a moratorium in some cases, on new mortgage commitments by building and loan associations during 1933-36 (*Figs. 2 and 4*) and to some missed dividends during 1934-36 (*Table 2*). The same building and loan associations which had provided 35 percent of all mortgage loans to individuals in Manila during part of 1930 were undergoing self-liquidation, and much of their former capital was fleeing to financial institutions with government guarantees against loss. This situation was not unique, since mutual savings banks in the United States were experiencing similar difficulties during exactly the same years,[35] but it was a great change in that an important class of urban mortgage granting institutions was lost and its role taken over, after the formation of the Commonwealth, by the rapidly expanding operations of the PNB (*Fig. 2*).

The mortgage portfolio of the PSB also declined as the bank's managers opted for a conservative policy of maintaining a 9 percent mortgage interest rate during 1933 – higher than that charged by commercial banks, of restricting new loans to those with "first class security," and even then of loaning only up to 50 rather than the previous 60 percent of the average of the appraised and assessed value of a property. In the face of mounting deposits, the PSB cut its mortgage rate to 8 percent in 1934, but in the following year it chose to put all of its record net deposits in 3 percent time accounts with the PNB rather than substantially lower the rate on real estate mortgages. Like their American counterparts during these years, the Filipino managers of the PSB apparently found that heavy losses on past mortgage loans still outstanding dampened their enthusiasm for new commitments to the mortgage market. Some insurance companies had with-

35. John Lintner, *Mutual Savings Bank in the Savings and Mortgage Markets* (Harvard University Press, 1948), chap. 8, and National Association of Mutual Savings Bank, *Mutual Savings Banking* (Prentice Hall, 1962), pp. 131-34. According to Teck (chart 2) the value of property acquired by American savings and loan associations through foreclosure exceeded one third of their oustanding mortgages in 1935. In 1940 La Urbana was said to be gradually leaving the building and loan business "by having its assets absorbed by another banking institution . . . ." Indeed La Urbana was converted into the Saving and Mortgage Bank of the Philippines, a new entity incorporated in April 1940 by Andres Soriano and others. The new bank was said to have been "patterned after mortgage banks in Spain." *ARBC,* 1940, p. n/g and "Soriano Bank Granted Permit," *Tribune,* 3 April 1940, pp. 1 and 10, respectively.

drawn from the mortgage market even earlier.[36]

The costs of residential construction were calculated to have declined by about 35 percent between 1928 and 1934 – about the same rate of deflation as for imported goods in general. So it was not the objective high cost of construction that caused the slump of 1934-35, though the fear of further deflation may have been a factor; rather it was the combined effects of the Great Depression. These were felt in full force with the export nadir of 1935, once the preferential entry of Philippine commodities to the American market had been limited. But times were already bad for small businessmen and were getting worse for most families as the purchasing power of their incomes eroded in a sharp burst of inflation. These were hardly conditions for a construction expansion. Little wonder that all Philippine credit institutions reported a dearth of borrowers at prevailing rates during 1935.[37]

SUMMARY

Individual investors remained important in financing real estate mortgages throughout the 1900-1941 period, but the growth of a brace of new institutions which participated in mortgage finance was a notable development. The period was marked by continuous change in institutional participation: the rise and end of the national PSB, the meteoric expansion of mutual building and loan associations after 1923 and their rapid decline during and after the Great Depression, the rise of the Filipinas group of insurance companies, and the spectacular rise, restriction, and reemergence of the PNB. Each mobilized capital, especially during and at the end of export booms, from various segments of society and channeled some of it into construction in Manila. Those institutions that participated most completely in mortgage

36. "ARBP," 1933, p. 51; 1934, pp. 161-62, and 1935, p. 46a; and Lintner, *Mutual Savings*, p. 236. The Sun Life Insurance Company advertised that it had stopped investing in mortgages and real estate in 1931 and had switched to "fixed interest bearing bonds" (*Tribune*, 1 April 1937, Sect. IV, p. 2). Whether Sun Life, a foreign company, had ever invested in Philippine mortgages was left unsaid. Filipinas, at least, was offering to finance mortgages in 1936. Advertisement, *Anti-Usury Bulletin* 2 (April-May 1936): 6.

37. Construction costs calculated by Manila realtor C. M. Hoskins in "Values of Real Estate Today," *Tribune*, 2 April 1935, Sect. VII, p. 6. See also "Banking and Credit," *Manila City Directory*, 1936-37 (Philippine Education Co., 1936), p. 14.

finance were most injured by the deflation of real estate values during the Great Depression. Finally, the development of multiple structures for financing construction was important to the higher bureaucratic and professional middle classes which emerged during this era, but hardly revolutionary since only a small proportion of the metropolitan population was enabled to achieve the goal of home ownership.[38]

38. In 1939 approximately 8.8 percent of all "families" in urban Manila reported owning both house and house lot. The area included in this calculation is the City of Manila plus Caloocan, Quezon City, San Juan, Mandaluyong, Makati, and Pasay. In general, the rate of ownership was inversely proportionate to the distance from San Nicolas district. The highest rate was reported in suburban San Juan. Calculated from *Census 1939*, Manila and Rizal, Table 31.

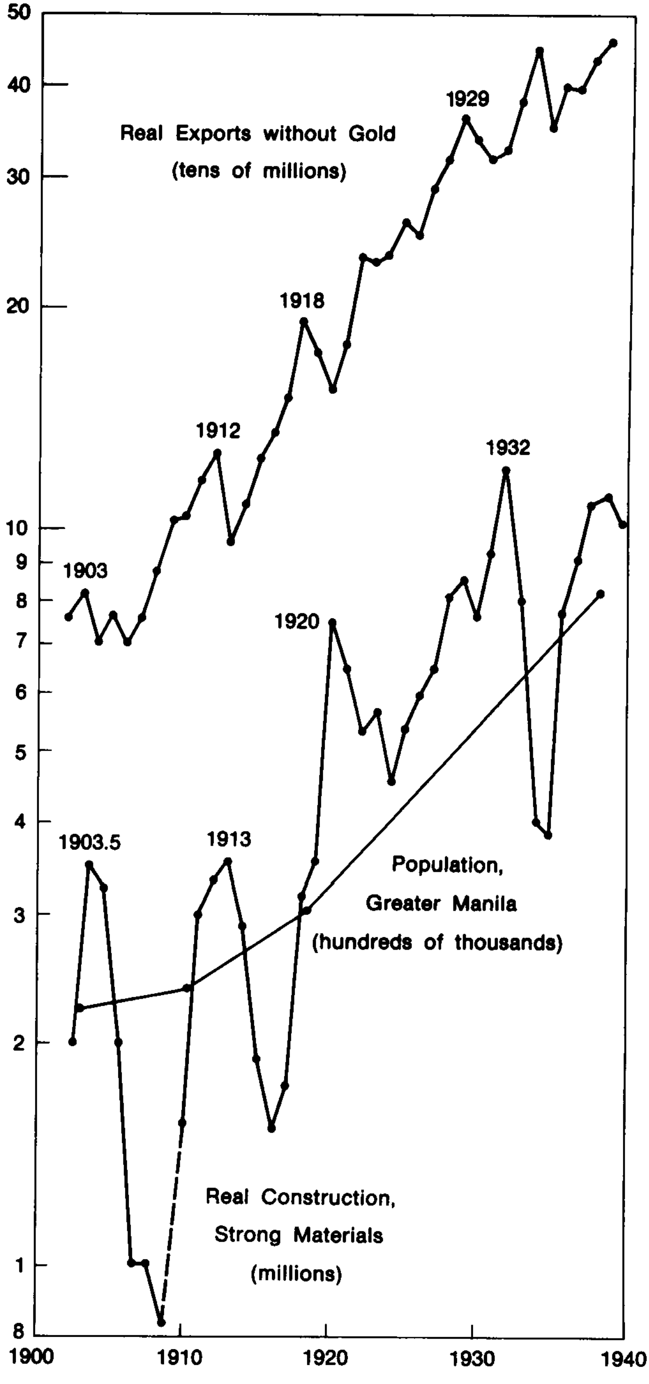
List of abbreviations used:

ARBC	–	Annual Report of the Bank Commissioner
ARBP	–	Bureau of Posts, unpublished "Annual Report"
BIA	–	Bureau of Insular Affairs
MBLA	–	Manila Building and Loan Association
MDB	–	Manila Daily Bulletin
MT	–	Manila Times
PNB	–	Philippine National Bank
PSB	–	Postal Savings Bank
RGGPI	–	Report of the Governor General of the Philippine Islands

Figure 1. *Construction in the City of Manila and Philippine Exports in Constant (1913) Pesos, 1902-1940.* Source: D.F. Doeppers, "Construction Cycles in Pre-War Manila," *Philippine Economics Journal*, forthcoming. A semi-logarithmic scale is used in order to give an accurate visual image of relative rather than absolute change.

Figure 2. *Real Estate Mortgages and Loans of Selected Financial Institutions: Manila, 1903-1940.* Source: bank loans and discounts: Philippine Islands, Dept. of Finance, Bureau of Treasury, *Annual Report*, 1909-10, p. 20, 1919, p. 48, and 1924; *Census, 1918*, p. 735, *RGGPI*, 1925, 1927, 1932, and 1938. Philippine National Bank loans and discounts: *MDB*, Mar. 4, 1925, p. 1 and Philippine Islands, Dept. of Finance, Bureau of Banking, *Annual Report of the Bank Commissioner (ARBC)*, 1930-1940. Real Estate loans of the Postal Savings Bank compiled from BIA files 13550-24 and 13550-52 and Philippine Islands, Bureau of Posts, "Annual Report" (mimeo), 1929-1935. Manila mortgages of five mutual building and loan associations compiled from early quarterly statements and later annual bank examiner's reports in BIA files 15213, 28169, 28303, 28646, and 28783 and *ARBC*, 1935-1940. El Hogar Filipino, Manila mortgages, BIA file 25334. Real estate mortgages of Filipinas and Philippine Guaranty Co. compiled from BIA files 27570 and 27510. The value of Insular Life's mortgages outstanding are from *MDB*, Mar. 4, 1916, p. 6; BIA file 27561, and *Tribune*, Apr. 1, 1937, Sect. IV, p. 1.

FIGURE 1



(Captions for figures 1 and 2 on page 211)

FIGURE 2

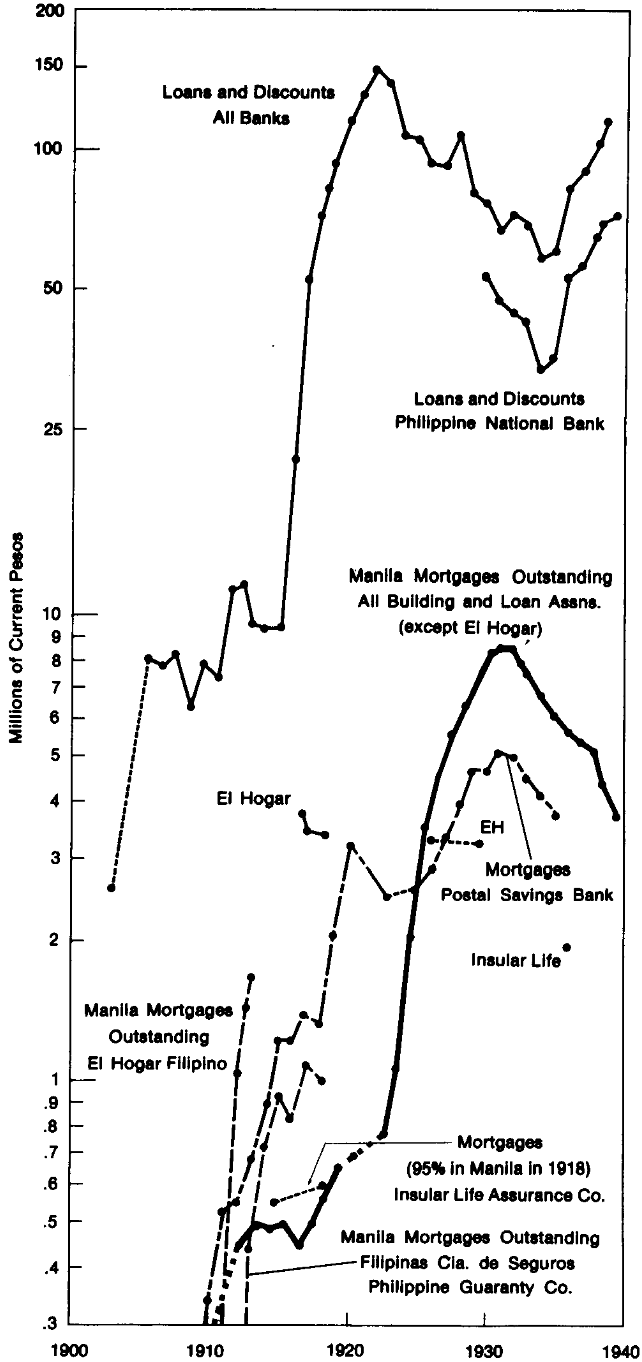

Loans and Discounts
All Banks
Loans and Discounts
Philippine National Bank
Manila Mortgages Outstanding
All Building and Loan Assns.
(except El Hogar)
El Hogar
EH
Mortgages
Postal Savings Bank
Insular Life
Manila Mortgages
Outstanding
El Hogar Filipino
Mortgages
(95% in Manila in 1918)
Insular Life Assurance Co.
Manila Mortgages Outstanding
Filipinas Cia. de Seguros
Philippine Guaranty Co.
Millions of Current Pesos
200
150
100
50
25
10
9
8
7
6
5
4
3
2
1
.9
.8
.7
.6
.5
.4
.3
1900
1910
1920
1930
1940

FIGURE 3

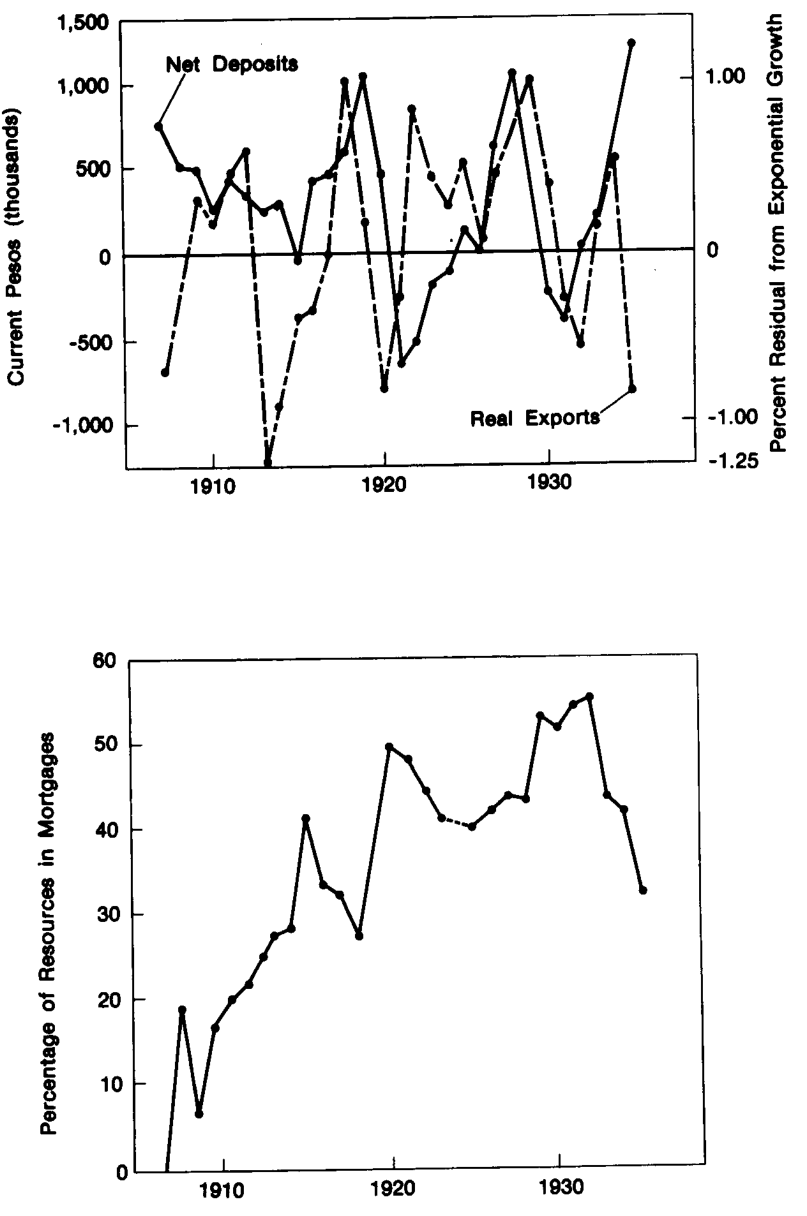

1,500
1,000
500
0
-500
-1,000
Current Pesos (thousands)
Net Deposits
Real Exports
1.00
0
-1.00
-1.25
Percent Residual from Exponential Growth
1910
1920
1930
60
50
40
30
20
10
0
Percentage of Resources in Mortgages
1910
1920
1930

FIGURE 4

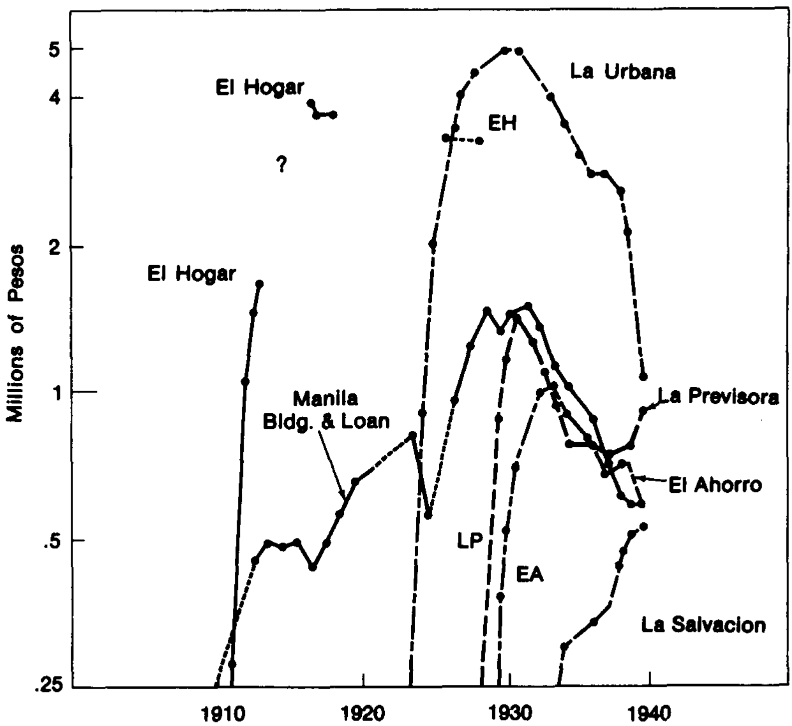


Figure 3. *Postal Savings Bank, 1907-1935: Net Deposits, the Export Economy, and the Percentage of Resources Invested in Real Estate Mortgages.* Note: the 1935 deposit figure is for Nov. 15, 1934 - Nov. 14, 1935. Sources: "ARBP" in the manuscript *RGGPI* for 1922, pt. 5, graph; PSB Report for Dec. 1928, BIA file 13550-52+ with pt. 4; "ARBP," 1933-1936, and, as a last resort, *Philip. Statist. Rev.* 1933, No. 3, p. 142 (for 1929-1931) and *Manila City Directory*, 1936-37, pp. 14-15 (for 1935).

Figure 4. *Mutual Building and Loan Associations, Manila Real Estate Mortgage Loans Outstanding, 1910-June 1940.* Sources: early quarterly statements and later annual bank examiner's reports in BIA files 15213, 24334, 28169, 28303, 28646, and 28783 (1904-1935) and *ARBC*, 1936-1940.