

Philippine National Bank Outlines Branch-Bank Policy

Authority given branches to decide upon applications for loans of ₱500 or less, small borrowers given money at 12% a year

While everyone talks of the need of commerce and agriculture for banks in the provinces, the Philippine National Bank has quietly outlined a policy under which it plans to meet the situation by taking into its employ, as bankers, local officers of the government. Where no rural credit association is functioning, agencies of the bank under this new policy may be established. In each agency the provincial treasurer will be the agent, who, together with the town treasurer as sub-agent, and an inspector as a third member, will compose a loan committee.

Such agencies may receive deposits, including savings deposits, and pay withdrawals under rules set by the bank; they make loans up to ₱500 for no more than 1 year's time, if the committee's approval is unanimous, without consulting the bank in Manila. What the uses of such loans must be, and what the security, is defined by the bank plainly enough to be easily followed. Five borrowers in any community, none of whom wants more than ₱100, may jointly and severally make a note to the bank, properly secured, for as much as ₱500 for no more than 1 year; when the committee's approval is unanimous such loans may be made without consulting the bank in Manila.

Larger loans than ₱500, even loans running 10 years for the ends of farming, may be made through agreement with the bank in Manila. The interest rate on agency loans is fixed at 12% a year, the legal limit, but still much below what the average small borrower now has to pay. Of the 12%, the bank is to get 8%; its agents, the treasurers, are to be paid out of the remaining 4%. The provincial treasurer is to get 1%, his sub-agent, the town treasurer on the loan committee, 3%; besides, agents are to get ₱40 to ₱50 a month as salary, inspectors ₱30 to ₱40 a month. Small base pay by way of salary, with the possibility of earning more in commissions on collections of loans and interest, is expected to make loan committee members careful to see that all loans made are good—it will be to their personal interest.

Town treasurers, made sub-agents in charge of local agencies, may, if unfaithful to the trust put in them by the bank, not only be dismissed by the bank but separated from the government service at the bank's request. Security defined to the agency loan committees as acceptable for loans is the security commonly given for bank loans in the islands: signatures, real estate, crops, warehouse receipts, chattels. Under certain conditions, the taxpayer-borrower's unquestioned ownership and possession for more than 30 years, land not under Torrens title may be taken as security. All security must be valued conservatively.

Other provincial banks to be helped and guided by the Philippine National Bank are the rural banks authorized by act 3896 to be organized and operated by private capital.

Such organizers may be individuals, copartnerships or corporations. Such banks must get certificates to operate from the Philippine National Bank, their correspondent in

Manila. The minimum capital for such a bank is ₱25,000, of which ₱5,000 must be paid in before the bank gets its certificate; and when the bank in Manila asks it, such a rural bank must provide itself more capital.

"These banks," says the bank's first circular on this subject, July this year, "are established to serve the people of the rural communities and with that end in view their loan activities shall largely be confined to small farmers. Both for the benefit of a larger number of such farmers and for the safety of the rural banks themselves, a large number of small loans is preferable to a few comparatively large-sized loans to a limited number of individuals."

Such banks are authorized to lend money as the Philippine National Bank may prescribe, to operate as collecting agencies (for the loans made), and, besides the bank premises they may own, to purchase, hold and convey personal and real property much as under the general banking act. Rural banks may obtain loans from the Philippine National Bank, on prime securities, and may invest in such sound securities as the bank approves of.

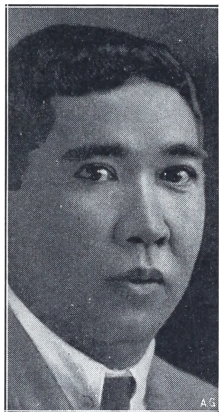
These ventures in solving the provincial banking problem, ventures the product of Theodore Roosevelt's year's administration of the islands, will be watched by the public with the keenest interest. There are elements of success in them, more particularly perhaps in the branch-bank policy.

The *Journal*, however, would like to see one more venture tried. It sees in neither of the plans discussed a single effective step against usury, in this sense: that anyone, hearing of money procured from the Philippine National Bank and used at usury, would be interested to call the loan while it remained well secured and bore promise of being paid when due. It feels that inevitably most rural banks organized would be devoted to usury, even by the means of fees passed to the officers (quite an informal but perhaps legal procedure) when loans were approved. It feels that

officials of the branch banks, dependent upon commissions only for remuneration, would limit their interest to the making of sound loans.

It is of course granted that to make 12% money available in the provinces at all is highly desirable. It is suggested that, purely as a practical experiment, a few young healthy Americans trained in country banking could be employed by the Philippine National Bank and placed in charge, as agents, of branches of the bank at selected points in the provinces.

Their success would mean the training of young Filipinos to carry on the work, whose viewpoint, the pivotal consideration, they would inspire. One at least might be tried, at some well-populated center, to see if what the *Journal* believes is really true; namely, that provincial banks of the right type will draw into their capital much local money now used independently in the loan business, and that these banks would go farther and teach Filipinos the art of organization they need to master in order to gain more command of the islands' local business field.—W. R.



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