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## Building and Loan Associations

This brief discussion will first take up certain obvious advantages of Manila as a building and loan center.

The paramount advantage is the absence of booms and business depressions of devastating intensity; Manila grows rationally, constantly, increment upon real estate is assured. This growth, it is clear upon even the most cursory examination of the reasons for it, will persist indefinitely—until the city has a population of several millions. There will be *bad* times and *good* times, but not annihilating crises. Manila is the outlet of half the hinterland of the Philippines, upon which, engaged in productive occupations, is half the islands' population. These 4-1/2 or 5 million people may be tenfold that number before Luzon shall be overcrowded. Their activities are most varied, even in agriculture, and, at their prevailing standards of living, they never produce anything which does not yield them an instant and material profit. It is sometimes complained that commodity prices are low, and times are said to be bad; but even at such times there is a profit for the farmer, who in the Philippines is not given to going beyond his means—the sugar farmer excepted.

Even if the future should bring times of personal peril to the provinces of Luzon, Manila, a place of consular residence entitled to international protection, would be a refuge for the pursued and would suffer nothing from the disturbances. An expert, surely, called upon to pass upon Manila as a place for real estate investments, could not fail of rendering a most favorable report. Building and loan associations are authorized for the purpose of providing the poor with means of taking advantage of such conditions and utilizing their savings as a means of relieving themselves from poverty.

Building and loan associations are incorporated associations of men and women authorized to charge high interest and exempted from income taxation for the mutual benefit of their members, who are of two classes—those who borrow and those who lend, both acting through the association. As the profits are, when the law's intent is followed, periodically distributed to all, the high interest is merely a compulsion to more rapid saving. The objective is the building of homes for the members who borrow, and the augmentation of the savings of those who lend. At the same time a borrower is a debtor to his association, he is, to the extent he meets his payments, equally a creditor.

Building and loan associations accumulate the pittance of their members. Those who are merely saving, can save only a little each month, perhaps no more than a peso or two; and they are, even though they may have saved a sum of several thousand pesos, unable of themselves to effect a secure real estate mortgage. Besides, all the time they should be engaged in getting such a sum together, they could have from it no more than the prevailing savings-bank rates. By pooling, in building and loan associations, with others who are saving by pittance each month, they immediately have the advantage of the higher rate charged by the association for loans; that is, 3,000 or 5,000 saving members paying a peso each into the association each month, make it possible for the association immediately to effect a sound real estate loan, the association attending to all the details, legal and administrative.

When such members wish to withdraw, it is easy for the association to square off their account with the current collections from other

members and new ones coming into the association: under the Dayton plan, in wide vogue in America, members pay in whatever they can at any time, and withdraw whatever they wish, even all that is due them, at any time. Our rules are somewhat more regulatory, but the investment is always safe.

Incidentally, few building and loan associations whose operations are localized in a single community where the natural interest of everyone will keep them under due surveillance, ever have failed; practically it is impossible for conservative associations to fail, even in cities where real estate is subject to material fluctuations of value. The loans are made upon appraised values, the mortgages, as soon as made, begin to be paid; and they are all bulked together in the assets of the association holding them, so that any loss suffered on some is made up from profits gained from others. This illustrates the

This article on building and loan associations is prompted by the proposals from Earl B. Schwulst, banking-bureau director, to amend certain paragraphs of the corporation law in the division of it pertaining to such associations. The zeal of Mr. Schwulst is commendable, his motives unquestioned. But it would be more important to impress the fact upon the public of these islands, particularly the residents of Manila, Iloilo, Cebu, Baguio and many provincial centers where the people would be greatly benefited by building and loan associations, that the Philippines now have one of the best laws governing building and loan associations to be found anywhere. Our law on this subject was drafted by Luke E. Wright and Henry C. Ide, who came here as Commissioners and left as Governors, and were both adept in the drafting of good laws and erudite in knowledge of the law. Most defects of fundamental character probably lie elsewhere than in our building and loan law.—ED.

peculiar security offered the creditors, many mortgages instead of a few or only one; and besides that, the constant employment of the money, putting it into new loans as fast as old ones are paid up.

Those who save through the medium of a building and loan association are only able to save in pittance, from their periodical incomes—salaries, or wages. A goal of several thousand pesos, enough for a mortgage loan, would be too far off for them, it would be a fatal strain upon their frugality and they should never reach it; but a few pesos each month placed with the association is not beyond them, and they soon realize the advantages of living within their means and putting something aside regularly for the future.

Their passbooks or stock certificates become sources of pride to them, and marks of their prestige among their fellows. (By the way, the passbook would be better than the stock certificate, as it would be more convenient to the bookkeeper and the stockholder).

As with the saving member, a goal of a sum sufficient to secure a piece of ground and build a house on it is too far off to attract the borrowing member, who can never hope to have more than a small fraction of the required sum at any one time. His income, salary or wages, is periodically received and must go for the most part to square up current family expenses. He can, however, manage to put aside a few pesos each month, and his loan is so arranged that such pittance amortize, in a given period, the principal of the loan, the legal interest on it, and the other charge by way of premium. He is credited with interest upon all that he pays into the association; after a time, when he faithfully keeps up his payments, he is able to go to a real estate mortgage company and effect a loan (paying off the balance due the association) at a much lower rate. He now has some acquaintance with the business of saving, and may be said to be well launched toward acquiring an unencumbered title to his home.

He always has the option, of course, of keeping on with the association until his pittance pay him out of its debt, at which time his stock and its earnings cancel his loan. But he should always have the privilege of paying up and withdrawing, particularly to secure better terms, at any time. The association, of course, has the advantage of foreclosure upon delinquent borrowers without the usual formal foreclosure proceedings in court, in which case the delinquent borrower must be credited with all that is due him as a creditor of the association. (The proposed amendments to our law would not be as liberal to borrowers as some laws in successful operation in the United States. There, indeed, it has been found that fines for delinquency are a nuisance; other lessons taught by experience have made the associations in most states more liberal toward debtor members than the law requires).

Amendments to a good building and loan law ought to be undertaken cautiously, perhaps in the light of more experience than the Philippines have had with the few associations now operating here. The law often says *the associations may do thus and so, not requiring that they must*. It defines their maximum powers, and our law defines the associations as home-building organizations. By extension, however, and no doubt in view of even greater abuses extant in these islands, even large loans of building and loan associations upon farms and plantations have not been corrected by our courts. The association's viewpoint on such a matter is one thing, the borrower's wisdom another. Everyone knows, of course, that only two classes of farmers in the Philippines have regular periodical incomes with which to meet the obligations of a loan from a building and loan association; for such loans are payable periodically, in the same manner as the capital is accumulated by the saving members and utilized by borrowing members for building homes for themselves. The two classes of farmers referred to are the hemp planters and coconut growers, whose crops are continually ripening. Any other farmer, becoming indebted to a building and loan association and being compelled to meet very material payments monthly—or, being delinquent, to have fines charged against him, increasing even the high interest he has agreed to pay—runs a peculiar risk with his land (which is his capital), which may be preemptorily seized by the association and, in the same manner, sold to satisfy the obligation. By the time this has happened, whatever the planter-debtor has coming to him on his stock by way of interest is offset by the fines and proceedings charges. Building and loan associations are not designed to meet the needs of planters for money; their field is the urban community; and in such a community any debtor of theirs, being hard-pressed, can usually make shift, among all the agencies available, at least to save all that he has put into the association—that is, all his payments together with his accrued earnings as a creditor.

(Please turn to page 16, col. 3)

## What 100 Insurance Cards Show

The reading of *Middletown* would suggest to any Manila the interesting possibilities in the countless things still unknown about this city, and about the Philippines, which it would be more than worth while to find out. The book is a scientific social survey of a typical middle-west American industrial city built out of an old-time county-seat and drawing its new population directly from the surrounding farms. How the 30,000 people of the new city get their living, where they live, where they spend their leisure hours is told about with scientific preciseness and detachment.

If such a survey should be attempted in Manila, it would show this town to be better off in some respects than *Middletown*. Work, for one thing, is probably steadier here. For in *Middletown* the laying off of thousands of men at the factories may occur at any time and does occur frequently. Wives of the men were questioned about their anxieties over this condition (and all others affecting their lives), and it came out that as poverty approaches the families of workmen life insurance is, with most of them, about the last thing given up. This is a severe test of insurance, a practical one. It would be interesting to learn how such things go in Manila.

The wives of *Middletown* workmen cling to the hope of educating their children in order that they shall have things easier than their parents, and life insurance is a means of doing this. Of course there are some *Middletown* families who will keep the family automobile and let the insurance lapse, but they are a minority. In Manila there is at least one large employer who will discharge an employe who tries to keep a car on his earnings are not enough for him to do so, but he doesn't discipline them for taking out life insurance—a means of protection and of saving money instead of an expensive pastime.

### II

The first 100 cards in the files of a leading Manila life-insurance agency were gone over, with the following results:

The 100 cards pertained to the insurance of 104 persons, 89 men and 15 women.

Of the women, 11 are independently insured and 4 are jointly insured with their husbands. There are four insured with their husbands and their wives. The eleven independently insured include a child of 6, a child of 10, one of 13 and one of 14; the average age of the 11 is 19-1/11 years and that of the 4 insured with their husbands is 29-1/2 years. The children are insured with a view to their education; of the best ways of utilizing life insurance is, to insure on the life of a child, to mature at the

age for college and provide a periodical income during that period.

Of the 89 men in the list, 12 are merchants, 13 are teachers, 6 are landlords, 15 are clerks, 5 are students, 8 are farmers, 3 are officials, 1 is a chemist, 1 is a soldier, 3 are sailors, 1 is a photographer, 1 is a treasurer, 2 are telegraphers, 1 is a musician, 1 is an accountant, 1 is a checker, 1 is a priest, 1 is a stenographer, 1 is a mechanic, 1 is an editor, two are telegraphers, 4 are chauffeurs, two are foremen, 1 is a banker, 1 is an electrician, and 1 is a shoemaker.

₱1,500 each, 40 of ₱1,000 each, 39 of ₱2,000 each, 9 of ₱3,000 each, 8 of ₱5,000 each, 1 of ₱4,000 and 1 of ₱10,000.

All ages are as of the date when the insurance was taken out. The average age of the men especially, indicates that life insurance does not make an early appeal in the Philippines; or, if it does, thought of saving for it is put off for some reason, either because youth wishes to spend or because young men wait until their families are well started, or for something else. One man was insured at 54, for ₱2,000. The lowest age is 17, that of a student insured for ₱1,000. Most of the cards, of course, pertain to Filipinos. Does it take so long for young Filipino

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The average age of the men is just under 31 years. They include no boys; the 100 cards disclosed no boy whose education is guaranteed by insurance, which may indicate, as several girls are insured, more parental anxiety in behalf of girls than of boys.

The insurance in force on the 104 lives listed in the 100 cards totals ₱202,000 and therefore averages slightly below ₱2,000 per person. Embracing, as it does, 100 policies, four of them being joint policies, it includes 2 policies of

fathers to get firmly enough established financially as the age at which they seem to take out life insurance would indicate? The taking out of any insurance whatever seems to be postponed for other things, and the policies finally taken seem to be small in nearly every case. Insurance has had a remarkable growth in the Philippines, but it is obviously just well begun in a field that it will take a long time to exploit as thoroughly as sound social organization demands.

### BUILDING AND LOAN ASSOCIATIONS

(Continued from page 10)

The planter usually has no such recourse. Competition is a corrective influence upon the profligate practices of associations, those which are frugally conducted being soon able to pay the saving members higher earnings on their investments and to offer the borrowing members real estate loans at less heavy rates. Little reserve is necessary for a frugal association to maintain. This comes of the excellent credit such associations enjoy, because their loans, conservatively made originally, daily increase in value in two ways: (1) from the payments of the borrowing members, reducing the principal at stake, and (2) from the increment on the real estate security. It is the law's intention that the profits of the associations be periodically distributed, less a very nominal amount, to the saving and the borrowing members by whose efforts in conserving pittances from their salaries and wages it has been made. The life of these associations is limited to fifty years, and in winding them up there should be little more than the capital and current earnings to distribute—the net earnings of previous years having been frugally utilized when in the treasury and periodically distributed to the members whom the law intends shall have them.

The field for building and loan associations in the Philippines, and even in Manila, is by no means fully occupied, and a better popular understanding of the manner in which these associations operate, according to law, is highly desirable. They do cities infinite good.—W. R.

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