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Yoshiko Nagano

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Hitotsubashi University
2-1 Naka, Kunitatchi Tokyo, 186-8601 Japan
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The Philippine National Bank and Lending in Agriculture: 1916-1930

Yoshiko Nagano, PhD
Faculty of Human Sciences
Kanagawa University, Yokohama

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Abstract:
This paper examines the distinctive features of the Philippine National Bank, particularly through its lending practices in agriculture. First by examining the enactment and revision of the National Bank Act, the Bank's characteristics as an organization and operations are discussed. Second, the process by which the Bank began its operations and administration of agricultural loans is traced. Third, the 1918 dispute over lending in agriculture is depicted as a striking example of the nature of its banking operations, before presenting the dual structure of agricultural loans provided by the National Bank as the conclusion.

Introduction

The Philippine National Bank was officially incorporated on May 2, 1916 under the National Bank Act of the Philippine Legislature, and its full-scale operations began on July 24, 1916. Its authorized capital was 20 million pesos, or 10 million dollars. Why was the Philippine National Bank established? It is interesting to follow the consequences of an alignment in the demands of the emergent Filipino elite for a bank like Philippine National Bank, and the interests of the Bureau of Insular Affairs (BIA) in Washington as well as those of Manila-based American merchants.

First, the move to establish a larger agricultural bank was initiated by the Filipino elite in the early 1910s. During this period, the Agricultural Bank of the Philippine Government realized its inability to provide enough agricultural loans for landowners who had growing interests in the expansion of export agriculture. In October 1911, Governor-General W. Carmen Forbes gave a hearing to an idea of Benito Legarda, a Filipino member of the Philippine Commission, that a private mortgage bank backed by French capital (and bearing the name of Crédit Foncier de Philippines) be established. In early 1913, a Negros Occidental assemblyman by the name of Montilla submitted a bill to the Third Philippine Legislature seeking to increase the capitalization of the Agricultural Bank of the Philippine Government by appropriating one million pesos from the Philippine Treasury fund.[1]

Previously, the possibility of establishing an agricultural bank under private capital was repeatedly discussed in exchanges between the American officials in Washington and in Manila. But the most serious problem was that American capital showed no strong interest in the opportunity of investing in an agricultural bank in the Philippines. As a result, Frank McIntyre, Chief of the BIA wrote Governor-General Forbes in Manila in May 1913 and proposed that a government bank, rather than private banks, should be the one to provide agricultural loans to local cash crop producers.[2]

By the early 1910s it was not only the Filipino elite but also Manila Americans who expressed the need for such a bank to service their business activities. Under these circumstances, in the middle of 1915, Vice Governor-General Henderson Martin drafted a bill seeking to establish an insular bank as the government credit bank not only for agriculture, but also for industry and commerce. In October of the same year, Governor-General Francis Burton Harrison recommended the institution of a multi-purpose national bank to provide support for the total development of the Philippine economy under the colonial state.[3]

Initially, Frank McIntyre disagreed with Harrison’s recommendation. He was of the opinion that the insular government should not further involve itself in the lending business. After receiving information that the International Banking Corporation had merged with the National City Bank of New York in 1915, McIntyre recommended to Harrison that the Philippine government should totally withdraw from the banking business and devolve its investing commitments to the National City Bank. Although opinions in the Philippine Chamber of Commerce in Manila were divided regarding the involvement of the Philippine government in the banking, members were in basic agreement on a standing proposal or advocacy for a four-fold increase of the capital investments in the proposed bank.[4]

In the Philippine Assembly, the leaders of the Nacionalista Party recognized the importance of establishing a government credit bank as proposed by Martin. For them, it was important that the bank should be not an American bank, but a bank of the insular government. Manuel L. Quezon even asked the revaluation of the Martin bill by H. Parker Willis, secretary of the Board of the Governors of the newly-formed U.S. Federal Reserve Board in Washington. Willis himself later drafted a new bill with the intent of establishing a government bank that would shoulder larger tasks relating to investment in private sectors, currency control and the administration of colonial government funds. In December 1915, the Willis bill was sent to Manila with the support of Quezon. It was repackaged as a new bill, after being combined with the Martin bill, and passed as Act No. 2612 (An Act Creating the Philippine National Bank) by the Philippine Legislature on February 4, 1916.[5]

Enactment and Revision of the Philippine National Bank Act

Act No. 2612 led to the organization and operation of the Philippine National Bank. Now known as the Philippine National Bank Act of 1916, this act was revised twice by Act No. 2747 in 1918 and Act No. 2938 in 1921. One can limn the salient characteristics of the operation and organization of the National Bank by examining these acts and their amendments of the original bill.

Operation: Major sections of Act No. 2612 concerning the operation of the Bank include the following:[6]

(1) The capitalization of the National Bank was pegged at 20 million pesos, divided into 200,000 shares of the value at par of one hundred pesos. The Philippine government would purchase 101,000 shares by the end of January 1917, while the remaining 99,000 shares were to be offered to the public (Sec. 3 and 4).

(2) All the assets and liabilities of the Agricultural Bank of the Philippine Government would be transferred to the National Bank. Such a transfer of the Agricultural Bank's assets would be deemed as partial payment of the shares of the National Bank subscribed by the Philippine Government (Sec. 6).

(3) The National Bank was authorized to loan amounts not to exceed 50 percent of its capital and surplus and all amounts realized from the sale of real estate bonds on notes secured by real estate mortgages. Payment of such notes would be secured by first mortgages on farm lands in the Philippine Islands. Such loans were to be barred from exceeding 60 percent of the actual value of farm lands. The due date of the mortgages would not be less than one year and not more than thirty years. Loans of this kind were to be offered for the purpose of promoting agriculture (Sec. 10).

(4) The National Bank was authorized to loan amounts not exceeding 30 percent of its capital and surplus and the full amount of circulating notes on promissory notes, drafts and bills of exchange issued or drawn for agriculture, industrial or commercial purposes (Sec. 11).

(5) The National Bank was authorized to issue loans in amounts not to exceed 20 percent of its capital and surplus, 70 percent of its deposits subject to check and 85 percent of its time deposits (Sec. 12).

(6) The preference was given to the loans specified in Section 11 and 12 thusly.

  (a) To make loans on harvested and stored crops, with such loans not exceeding 70 percent of the market value of the crops (Sec. 14).

  (b) To make loans to the producers on standing crops of rice, hemp, copra, sugar, tobacco, etc. For the grant of such loans, the National Bank might require additional security in the nature of mortgages on real estate or upon livestock, machinery and agricultural implements (Sec. 14).

(7) The National Bank was authorized to issue its notes known as circulating notes in any amount not exceeding 75 percent of the securities held by the Bank. In addition, the National Bank would have the authority to issue its circulating notes against the gold coin of the United States (Sec. 18).

(8) The National Bank was authorized to receive deposits of funds from the insular, provincial and municipal governments, Postal Savings Bank, associations, corporations and private persons. It was obligatory for the insular, provincial and municipal governments to make their deposits with the Bank (Sec. 19).

(9) The National Bank might establish up to two branches or agencies in the United States. The said branches or agencies were to receive, transmit and disburse any funds of the insular or U.S. governments or private corporations or individuals and to engage in business with the Federal Reserve Bank of the district in which the said branches or agencies might be located (Sec. 33).

(10) The National Bank might establish branches in the provincial or municipal capitols. The agents or other officers of these branches would be appointed. With the authorization of the Governor-General, the Board of Directors might appoint as agents, cashiers or tellers of these branches the provincial or municipal treasures (Sec. 34).

The Philippine National Bank was thereby established as a multi-purpose bank (or a large-scale credit institution), for issuing bank notes, controlling currency reserve and the dual function of serving as depository of government funds and as the foreign agency of the U.S. Federal Reserve Board.[7] The National Bank became a de facto governmental bank, and welcomed only a minimum investment of private capital.[8] As a lending bank, the National Bank now had great latitude in extending agricultural loans although mostly short-term loans on harvested or standing crops. It authorized capital turned out to be ten times bigger than that of the Agricultural Bank, its forerunner.

Some sections of Act No. 2612 were subsequently revised in February 1918 by Act No. 2747, to wit:[9]

(1) Section 11, 12 and 13 of Act No. 2612 were hereby deleted.

(2) The revision of Section 14 determined the major business of the National Bank to consist in (a) the purchase or discounting of promissory notes, drafts and bills of exchange; (b) the extension of loans on, or the discount of, notes secured by harvested and stored crops; (c) the making of agricultural loans on standing crops; (d) the provision of loans for the provincial and municipal governments or branches of the insular government on promissory notes guaranteed by the insular government or the purchase of bonds issued by the provincial and municipal governments or branches of the insular government; and, (e) the issuance of advances or discount paper for agricultural, manufacturing, industrial, or commercial purposes (Sec. 11).

(3) The revision of Section 18 stipulated that the National Bank could only issue circulating notes not exceeding the amount of the paid-up capital and surplus of the bank and the amount of gold coin of the United States (Sec.15).

(4) The amendment to Section 37 now lifted off the limitation on the amount of any real estate mortgage loan of 50,000 pesos and any other loan of 300,000 pesos (Sec. 34).

Immediately notable about the revised National Bank Act of 1918 was its emphasis, together with agricultural loans, on loans for manufacturing, industrial and commercial purposes. In addition, not only were the restrictions on the amount of loans imposed by Sections 10-12 in the Act of 1916 lifted, except for the real estate mortgage loans, but also the limitation of the amount of loans were deleted. In doing so, the Act made it possible for the National Bank to provide larger-amount loans or discount paper for various business sectors in need of them.

On January 1921, Act No. 2938 was enacted with the following revisions to the original legislation:[10]

(1) The National Bank was authorized to increase its capital from 20 million pesos to 50 million pesos and to a new issue of 300,000 shares of stock to be denominated the second issue, at the par value of 100 pesos. By June 30, 1921, the Philippine government would purchase all the remaining shares of the first issue and par of the second issue of no less than 153,000 shares. The remaining shares could then be offered to the provincial and municipal governments or to the public (Sec. 3 and 4).

(2) Any loan or credit account transferred to the National Bank by the Agricultural Bank which was found to be uncollectible were to be subject to foreclosure by the National Bank (Sec. 7).

(3) The National Bank was authorized to issue loans for agricultural purposes in amounts not to exceed 60 percent of its capital and surplus and all amounts realized from the sale of real estate bonds (Sec. 9).

The most drastic revision of 1921 was the 2.5-time increase in the Bank's paid-up capital that it approved, and for this purpose, not only the Philippine government but also provincial and municipal governments were encouraged to purchase National Bank shares themselves. Also noteworthy were the significantly larger expansion of the total amount available for loans (given the increase in the Bank's capitalization), including the jump up in the percentage of the amount of loans against paid-up capital and surplus. Five years after its establishment, the Philippine National Bank thus emerged as a giant multi-purpose governmental bank with a strong focus on loans or credit accessible to various business sectors.

Organization: The major regulations concerning the organization of the National Bank were stated in Act No. 2612 as follows:

(1) The Bank was to be managed by a Board of Directors consisting of the President, Vice President, and other five members. The President of Bank was vested with

the power to make loans on commercial papers for maximum periods of four months and in maximum sums of 50,000 pesos (Sec. 20).

(2) The President and Vice President were to be appointed by the Governor-General but with the assent of the Upper House of the Philippine Legislature. The other five members of the Board of Directors were to occupy elective positions, in accordance with the provision for it by the Corporation Law (Act No. 1459) (Sec. 21).

(3) The Attorney-General of the Philippine Islands was designated as the attorney of the Bank (Sec. 25).

(4) The Bank was to be subject to inspection by the Insular Treasurer (Sec. 27).

(5) The President and Vice President of the Bank could expect appointments for a term of six years. The other five members of the Board of Directors were to hold office for one year (Sec. 30).

(6) The stockholders had the responsibility to meet in March of each year to elect the five directors or members of the Board (Sec. 31).

The above regulations were not changed by the Act No. 2747 of 1918, but were revised by the Act No. 2938 of 1921 in the following specific ways:[11]

(1) The number of the members of the Board of Directors was increased from seven to nine (Sec. 16).

(2) The stockholders would meet in March of each year to elect the members of the Board of Directors. The directors of the Board would elect a President and a Vice President from among themselves, once the terms of incumbents end (Sec. 17).

(3) The orders and resolutions of the Board of Directors were to be carried out by a general manager who would be chief executive of the Bank, with the help of an assistant general manager (Sec. 18).

(4) The Board was granted the power to fix the rate of interest, discount or exchange to be charged by the Bank and to fix different rates of interest on loans, along the authorization to establish branches or agencies in the United States (Sec. 19).

(5) The general manager of the Bank was vested with the power to make loans on commercial papers for maximum periods of four months and in maximum sums

of 50,000 pesos (Sec. 20).

The most conspicuous feature of the revised act of 1921 was that it designated the Board of Directors as the overseeing authority on the management of the National Bank, and it turned the general manager into the Bank's officer in charge. Even more striking was that the power to make loans now devolved from the Board of Directors to the general manager.

Aside from such modifications, the revised Acts of 1918 and 1921 also brought about significant changes in terms of the Bank's organizational structure. Section 31 of Act No. 2612 determined for each stockholder or his authorized proxy the right to vote in accordance with the number of registered shares of stock. (This regulation retained its original formulation in Section 28 of the revised Act of 1918.) However, in the revised Act of 1918, the following important provision was added to Section 4: "The voting power of all the stock of the National Bank owned and controlled by the Philippine government shall be vested exclusively in a committee consisting of the Governor-General, the President of the Senate and the Speaker of the House of the Representatives."[12] Section 4 of the revised Act of 1921 also stipulated that "The voting power of all the stock of the National Bank owned and controlled by the Government of the Philippine Islands shall be vested exclusively in a board, the short title of which shall be 'Board of Control,' composed of the Governor-General, the President of the Senate, and the Speaker of the House of the Representatives."[13]

The Board of Control that first appeared in the revised Act of 1921 now seemed to function as the umbrella organization for the bank's management, as might be affirmed in the following sections of Act No. 2938:[14]

(1) The Bank was authorized to invest a sum not exceeding 10 percent of its paid-up capital in the purchase of share of stock of any bank in the United States. With the approval of the Board of Control, the Bank might incorporate any of its foreign agencies (Sec. 10).

(2) In case of emergency, under the approval of the Board of Control, the Secretary of Finance might authorize the Bank to rediscount commercial paper of not over six months maturity, secured by exports or imports, ad might issue against said

commercial paper circulating notes for sums not to exceed 75 percent of the value (Sec. 14).

(3) The general manager would be appointed by the Board of Directors, with the advice and consent of the Board of Control (Sec. 18).

(4) The general manager of the bank would have the duty to furnish any information regarding the operation of the Bank upon request of the Secretary of Finance, Governor-General or Board of Control (Sec. 20).

(5) The Insular Auditor would be ex-officio auditor of the Bank and would, with the advice and consent of the Board of Control, appoint a representative who would be chief of the auditing department of the Bank. The representative of the Insular Auditor would make a quarterly report on the condition of the Bank to the Governor-General, the Secretary of Finance, the Board of Control, the Insular Auditor and the Board of Directors (Sec. 22).

(6) Whenever the President or Vice President, by the order of the Board of Directors, would some extra duties, they may be granted additional compensation, with the written approval of the member of the Board of Control (Sec. 23).

(7) The Bank would at any time keep in its vaults or with the Insular Treasury a sum in lawful money either of the Philippines or of the United States. Whenever the lawful money kept in the Bank would be below the amount prescribed, the Bank shall restrict the business of making loans or discounts. However, the Secretary of Finance, at the request of the Board of Directors with the approval of the Board of Control, would be authorized to suspend the requirement of maintain the proportion of reserve specified in the Act (Sec. 44).

(8) With the approval of the Board of Control, the Bank was authorized to guarantee the principal and interest of bonds issued by corporations for the erection of industrial plants (Sec. 45).

To sum up, with the insertion of various regulations regarding the Board of Control in the revised Act of 1921, this Board got charged with strong authority over the management of the National Bank. The intervention of the colonial state and its political power in the management of the National Bank effectively received affirmation and legitimation.

Commencement of Banking Operations and Agricultural Loans

The first president of the Philippine National Bank was H. Parker Willis, a famous American economist.[15] A specialist in banking and finance, Willis served as the secretary of the U.S. Federal Reserve Board from 1914 to 1918, taking a one year leave from this lofty position to work for the Philippine National Bank in 1916-1917. He actually served as bank president for only several months (from May to September 1916), then returned to the United States. He resigned from the Bank's presidency in February 1917. His role in the incorporation of the National Bank was, nonetheless, extremely important because, as has been discussed earlier, it was Willis himself who drafted the bill seeking the Bank's establishment. Upon his return from his Manila posting, Willis accepted an appointment as professor of banking at Columbia University in 1917, and stayed with this academic involvement till 1937. It was from this academic placement that he wielded enormous influence on American foreign policy.[16]

After serving as the National Bank's president, Willis published a short but very informative article on the beginnings of the Philippine National Bank in 1917.[17] According to Willis, the first step in commencing the bank's operations was the installations of a definite accounting system that involved a careful examination of the assets of the Agricultural Bank of the Philippine Government. This resulted in the assumption of all its liabilities and the transfer of all of its assets, except the mortgages of approximately 900,000 pesos that were either in default or deemed bad.[18] Table I-1 shows the balance sheet of the National Bank as of May 25, 1916, showing the paid-up capital of the bank at approximately 2.4 million pesos, composed of the assets transferred from the Agricultural Bank as well as the initial subscription of one million pesos by the insular government.[19] Loans and discounts amounted to nearly 5.5 million pesos, most of which seemed to be agricultural loans transferred from the Agricultural Bank. The deposits of over nine million pesos might be, largely, the government funds that were received by the National Bank under its regulations.

With these assets, the National Bank began operating, but the immediate problem it had to address was the recruitment of competent staff to run it. The former Agricultural Bank came with a staff of about fifteen persons, three or four of whom worked as the inspectors of agricultural lands that were used as collateral for loans. The National Bank found them incompetent and thus were not rehired, but other staffers of the Agricultural Bank were retained to form a nucleus for the Bank’s Agricultural Division. These staffers had enough technical experience, but a few of the newly employed staff required some retraining. Thus, during the months of May, June and the first half of July, the Bank conducted a special training course for the benefit of approximately fifty staffers. Another problem was the lack of necessary facilities and equipment of the Bank not easy to avail of, locally. It thus took almost two months for the Bank’s physical plant to get set up.[20]

Despite these various obstacles, the Bank’s business commenced operations and expanded smoothly. Even those in Manila’s business circles who had initially regarded it with suspicion soon welcomed the possibilities it represented and began to deposit some portion of their funds with the new Bank. Table I-2 compiles the Bank’s balance sheet as of December 31, 1916. A comparison of Table I-1 and Table I-2 reveals that the amount of the Bank's paid-up capital and that of its loans and discounts doubled, while total amount of deposits increased more than four-fold in a time span of only six months. Table I-2 includes the unmatured foreign bills or the exchange for future delivery among the items of assets that were not included in Table I-1. Strikingly, the amount of the unmatured foreign bills accounted for 6 percent of the total assets, showing the larger weight of foreign trade related business in the Bank’s operations. We cannot break down the item of loans and discounts that make up 25 percent share of the assets; however, it is apparent that loans constitute a large portion of it. In terms of liabilities, deposits comprised 83 percent of the total, distributed as: Philippine government shares, 63 percent; individual accounts; 10 percent; and fixed deposits, 25 percent.

One of the most important initial operations of the Philippine National Bank, among others, was to provide agricultural loans for export crop production. As a public institution, with the majority of its stock owned by the government, and a large percentage of its liabilities consisting of public deposits, the Philippine National Bank was expected to entertain all legitimate demands for agricultural loans in a fairly expeditious fashion. But in the export expansion during World War I, demands for agricultural loans proved to be far beyond the capacity of the Philippine National Bank and required highly selective consideration of loan applications. The interest rate for agricultural loans was set at eight percent per year for the mortgages secured by land having a Torrens title, and at 10 percent for mortgages with a Spanish title. The loan applications varied in amount from a few pesos to the hundreds of thousands.[21]

The most crucial problem, at this time, involved the absence of proper titles for much of the agricultural landholdings, and even where the landholdings were presumably titled under the Spanish system, there were many cases whereby the Spanish title certifications could not properly be procured and presented by landholders. Needless to say, the process in issuing Torrens titles was very slow. The Philippine government enacted the Land Registration Act in 1902 and the Public Land Act in 1903 and then the Cadastral Act in 1913 to systematize and modernize the land titling system. However, as late as 1918, only 70,000 farms could be shown to hold Torrens titles out of nearly 2 million farms (4 percent of the total), while nearly 230,000 farms (12 percent of the total) could be determined to have proper Spanish titles.[22] This limited land titling significantly cut down the total volume of agricultural loan applications to the National Bank, automatically invalidating many that would have otherwise deserved serious attention.[23]

Section 10 of Act No. 2612, as has been discussed, ruled that the total amount of loans that the National Bank could provide should not exceed one half of the Bank's capital and surplus and all its proceeds from the sale of real estate bonds. At the onset of the Bank's operations, such bonds had not been sold so that the actual sums available for agricultural loans were only one half of the capital and surplus.[24] Table I-1 demonstrates that the total amount of loans and discounts of the National Bank reached a level of 2.3 times of the paid-up capital as of May 1916 and most of these were the residual mortgages carried over from the old Agricultural Bank. This situation restricted the National Bank to a provision of loans in amounts lesser than those prescribed by law. To ensure that it functioned as a lending bank in accord with its mandate, more practical measures were taken on the inclusion of the mortgages from the Agricultural Bank (in limited amount of loan provided), and more new loans were made available by the bank authorities. Consequently, by the end of 1916, the total amount of loans and discounts reached 13 million pesos, almost three times the paid-up capital (Table I-2).

What kind of measures were taken, then, by the National Bank to provide such agricultural loans as expected of it? According to Willis, in its capacity as a semi-governmental bank, the National Bank had to closely scrutinize the documentation presented by applicants so as to "insure safety and conservatism."[25] To obtain agricultural loans, one was required to submit two reports from independent sources with a reference on the assessment of the actual value of the land offered as collateral. One of such reports needed to be obtained from "a traveling agent in the employ of the Bank, who should visit the land and personally inspect it and decide upon its income-producing powers, the honesty of the proprietor, and other essential questions."[26] At the time, it was not easy to deploy assessors who could make such value determinations, and thus, in most cases, the provincial tax assessors themselves had to shoulder the crucial task. The reports prepared by the provincial assessors were further checked by the provincial treasurer and when he deemed it necessary he included additional data for the evaluation of the proposed loan. (It was one month after its formal opening that the Bank began examining loan applications and deciding on them for approval or rejection.)[27]

We need to pay special attention to one unique feature in the agricultural loan operation of the Philippine National Bank. As stated by Willis, before the establishment of the Philippine National Bank, the Philippine government had deposited its revenues in the sum of 2.5 million pesos for crop loans, that is, loans on the standing sugar crop mainly in Negros and Panay Islands. After the organization of the Philippine National Bank, it was discussed whether the National Bank should take over the task of providing crop loans or allow private banks to administer them. With the special act of the Philippine legislature, government funds were transferred to the Philippine National

Bank and the Bank took over the task of providing crop loans at large amounts.[28] Since crop loans were offered not based on real estate as collaterals but based, instead, on standing crop, such a form of lending – usually not done under any modern banking system – ought to be understood as of the pre-modern type.

In July 1916, Willis, together with two directors of the Bank, visited Iloilo city in Panay Island and found various anomalies attendant to such crop loans. In many cases the planters who filed applications for crop loans already carried first mortgages, mostly under the former Agricultural Bank. Some of the planters had outstanding second mortgages in favor of some local money-lenders or some other banks, and in extreme cases even held third mortgages. In many instances planters took special mortgages on their personal property, such as automobiles or machinery, so that it was often the situation that the only remaining security they could offer was the actual standing crop.[29]

Given this scenario, a new set of guidelines was adopted to impose restrictions on crop loans administered by the National Bank and which called for: (1) the rejection of any loan application where the titling to the land was unclear; (2) the refusal of loans even if the title was clear, unless reasonable value could be found in the land; (3) the payment of loans by monthly installment to meet the actual needs of the planter for necessary expenses; (4) the signing of documents waiving all rights to the crops by mortgagers who held a prior lien on the land, as a precondition for the release of loans; (5) the requirement of one reliable guarantor for each loan (where the members of a family were joint owners of the land, all of them were to be deemed responsible for the whole loan on the land); (6) the treatment of additional mortgages upon any other property, that any borrower could get, as collateral; and (7) the payment of the loan as soon as the sugar is produced and sold in the market.[30]

There were many instances of applications being rejected due to insufficiency of documentation, even as there were also not a few cases of loans being granted despite the inability of sugar planters (or landowners) to comply with the conditions as required. In 1916, applications for loans totaled 2.2 million pesos and three-fourths of them received approval from the committee. But some loans were not released after approval for failures of certain planters to meet certain requirements such that, in the end, less than two thirds of the total applications for loans were actually made good. These strict measures by the National Bank discouraged many landowners in the sugar producing region, even provoking serious complaints from some of them, ostensibly expecting that the Bank might provide crop loans without any securities. During the mid-1910s local producers did not earn substantial profits (as expected) from sugarcane agriculture and the production of *muscovado* sugar (brown sugar with low polarization) at the small sugar mill installed in sugar plantations (or *haciendas*). The average cost of sugar production was four or five pesos per picul (63.25kg), while the selling price of the same was about 5 pesos at the Iloilo port for the past decade. Under these circumstances, many planters had to rely on crop loans and incurred indebtedness, a predicament made worse by the absence of any prospects for modernizing their sugar manufacturing operations. It was thus that Willis argued for the necessity of investing in the construction of modern sugar mills or centrals that could produce centrifugal sugar of higher quality, as its market price was far better than the old *muscovado* sugar, so as to be able to help the planters turn in higher profits on their capital outlays. He saw that the continuation of providing loans to the planters under the current uneconomical practice of sugar production could itself prove hazardous to the continued viability of the new Bank.[31]

The 1918 Dispute over Lending in Agriculture

Did the strictness on the Bank's crop loan operations remain in place after the resignation of Willis from the presidency? Samuel Ferguson, who used to serve as vice-president, replaced Willis as the Bank's second president, but also soon resigned in March 1918. Third president of the Bank was Venancio Concepcion, the first Filipino to serve in this capacity. As Peter Stanley points out, Concepcion's management style proved to be the exact of opposite of the first president's. Whereas Willis tried to manage the Bank in accord with the structures of modern banking, Concepcion relied, instead, on personal connections to secure and support the economic interests of privileged clients. Indeed, Concepcion worked to promote the policy of expansion in the provision of agricultural loans to the export sector, particularly in sugar production.[32] By mid-1918, criticism from the American director of the Bank caused a fractious internal dispute that eventually led to this American director's resignation.

This American director, Archibald Harrison, brother of Governor-General Francis Burton Harrison, served as secretary of the Board of Directors of the National Bank.[33] Observing a lot of anomalies or violations of the regulations in place in relation to the Bank's agricultural loans, he felt compelled, by May 1918, to suggest to the Bank's Executive Committee to conduct an investigation of these irregularities and organize a committee for it. A committee was subsequently convoked for this purpose, with four appointive members: Archibald Harrison himself, Vicente Madrigal from the Executive Committee, Vicente Singson Encarnacion, and Fred N. Berry from the Bank's Agricultural Committee. Tasked to investigate the agricultural loans that the Bank's Agricultural Department was administering, this committee, due to several reasons, ended up leaving it to Archibald Harrison, as its chairman, to conduct the investigation directly.[34] The compilation of various unpublished reports relating to the investigation is housed at the U.S. National Archives as well as in the Harrison Papers in the Library of the Congress in Washington D.C.[35] These documents are very useful in determining the actual conditions of the National Bank's lending in agriculture for various areas like Pampanga or Bulacan Provinces in Central Luzon, or Iloilo Province on Panay Island, or the province of Negros Occidental.

Some examples would suffice. One report, prepared by Archibald Harrison himself, and based on his field trip both in Iloilo of Panay Island and Bacolod of Negros Island in July 1918, reveals that the Bank's Iloilo branch offered unreasonably huge crop loans to landowners in the provinces of Capiz or Iloilo, and in two provinces of Negros.[36] Agricultural loans, in even larger amounts, and based on real estate as collateral, as well as crop loans, that is, loans based on the standing sugar crop, were made available to Negrense sugarcane planters. With the persistent low prices of *muscovado* sugar on the market, along with the epidemic spread of disease among farm animals, or unfavorable weather conditions, three years back, many sugar planters ended up being deeply and massively indebted to the National Bank.[37]

One 1917 memorandum by the Manager of the Bank's Iloilo branch, which Harrison cites, shows that, in 1916/17, this branch had 12 outstanding crop loans amounting to 59,728 pesos, while in 1917/18, its outstanding crop loans numbered at 72 in the aggregate amount of 909,840 pesos. In 1918/19, the Bank's Board of Directors approved 154 loans totalling 2,103,375 pesos. Of these, only 85 loans were actually released in the total amount of 241,164 pesos, apparently on account of a firm policy adopted by the Bank not to grant any new loans or, rather, not to process new loan applications from the same parties, until their previous accounts had been settled. After a sub-agency was opened in Bacolod, one of two inspectors of the Iloilo branch moved there and the remaining one inspector had occasion to visit the farms where loans were provided at least twice.[38]

Data are unavailable regarding the long-term agricultural loans processed by the Iloilo branch. Before the Bacolod sub-agency was opened, most long-term loans of this branch were offered to large-scale planters in Negros Occidental. As many of them had outstanding liabilities, the manager of the Iloilo branch asked the Agricultural Department in the Manila office to furnish the branch full information from their records on such liabilities.[39] Indeed, there were quite a few cases in which Negros Occidental sugar planters received approval not only for long-term agricultural and crop loans but also for commercial loans.

After visiting haciendas in various towns of Negros Occidental, Harrison completed and compiled at least eight case reports:

Hijos de I. de la Rama: This firm, managed by Esteban de la Rama, incurred a total obligation of 1,294,000 pesos to the Bank, which included 794,000 pesos of outstanding crop loans for a three-year period, and 500,000 pesos in commercial loans. The collaterals for these loans were seven haciendas with a total hectarage of 2,700 and its sugar centrals located in the municipality of Bago; 85,000 piculs of centrifugal sugar and 7,613 piculs of *muscovado* sugar. This firm owned three more haciendas with a total hectarage of 1,000 and another small central in the municipality of Talisay, but these three haciendas appeared to have already been mortgaged to the Bank of the Philippine Islands. Two small sugar centrals owned by Esteban de la Rama were deemed to be mismanaged, with de la Rama himself apparently lacking in managerial savvy; and given his bad relations with the sugar planters in the area, the centrals could not be operated in full capacity.[40]

Araneta family: This family controlled 12,000 hectares of land, stretching in sprawal from the coastal area to the mountain in Bago. This property was divided in ownership among family members. The Bank held crop and long-term loans, in the aggregate amount of 800,000 pesos, on it. It was found to be this family's practice for one member to mortgage his property share so as to liquidate the amortization payments of another member's. With what was discovered to be a mismanagement of the plantations, the family faced difficulties in paying back the principal and interests of loans incurred with the Bank.[41]

Gomez brothers: Located near the municipality of La Castellana, the hacienda of 600 hectares and sugar central ran by the Gomez brothers were both and each valued at 240,000 pesos. This family's indebtedness totalled 491,000 pesos, exceeding the assessed value of the collaterals upon which its following loans were based: (1) a long-term loan (288,000 pesos) and a crop loan for 1917/18 (36,000 pesos) against the National Bank and (2) a debt against Germann & Co. (167,000 pesos). To top it all, another crop loan for 1918/19 (67,000 pesos) was also approved for this family.[42]

E. Guanco and Victoriano Siguenza: V. Siguenza is the father-in-law of E. Guanco and both had outstanding loans fromthe National Bank and the Bank of the Philippine Islands. Siguenza's crop loan for 1917/18 from Germann & Co. was already overdue, with the *muscovado* sugar he offered as security being determined to be insufficient to cover the obligation. He also got a loan of 35,000 pesos from the old Agricultural Bank, based on one of four haciendas he owned as collateral. This loan was supposedly intended for the purchase of animals and machinery but the money was instead used to help Guanco in his first payment for the construction of his sugar central. Guanco himself took a loan from Germann & Co. with four haciendas of 679 hectares as its collateral. Of these four haciendas, the larger two ones belonged to Siguenza, with the remaining two listed under Guanco’s name. The Bank also approved a 1917/18 crop loan of 100,000 pesos against some 4,000 piculs of centrifugal sugar in Guanco’s favor. Additionally, Guanco had applied for a 1918/19 crop loan of about 160,000 pesos. On his ocular visit, Bank president Venancion Concepcion assessed the value of these four haciendas and a sugar mill at 1,350,000 pesos; but based on current market prices then, the properties were, in point of fact, only worth 685,000 pesos.[43]

Isabela Sugar Factory: A group of sugar planters headed by Gil Montilla built this sugar central in the municipality of Isabela. Together, these planters successfully applied for a considerable loan of 1.5 million pesos from the Bank with 6,000 hectares of their haciendas as security. This loan was approved by the Bank’s Executive Committee but the initial procedure was deemed irregular because the committee had previously agreed to a sparate loan for the purchase of machinery. Archibald Harrison voted in favor of the loan proper of 1.5 million pesos but on the precondition that the cost of machinery be included in it. About one third of the 6,000 hectarage is devoted to rice and its value was assessed at 1.2 million pesos (200 pesos per hectare), a fairly higher estimate than would otherwise be the case, yet lower than the loan approved. The Bank’s investment in this sugar central through this loan was only the beginning and further financing from it would be required before the factory actually operated.[44]

Properties owned by the heirs of Remigio Montilla: Members of this family included the widow, seven daughters, and one son, Emilio Montilla. Their seven farms totalled 731 hectares in area, located a few miles away from the proposed site of the Isabela Sugar Factory. These farms were apart from the 6,000 hectares that were pledged as security for the Isabela factory loan, and could not be included in that hectarage as this family was already heavily indebted, with an outstanding long-term loan of 115,000 pesos from the old Agricultural Bank as well as an unpaid crop loan of 27,000 pesos. On Harrison’s visit to Emilio Montilla, this family’s financial position was determined to be quite tenuous, ostensibly made so by one practice of the Bank's Agricultural Department of issuing either a new long-term loan or a crop loan to nearly-defauting debtors to help them cover the overdue interest.[45]

Yulo Brothers: This family owned six haciendas totaling 1,859 hectares in area, in the municipality of Binalbagan, five of which were mortgaged to the Bank as the collateral for a loan of 485,000 pesos. This loan was made available to the Yulo family to save their property from foreclosure by Ynchausti & Co. But the chance seemed rather slim for the Yulos be able to deliver on their obligation to the Bank owing to their wasteful and un-businesslike methods of farm management. Under the manager's name, the family qualified for a 1917/18 crop loan of 45,000 pesos, 34,000 pesos of which remained unpaid. This was not secured by any sugar, but by mortgages on real estate in Iloilo province that could not be utilized as collateral on a crop loan. President Conception granted the crop loan, with the understanding that its proceeds were to be used to pay interest charges due Ynchausti & Co. the year before. President Conception estimated for the Bank's Board of Directors the value of the Yulo agricultural assets at 1,336,250 pesos. Harrison believed the properties to be overvalued, with his own assessment of its worth at a much lower sum of 630,000 pesos.[46]

Salvador Serra: Serra's hacienda, along with its sugar central, was located near the municipality of Ilog. The Bank had provided him a long-term loan of 160,000 pesos and a 1918/19 crop loan of 150,000 pesos. The proceeds of the long-term loan were used to cancel the obligations incurred in the purchase of machinery for the central, and the crop loan was intended for machinery and labor. Serra represented a sound example of successful plantation management, and his properties included: 280 hectares of sugarcane land (valued at 140,000 pesos); 220 hectares of wood land convertible into agricultural land (worth 22,000 pesos); and machinery at the central and storage facilities (200,000 pesos in total value).[47]

Most of the above eight cases were of sugar planters who built relatively smaller centrifugal mills or centrals in their respective haciendas and they might not represent general examples of sugar planters in Negros Occidental. Harrison later visited other muncipalities like Himamaylan, Pontevedra, and La Carlota to investigate the state and status of long-term loans or crop loans made by the Bank to borrowers in these areas. He discovered that, generally speaking, the long-term loans were provided there on a fairly sound basis, while crop loans were practically, without exception, excessively given. The trouble was that planters in these areas usually applied for their loans based on overestimations of sugar production for the coming year, even as most of the loans approved by the Bank were slightly reduced in amounts against the declared figures of production.[48]

George Seaver, Harrison's research assistant, wrote of this glut of problematic crop loans offered to sugar planters in Negros Occidental in a letter addressed to Harrison and dated August 9, 1918. From mid-July to early August 1918, Seaver surveyed the areas from the municipality of Escalante in the north to Cauayan in the south, but excluded the fertile areas like Bacolod, Talisay, Silay, Victorias and Manapla. He conducted the investigation in 16 municipalities involving 230 cases of agricultural loans in the aggregate amount of 3,461,370 pesos covering a total of 49,695 hectares of land used as collaterals for them. He also examined 127 cases of unpaid crop loans since 1916, in the total sum of 2,209,311 pesos and found that, in many cases, loans were offered in sums exceeding the market value of the lands used by debtors as collaterals. Loans were even provided to help nearly-defaulting borrowers make due payments, in installments, of the principal or the interest of previous loans. Seaver cited some striking examples to show the great risks faced by the Bank in loaning money on lands backed by Spanish titles. In one case, the Bank's mortgage was for 248 hectares bearing a Spanish title but the cadastral survey yielded an actual landholding of less than 137 hectares only. In some instances, the money obtained from the Bank for agricultural purposes was, in fact, diverted into commercial or industrial investments, and, occasionally, loaned out by other borrowers to other farmers at the rate of 25 percent a year. In an extreme example, some influential men like the Justice of the Peace induced landowners to apply for loans from the Bank, acting as their agents in the preparation of documents, and upon approval of such applications, 50 percent of the amount would be deducted as their commission.[49]

In another letter, this time to this time to Archibald Harrison (and dated at August 12, 1918), Seaver reported that of the 230 agricultural loans inspected in Negros Occidental, 40 were found not complying with the required conditions, and recommended that some corrective measures should be taken in such cases. Among these cases, Seaver identified 35 cases of particular note: 22 cases of loans in amounts of less than 10,000 pesos, 7 cases of loans ranging in amount from 10,000 to 19,999 pesos, and 5 loans in amounts between 20,000 and 29,999 pesos, and one loan of 30,000 pesos. Irregularities found included the following variations or patterns: (1) loans were not used for the original purpose such as clearing lands, the purchase of *carabaos* (water buffalos) or the payment in installments for the equipment of small sugar centrals; (2) New loans that were approved for the payment of outstanding loans were not used for this original purpose; and (3) Only a small part of land was actually cultivated or used for sugarcane agriculture, against the requirement that loans were offered to many of these haciendas (under Seaver's investigation) for being nearly cultivated areas or being located near mountainous areas.[50] Let us take two examples here.

Ricardo Nolan: He received three loans from the old Agricultural Bank: (a) 9,600 pesos on the land lying southwest of Escalante, hectarage unknown; (b) 1,600 pesos on 184 hectares of land situated northwest of Sagay; (c) 12,000 pesos on approximately 194 hectares of located northwest of La Carlota. All of these lands were found to be unimproved and uncultivated. Additionally, Nolan had another landholding of 216 hectares, and a mortgage of 4,000 pesos was granted on this land by the Agricultural Bank in the name of Francisco Ferrer, but this also remained uncultivated.[51]

Jose E. Domingo: He obtained a loan of 13,000 pesos from the National Bank on a 500-hectare property northwest of Murcia. About 18 or 20 hectares was planted to sugarcane (but found to be poorly cultivated) and 40 hectares to upland rice. But practically all of this hacienda was of such an elevation that it could not, under normal circumstances, be considered as good agricultural land.[52]

In a memorandum dated August 17, 1918 which examines certain applications for crop loans, Archibald Harrison shared his observation that notable sugar planters like Javellana and Ledesma, or the larger Spanish tobacco company Tabacalera obtained 1917 crop loans and these sums presumably remained unpaid, and were they to secure 1918 crop loans from the National Bank, these could conceivably be used to settle such previous and outstanding loans. He opined that this situation was absolutely improper and new loans should not be approved and then applied toward such questionable ends.[53]

With his management style put into question by these investigative findings, President Venancio Concepcion sent a confidential report dated August 18, 1918 to Manuel L. Quezon, President of Senate, strongly contesting Harrison's report and claiming that it was marred by falsehoods and many mistakes.[54] In self-defense, Harrison called the Bank's investigation committee into session, and sent other documents to Concepcion supporting his findings. A resolution was also adopted by the committee requesting formal comments or rejoinders from Concepcion.[55] In reply to Harrison's committee, Concepcion informed its members about the dismissal of George Seaver and one other staffer on September 1, 1918.[56] To make matters worse for Harrison, Concepcion's decision was supported by the other three Filipino members of the Agricultural Committee, Vicente Singson Encarnacion, Vicente Madrigal, and R. J. Fernandez.[57] In turn and given this escalating conflict with Concepcion, Harrison sent a letter to Concepcion filing his resignation from the post as secretary of the Bank's Board of Directors effective September 13, 1918.[58] Despite Harrison's efforts, then, the National Bank failed in its aspiration to regulate agricultural loans and to subject them to strict terms. In 1921 the National Bank imposed a regulation permitting the foreclosure of securities on irrecoverable loans but it was limited, in its applicability, only to the loans transferred from the old Agricultural Bank.[59]

Decoding the Meanings of the Dual Structure of Lending in Agriculture

Ostensibly, the confrontation between Venancio Concepcion and Archibald Harrison over banking policy on agricultural loans, particularly in relation to crop loans, merely indicates a fact of antagonism between a Filipino president and an American director of the bank, or between a policy of favoritism inclined toward the interests of the planters involved in cash crop production and the strict policy of imposing modern banking regulations on the lending business in export agriculture. But beyond the argument on politics in banking or the dichotomies in banking operations between the modern and pre-modern system, we should consider the very reasons why a pre-modern credit system involving an unusual species of lending called crop loans persisted in the National Bank throughout the 1920s.

Some data on agricultural loans of the National Bank in the 1920s are worth examining in detail. Table I-3 shows that as of the end of 1925, the total amount of loans and discounts of the Bank reached 92.4 million pesos, 15 percent of which was in the form of agricultural loans (with real estate as collateral) and 7 percent of which consisted in crop loans. Table I-4 indicates the amount of agricultural loans made available by the Bank by crop and by branch or agency as of the end of 1928.[60] It is noteworthy that nearly 70 percent of mid- and long-term agricultural loans and crop loans were provided for sugarcane agriculture, particularly by the branches of Bacolod and Iloilo. Comparing these two tables, one also sees that the amount of crop loans declined from 6.25 million pesos to 4.36 million pesos in three years from 1925 to 1928. It is no idle speculation to read this decline as one consequence of the Bank's preference for agricultural loans over crop loans in the progress of land registration.[61]

This declining trend in the Bank's crop loan business is also borne out in the statistics compiled by the Bacolod and Iloilo branches. The amount of crop loans provided by the Bacolod agency declined as follows: 3.88 million pesos (as of September 5, 1927), 3.07 million pesos (as of October 16, 1929), 1.69 million pesos (as of September 5, 1930) and 0.84 million pesos (April 30, 1931); for the Iloilo branch: approximately 250,000 pesos (October 10, 1929), 50,000 pesos (April 27, 1931) and 110,000 pesos (October 16, 1933).[62] Crop loans as the predominant form of credit thus practically cease by the end of 1920s, indicating the National Bank's certain departure from the dual structure of its lending business in export agriculture, that is, the offering of mid- and long-term agricultural loans based on real estate as collateral, and the facility of short-term loans premised on standing crops as securities.

Why did the National Bank sustain this dual structure of its lending business in agriculture for fifteen years from the time of its establishment? The place of crop loans in the practices and policies of the Philippine National Bank during the American period is important for understanding the characteristics of the contradictory modern banking system in the colonial Philippines, especially when regarded from the much wider perspective of economic history. At the end of the nineteenth century when private landownership was not yet legally established under Spanish rule, commercial agency houses provided cash advances to growers using future crops as collateral instead of the usual real estate.[63] This system was particularly and widely adopted in the frontier regions of the emerging export economy like Negros Island. Sugar haciendas in Negros tended to be of large hectarage, owned and managed by landowners who needed agricultural funds. We might also see the prototype of this crop loan system in the overseas Chinese money-lender's business of offering cash advances to farmers in return for their anticipated or future crops, a practice that might have germinated as early as the end of the eighteenth century.[64] In Southeast Asia, modern banking as well as money lending on a small scale grew in increasing importance with various efforts to sustain cash crop production from the late nineteenth century to the mid-twentieth century. That in the early twentieth century the crop loan business was enlarged, first by the private banks and, then, by the Agricultural Bank, as capitalized by Philippine government funds, and later succeeded in this capacity by a National Bank established or that related ends, are characteristics unique to the Philippines, especially when seen in comparison to its regional neighbors.

Indeed, the National Bank's adoption of the crop loan system comes off as a kind of deviation from the norms of modern banking. But the evolving and unique characteristics of the Philippine export economy could only lead, inevitably, to the institution of this crop loan system at the very core of the modern banking system simultaneously being put in place under the Americans. For the expansion of agricultural exports under the so-called "free trade" arrangements between the United States and the Philippines since the early 1910s, the banks had to develop a lending facility like it for cash-strapped planters interested and invested in the production for export to the American market. But certain problems then began to arise; for example, the inadequacy of legal land titles forced the National Bank to continue its crop loan business for an extended period. In these conditions lay the contradiction of a supposedly modern banking system, represented by the National Bank, to function, in point of fact, as a pre-modern (even hybrid) banking institution, forced to adapt its structures and operations according to such contextual contingencies. The forays of the National Bank into the crop loan business led to the decline in influence of larger British banks that had otherwise dominated this financial market up to the actual onset of American rule. In the 1920s, the National Bank emerged and grew as the largest and leading bank in the Philippines in the process of literally laying, in a systematic fashion, the foundations for local financial markets under the American dispensation and with the sanction of its colonial state. In this context, the conclusion is inescapable that the dual structure of agricultural loans in the Philippine National Bank itself embodied and reflected the very characteristics of the export economy of the Philippines in its evolving financial structure from the mid-1910s to the late 1920s.

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Notes:

[1] Forbes to McIntyre (Oct. 16, 1911), BIA 6769-95; Forbes to Edwards (Oct. 23, 1911), BIA 6769-96; Legarda to Edwards (Nov. 7, 1911), BIA 6769-99; Assembly Bill No. 176, Third Philippine Legislature, First Session, BIA 6769-105.

[2] McIntyre to Forbes (May 19, 1913), BIA 6769-107.

[3] Stanley (1974), 235; A draft of the Commission Bill introduced by Commissioner Martin, BIA 6769-123B; “Insular Bank Proposed in Philippines,” *U.S. Commerce Reports* (Oct. 20, 1915), BIA 6769-A-3; *Consolidación Nacional* (translation) (Sept. 14, 1915), BIA 6769-A-4.

[4] Stanley (1974), 235-236; McIntyre, “Memoranda,” BIA 6769-with123; *La Democracia* (translation) (Sept. 14, 1915), BIA 6769-A-2.

[5] Stanley (1974), 236-237; McIntyre to Quezon (Nov. 12,1915), BIA 6769-126; McIntyre to

Harrison (Dec. 14, 1915); A bill creating an insular bank of the Philippine Islands drafted by Willis, BIA 6769-128; Willis to McIntyre (Apr. 23, 1916), BIA 6769-143; McIntyre to Willis (Jun. 20, 1916), BIA 6769-153.

[6] "Act No. 2612" (1916), 1097-1102. See also "By-Laws of the Philippine National Bank" (Manila, 1917), Henry Parker Willis Papers, Rare Books and Manuscript Library, Columbia University, (hereafter cited as "WP"), Box 17.

[7] For U.S. Reserve Board, see chapter 1.

[8] "Act No. 2747" (1918), 453-458. As will be discussed in Chapter 7, even by the mid-1920s, almost all the stocks of the National Bank were owned by the Philippine government and private ownership of the stocks remained minimal.

[9] "Act No. 2938 "(1921), 573-579. See also Philippine National Bank, *By-Laws of the Philippine National Bank*, Manila, 1921, BIA 6769-667A.

[10] "Act No. 2612" (1916), 1097-1102.

[11] "Act No. 2938 " (1921), 573-579.

[12] "Act No. 2747" (1918), 453.

[13] "Act No. 2938 " (1921), 574.

[14] Ibid., 573-579.

[15] Initially the Bank was controlled by a board of seven directors, with H. Parker Willis as chairman and president; Samuel Ferguson as vice president, Charles C. Robinson as secretary and vice president, and Vicente Singson Encarnacion, W.H. Anderson, Leon Rosenthal, Venancio Concepcion as directors. See Willis (1917), 418.

[16] *New York Times* (Jul. 19,1937); *New York Herald Tribune* (Jul. 21, 1937), "H. Parker Willis," BIA Personnel File, Box 701; Stanley (1974), 240; Meltzner (2003), 70-71.

[17] Willis (1917). See also Willis (1917a) and Willis (1917b).

[18] Willis (1917), 418-419.

[19] Ibid., 415, 419.

[20] Ibid., 419-422.

[21] Ibid., 422.

[22] Nagano (1986), 179-183. For the registration policy of land titles and its problems, See Umehara (1992), 96-112.

[23] Willis (1917), 430-431.

[24] Ibid., 431.

[25] Ibid., 432.

[26] Ibid.

[27] Ibid., 430-431.

[28] Ibid., 412-413, 432-433; Willis to Harrison, Aug. 9, 1916, BIA 6769-153; WP, Box 17. In the discussion by Willis, it is unclear whether local private banks directly offered crop loans to the planters, or the foreign trading firms or larger domestic merchants got involved in crop loan business by lending funds from private banks. The Bank of the Philippine Islands provided loans directly to the planters, while the Hongkong Shanghai Banking Corporation did crop loan business through foreign trading firms or larger merchants. On the other hand, the Agricultural Bank of the Philippine Government could have provided crop loans within the limit of 40 percent of the market value of crops harvested. The deposits of the Philippine government in the private banks as of May 31, 1916 were are enumerated below:

Bank	Fixed Deposits (pesos)	Current Deposits (pesos)
Hongkong Shanghai Banking Corp.	1,243,849	1,191,409
Chartered Bank of India, Australia and China	800,000	1,185,332
International Banking Corporation	1,100,000	1,490,896
Bank of the Philippine Islands	1,100,000	122,030
Total	4,243,849	3,989,667(1)

Source: Willis to Harrison (Jun. 15, 1916), BIA 6769-152.

Note: (1) 3,989,666 pesos in the original document.

[29] Willis (1917), 433; Willis to Harrison (Aug. 9, 1916), BIA 6769-153; WP, Box 17.

[30] Willis (1917), 433-434.

[31] Ibid., 434-436. For the changes in Philippine sugar procession and industry, from *muscovado* sugar production to the centrifugal sugar production, see Nagano (1986), 16-19, 97-98, 210-212.

[32] Stanley (1974), 240-241; "Samuel Ferguson," BIA Personnel File, Box 194.

[33] "Archibald Harrison," BIA Personnel File, Box 267.

[34] Memorandum about the motion of Archibald Harrison before the Executive Committee of the Philippine National Bank, May 1918, Philippine National Library, Manuel L. Quezon Papers, Series IV, Subject File (hereafrer cite as "QP"), Box 439.

[35] "Confidencial: Documentos y correspondencias relacionados con el 'Comite de Revisión de Préstamos Agricolas,' presidido por el Sr. Archibald Harrison, Ex-Secretario y Director del B. N. F.," BIA 6769-634; Francis Burton Harrison Papers, Manuscript Division, Library of Congress, Box 42.

[36] Report by the Chairman of the Investigating Committee on Conditions Affecting Agricultural Property in the Island of Negros which is Mortgaged to the Bank, Aug. 10, 1918, In "Confidencial: Documentos y ....," 107-165. The investigating committee headed by Harrison was later called in Spanish the Comite Investigador de Prestamos Agricolas or Comite Revisor de Prestamos Agricolas.

[37] Ibid., 108-111.

[38] Ibid., 124-125, 128.

[39] Ibid., 125-126.

[40] Ibid., 131-135.

[41] Ibid., 135-138.

[42] Ibid., 138-140.

[43] Ibid., 141-145.

[44] Ibid., 145-150.

[45] Ibid., 150-152.

[46] Ibid., 152-158.

[47] Ibid., 158-160.

[48] Report by the Chairman of the Investigating Committee…, 160-161.

[49] Seaver to Harrison (Aug. 9, 1918), In "Confidencial: Documentos y ....," 46-54; QP, Box 439. For the full transcription of this letter, see Larkin (1993), Appendix D.

[50] Seaver to Harrison (Aug. 12, 1918), In "Confidencial:Documentos y...," 176-185; QP, Box 439.

[51] Ibid., 176.

[52] Ibid., 180.

[53] Memorandum by Harrison (Aug. 17, 1918), In "Confidencial: Documentos y....," 199.

[54] Memorandum Confidencial por V. Concepcion (Ago. 18, 1918), In "Confidencial: Documentos y....," 202-217.

[55] Harrison to Concepcion (Aug. 27, 1918), In "Confidencial: Documentos y...," 298-299.

[56] Memorandum Order (Aug. 31, 1918), In "Confidencial: Documentos y...," 309.

[57] Copias de las contestaciónes de los Sres. Singson, Madrigal y Fernandez, mienbros del Comite Agricola presidida por el Director Mr. Archibald Harrison, In "Confidencial: Documentos y...," 313-314.

[58] Harrison to Concepcion (Sept. 13, 1918), In "Confidencial: Documentos y...," 321.

[59] "Act No. 2938" (1921), 573-579.

[60] Branches and agencies of the National Bank were opened in Iloilo in 1916, Cebu and Corregidor Island in 1917, Apari (Cagayan Province), Bacolod (Negros Occidental), Davao (Mindanao), Cabanatuan (Nueva Ecija) in 1918, Legaspi (Albay), Lucena (Tayabas), Vigan (Ilocos Sur) in 1919, and Dagupan (Pangasinan) and Naga (Camarines Sur) in 1920. The annual report of the National Bank as of September 1929 includes the balance sheets of eight domestic branches and 13 agencies of the Bank. Report and Balance Sheet of the Philippine National Bank for the Year 1920, Manila, 1921, BIA 6769-with 150; Report on Philippine National Bank, Manila, as of Sept. 30, 1929, BIA 6769-with 187.

[61] By the early 1930, approximately a half million Torres titles were issued. Umehara (1992), 107.

[62] "Philippine National Bank, Bacolod, Examiner's Report of Condition at Close of Business, Sept.

5, 1927"; "Philippine National Bank, Bacolod, Examiner's Report of Condition at Close of Business, Oct. 16, 1929"; "Philippine National Bank, Bacolod, Examiner's Report of Condition at Close of Business, Sept. 5, 1930"; "Philippine National Bank, Bacolod, Examiner's Report of Condition at Close of Business, Apr. 20, 1931"; "Philippine National Bank, Iloilo, Examiner's Report of Condition at Close of Business, Oct. 10, 1929"; "Philippine National Bank, Iloilo, Examiner's Report of Condition at Close of Business, Apr. 25, 1932"; "Philippine National Bank, Iloilo, Examiner's Report of Condition at Close of Business, Oct. 16, 1933," BIA 6769-with 187.

63 Legarda (1999), Part 3; Owen (1984), 56-71; Owen (1984a), 201-230.

64 Wickberg (1965a).

Table I-1 Balance Sheet of the Philippine National Bank (May 25, 1916)

(in 1,000 pesos, %)

Resources		Liabilities	
Loans and discounts	5,460.6 (46.1)	Capital (paid-up)	2,385.7 (20.2)
Interest accrued receivable	238.5 (2.0)	Undivided profits	54.0 (0.5)
Cash: With Insular Treasurer and in banks	5,571.5 (47.1)	Deposits	9,184.2 (77.6)
Due from agencies	562.8 (4.8)	Interest accrued receivable	106.9 (0.9)
Other assets	4.3 (0.0)		107.0 (0.9)
Total	11,837.7 (100.0)	Total(1)	11,837.7(100.0

Source: H. Parker Willis, "The Philippine National Bank," *The Journal of Political Economy*, vol. 25, no. 5 (May 1917), p. 419.

Note: (1) Due to rounding off, this differs to the aggregation of the amount of each item.

Table I-2 Balance Sheet of the Philippine National Bank (December 31, 1916)

(in 1,000 pesos, %)

Assets		Liablities	
Loans and discounts	13,012.6 (25.6)	Capital (paid in)	4,364.4 (8.6)
Unmatured foreign bill	2,965.3 (5.8)	Profit and loss	359.3 (0.7)
Provincial overdrafts	30.4 (0.1)	Unearned discount	62.5 (0.1)
U.S. government bonds	500.0 (1.0)	Reserved for taxes and fidelity bonds	11.0 (0.0)
Philippine government bonds	286.0 (0.6)	Circulation	520.0 (1.0)
Furniture and fixtures	70.7 (0.1)	Deposits (2)	42,341.1 (83.4)
Interest accured receivable	421.3 (0.8)	Acceptance	4.3 (0.0)
Exchange for future delivery	800.1 (1.6)	Interest accrued payable	146.9 (0.3)
Cash (due from branches, other banks, with Insular Treasurer)	30,142.1 (59.4)	Exchange contracts	800.1 (1.6)
		Letter of credit	2,176.8 (4.3)
Customers liability L/C	2,558.0 (5.0)		
Total (1)	50,786.5 (100.0)	Total	50,786.5(100.0)

Source: H. Parker Willis, "The Philippine National Bank," *The Journal of Political Economy*, vol. 25, no. 5 (May 1917), p. 423.

Note: (1) Due to rounding off, this differs to the aggregation of the amount of each item.

(2) Insular government (2.67 million pesos), individual accounts (4.5 million pesos), Fixed deposits (107.7 million pesos) and others (0.82 million pesos).

Table I-3 Outstanidng Loans & Discounts of Philippine National Bank by Sector (December 31, 1925)

(in 1,000 pesos, %)

Agricultural	13,486	(14.6)
Sugar centrals	48,549	(52.6)
Crop loans		
Sugar	6,041	(6.5)
Others	208	(0.2)
Commercial	13,750	(14.9)
Coconut oil & others	10,340	(11.2)
Total	92,374	(100.0)

Source: Draft of Annual Report of the Philippine National Bank for the Year 1925 with a letter from Rafael Corpus to Manuel Quezon (Feb. 24, 19126), Philippine National Library, Manuel L. Quezon Papers, Series IV, Subject File, Box 448.

Table I-4 Outstanding Agricultural Loans of the Philippine National Bank by Crop and Branch (December 31, 1928)

(in 1,000 pesos)

Agricultural Loan	Sugar	Rice	Coconut	Manila hemp	Others	Total
Bacolod (1)	4,324	0	0	0	0	4,324
Cabanatuan	0	1,042	0	0	0	1,042
Cebu	112	0	74	0	186	372
Dagupan	0	512	0	0	0	512
Davao	0	0	188	438	0	626
Iloilo	4,426	0	0	0	0	4,426
Legaspi	0	90	180	180	0	450
Lucena	0	0	1,172	0	0	1,172
Total	8,862	1,644	1,614	618	186	12,924

Crop Loan	Sugar	Rice	Coconut	Manila hemp	Others	Total
Bacolod (1)	4,144	0	0	0	0	4,144
Cabanatuan	0	56	0	0	0	56
Iloilo	217	0	0	0	0	217
Total	4,361	56	0	0	0	4,417

Source: "Philippine National Bank, Manila, Examiners' Report of Condition at Close of Business, Sept. 30, 1929," BIA 6769-187 & With.

Note: (1) sub-agency till the mid-1920s.