THE ROLE OF TANOMOSHI IN HAWAIIAN BANKING

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While preparing the original study under this title (Derby, 1971), John Derby consulted with Professor Bernhard Hormann. Professor Hormann has now, with the permission of Mr. Derby, edited and shortened the original work for publication here. On matters of terminology, particularly the Chinese (kanji) characters involved, Hormann consulted his colleague, Professor George Yamamoto, who had read the original article. In addition, Hormann drew on his four years of residence on the rural outskirts of Canton, China, from 1930 to 1934, where he learned about the Chinese version of tanomoshi as practiced in peasant villages, and on his contacts with hundreds of students in over thirty years of teaching at the University of Hawaii, where he learned of the uses of tanomoshi in Hawaii as described in student papers.

Since the practice of tanomoshi throughout East and Southeast Asia is in the oral tradition of peasants, historical research is not very extensive. The historical section of this paper has consequently been greatly reduced.

The reader should be warned that in the decade or more since this article was first written, the decline of the tanomoshi in Hawaii has continued. The skyrocketing of interest rates on the part of the financial institutions of America has complicated the financial analysis of the tanomoshis, and this section has consequently also been substantially shortened.

-- *The Editors*

Background of the Tanomoshi

Schemes like the private banking arrangement of tanomoshi probably are found throughout East and Southeast Asia, e.g., Vietnam, China, Korea, and Japan, where their spread is connected with that of Buddhism. It is also found in the Philippines, where Chinese merchants may have introduced the custom. Except for resort to the tanomoshi in Japan to finance pilgrimages to Buddhist temples, the use in Japan and elsewhere seems to be primarily secular, and may be found both in rural areas and in cities, e.g., among groups of city women in pre-Communist Vietnam. It has been described in books on Japanese and Chinese village life, where peasants have been able to get much needed funds by this scheme. In Japan it has now apparently disappeared. See village studies by Embree (1939); Beardsley, Hall, and Ward (1959); and Dore (1978); published in twenty year intervals on villages progressively closer to Tokyo. Embree's *Suyemura*, under *ko*, an alternative designation, reports on it at length. Beardsley, et al. mention it, but indicate that other credit facilities and government restrictions have put an end to it. Dore's *Shinohata* does not mention it at all. The Japanese immigrants to Hawaii used the tanomoshi, as is described in Masuda (1937) and Embree (1941), both appearing over forty years ago.

Berhard Hormann studied a Chinese village near Canton, China in the early 1930s and there discovered essentially the same system, called by the villagers *jou wui*, which he described in his unpublished manuscript, "Feeding the Hungry Ghosts." Published descriptions can also be found in Fei (1939), Yang (1959), and Ball (1903, especially the extensive description starting on page 632).

No clear evidence has been found that the Chinese workers on Hawaii's plantations resorted to the system. However, Chinese merchants found it useful in meeting their debts. One informant said that her father, who was a dry goods merchant in Chinatown, at any given time belonged to more than one such organization.

While details vary and there is the danger of bogging down in details, it is possible to characterize the basic characteristics of the tanomoshi or its Chinese form. It is an association of persons for only one purpose, periodically, say monthly or twice a year, to contribute an agreed upon sum of money, maybe one dollar or twenty or a hundred, into a pool which in turn will go to each member until the association has run its course. At that time every member will have had a chance at the pool and everyone will have contributed in periodic installments an amount totaling more or less the amount of the pool.

The turn of each member, in the simplest form of the tanomoshi, is decided by lot. The more complicated and more frequent way is to decide by a process of bidding whose turn it is to receive the pool. One bids by offering to pay each member a small amount of money for his contribution to the pool. This may also be called a deduction from the amount received from each person. The one whose bid is highest wins. Those who are anxious to receive the money in the pool because of their need for a larger sum of money at the time therefore will bid high; others, willing to hold off, will bid low. There is a further aspect. Once a member has received the pool, he is no longer entitled at subsequent meetings to the payment or deduction offered by the day's winning bidder, but must pay the agreed upon periodic contribution.

Thus the persons who win the pool early tend to pay out more than they take in, while the later winners take in more than they pay out. That is, the earlier winners essentially pay interest on their use of the pool, while the later winners, who have been able to wait, receive interest on the amounts they have been lending out.

The Cantonese term *jou wui* (做會) means to make an organization. In Japan the term *tanomoshi* (頼母子) refers to mutual trust between mother and child. By extension, it suggests a mutually dependent relationship between a leader and his followers. One of the meanings of *kō* (講) is club or association. *Tanomoshi-kō* thus is a group of persons involved in mutual dependence and trust. The term *tanomoshi* alone conveys the idea of both the financial arrangements and the group itself and the word *kō* is usually dropped. In Hawaii *tanomoshi* was almost invariably used as a single term.

Tanomoshi in Hawaii

In Hawaii, membership in a tanomoshi was traditionally restricted to members of one's own race and particularly to friends and well-known associates. Rarely did people of different racial backgrounds comprise the same tanomoshi group. This was later to change.

> However, with the mingling of peoples in Hawaii, these restrictions have been broken down and now the tanomoshi is open to other races. This is especially so in the rural communities. Tanomoshis are frequently found whose members no longer form a close friendship circle, but are mere acquaintances or business associates of a foreign race. Of course, 'foreigners' must be of good character and dependable. They usually are store clerks, plantation overseers, school teachers and men of the upper classes. When a tanomoshi assumes this status, it becomes a purely economic organization and relationships, although flavored with friendship, are impersonal. The personal and friendly elements disappear. (Masuda, 1937:19).

Although the alien laborer in Hawaii was a very frugal and thrifty individual, there were few credit facilities available to him before World War II. Since their income was limited, few plantation laborers were in a position to borrow from a financial institution.

When a person needed money, he would go to a friend who was considered reputable and a respected member of the community. The influential friend would be asked to help him start a tanomoshi. The leader, or *oya* (親), i.e., parent, as he was called, would choose people who were dependable, trying to get as many as he could. They would all meet together and agree upon the rules of the tanomoshi. There could be any number of people and any amount in payments that they could agree on. The more people involved, the larger the tanomoshi would be. If the payment was too large for one person, he could split it with a friend. Or, if someone wanted to put in a larger amount, he could subscribe to two or more shares. The oya would serve as the record keeper as he was the most trusted.

In some cases, each recipient would also be asked to provide two *shonin* or "witnesses" who would act as guarantors for him in the event of his inability to make his payments or in the event of his demise. If the recipient defaulted or left the islands, the guarantors would be responsible. These guarantee arrangements were often put in writing, normally in Japanese characters, and signed by the member and his guarantors. The agreement now used [1971] is a standard guaranty form which is easily obtained from a credit union. The use of guarantors lessens the responsibility of the oya in the case of default. The members look to the oya to cover any missed payments and he in turn is protected if he has recourse to the guarantors.

The oya generally does not receive or pay any interest. This is because he is responsible to see that all of the money comes in regularly. Meetings are usually held on Sundays when the workers can gather and are normally held at the home of the oya. "The 'oya' is obligated to make this a social gathering and has in readiness delicacies and tea for his friends" (Masuda, 1937:18). If a payment is not made, the oya must advance the sum himself and collect from the delinquent or his guarantors. No grace period is allowed and due dates (usually timed to coincide with payday) are strictly adhered to.

> The highest of morals are expected in a tanomoshi. A person is bound by his honor to the group. Actually some people do slip out leaving their witnesses to pay for their shares. There is nothing that can compel a dishonest person [from refusing] to pay after he gets his share . . . There have, however, been many instances when a person, after drawing out his amount, quietly returned to Japan, leaving the unpaid burden to his witnesses. In such cases all friendship bonds are broken and the individual becomes an 'outcast' from the group thereafter. Wherever he goes, if his history is known, he is branded as a 'cheat' and not worthy of normal associations . . . If a person is of 'good character' and he really cannot pay his share, he does not take the easiest course by running away, but will work the harder to meet the situation. Sometimes the witnesses will agree to pay for him temporarily and the amount is later returned to them. (Masuda, 1937:17)

The element of risk in a tanomoshi is high. If the oya is not honest, all of the members can be hurt financially. The members who wait until the latter part of the tanomoshi to take their share, also take the most risk, since the other members before them may default along the way. There is not normally any form of insurance or collateral to protect them.

While all tanomoshis operate in much the same way, they may vary in the number of members and the amount of investment. They may also vary as to purpose. In his study of the Kona, Hawaii coffee farmers, Embree cites two tanomoshis that were started. One for $15 was formed to buy a new automobile for the new Daishi priest. Another was started when one of the hotel keepers wished to improve his hotel. He organized a tanomoshi to raise funds for this purpose (Embree, 1941:91).

Ruth Masuda's article cites some other examples.

> A tailor finds that his business is not as prosperous as it should be. As a result he goes on a house-to-house canvass for customers. He succeeds in interesting seven persons to take suits from him. But a suit costs $35 and they cannot afford to pay him that amount at once. He starts the tanomoshi with his seven customers as the members. At the first meeting each member brings $5. That makes a total of $35 and the tailor is ready to make a suit for one of the members. Then each one writes the amount of his interest which is usually very small. The one bidding the highest gets the first suit. At the second meeting, the tailor gets another $35 and another

> suit goes out. Thus, at the end of seven meetings, all of them have their suits and the tailor is prosperous again. (Masuda, 1937:17)

She also describes "another interesting tanomoshi [which was] started by several women who wanted wrist watches. They solicited friends and made up a group of ten members, each agreeing to pay $5 a month. In this way each received her watch eventually. Sometimes a jeweler who wishes to increase his trade initiates a similar enterprise" (Masuda, 1937:16).

A store owner in a small plantation town had a high number of outstanding accounts receivable on his books, and while some of his customers made nominal payments, it would have been hard for them ever to pay off their balances. So the store owner assisted them in forming a tanomoshi so that he could receive funds from those who owed him, to liquidate their bills with him. This way the accounts were cleaned up every two years.

When the Nisei veterans returned from Italy after the conclusion of World War II, found jobs and got married, there was a severe housing shortage in post-war Hawaii. They discovered that they could finance homes through the Veterans Administration, but they needed down payments in order to purchase homes. In many instances, tanomoshis served as the source of the down payment.

Similarly an individual can use a tanomoshi for a down payment on a car and the lending institution will finance the balance. Or he may have the down payment on the car saved but will use the tanomoshi to raise more money to put down on the purchase price so as to lower his monthly payment and interest expense at the lending institution.

A parent may want funds to finance his son or daughter's education on the mainland. He joins a tanomoshi to pay for the whole year's tuition, purchases the plane tickets, and deposits the remaining funds with a bank near the college for the child to draw on throughout the year. In addition to education expenses, tanomoshis are commonly used for insurance premium financing, tax payments, travel expenses, funerals and any other emergency expenditure. The intended use is always confidential.

Bank of Hawaii was once approached by a Japanese couple with a request to finance a restaurant they proposed to open. They had been employed in a military cafeteria and knew the restaurant business. They had leased a location and had discussed their equipment needs with a restaurant equipment firm. The restaurant supply firm had agreed to finance a portion of their equipment and they applied at the bank for a term loan to pay for inventory and provide working capital. Their equity funds were to come from a tanomoshi that they had been members of for several months. They could get the required amount of equity then needed at the next meeting. Based on their projections, the loan was committed and the restaurant was soon opened. About a year later they approached the bank again with a request to refinance the loan for some additional funds to pay off the restaurant supply house. Since their financial statements showed a nice profit, their request was approved. However, they found it was cheaper to form a tanomoshi and used that instead.

During the Expo-70 in Osaka, Japan, Bank of Hawaii had a special advertising program for travel loans and free packets and brochures from the Japanese Tourist Bureau for distribution to their customers. Bank of Hawaii branches were also official ticket purchasing offices for Expo-70 and yen sales through the branches were encouraged. Nevertheless, the travel loans were shunned by those who were instead using the tanomoshi organized through the Buddhist Mission as a means for financing their trip.

This type of tanomoshi, which accumulates the funds as it progresses and earns a return on the payments as they are made is similar to several banking services banks offer or have offered in the past. Bank of Hawaii has a Christmas Savings Club which accumulates twenty-five payments plus interest payable in November. In this situation, the bank is the oya. The disadvantage to this service is that it starts and ends at the same time each year since it is geared to Christmas. Bank of Hawaii used to have a service called "target savings" whereby one could start an automatic savings plan at any time for a certain number of payments, the bank would do the accounting and pay interest on the funds at the end of the specified period. Banks also have automatic savings plans under which they transfer funds from a customer's checking account to his savings account regularly once or twice a month.

Many people are not thrifty and find that they have difficulty in observing a regular periodic savings plan. The tanomoshi, with its mandatory payments, is a popular way of forcing someone to save. Since you cannot touch your money until you win the bid, you will not spend it ahead of time. Funds saved through an automatic savings plan in a bank can always be withdrawn upon presentation of the passbook. The tanomoshi provides "forced" will power.

At the time of this research in 1969-71, analysis of the rate structure of a typical tanomoshi led to the conclusion that the interest rates could be higher than at that time were allowed by usury law.

Legal Aspects of the Tanomoshi

According to information provided by the State of Hawaii Attorney General's Office, the legality of the tanomoshi scheme up to 1970 had never been considered by the State government. Further, there had never been any legislation affecting tanomoshis.

The tanomoshi did receive judicial opinion, however. The Supreme Court of Hawaii in October, 1928, issued a decision in a case which involved an appeal of a case from the lower court (Choi Heylin v. Shin Sung Yil, No. 1843). Supreme Court Judge C. J. Perry found that in a case where a suit for return of money loaned and advanced by the plaintiff (the oya) to the defendant (one of the members), evidence that the money was loaned in pursuance of the terms of a tanomoshi of which both the plaintiff and the defendant were members, will not sustain a judgement in favor of the plaintiff unless there is proof of the terms and conditions either of tanomoshis in general, if they are all alike, or of the particular tanomoshi in the case.

The case involved a suit for $92.05 before a Honolulu magistrate. In his summary, the Supreme Court Judge wrote:

> There was undisputed evidence tending to show that the plaintiff, being desirous of obtaining a loan, organized an enterprise known as a "tanomoshi," composed of twenty-one members, each of whom was to pay the sum of $20 per month for the period of twenty-one months; that the plaintiff, as promoter or "boss" of the tanomoshi, was to have the privilege of receiving the moneys contributed at the first meeting without bidding or paying any commissions, interest or premium therefor, and did accordingly receive at the first meeting the sum of $420, contributed

> by the twenty-one members at $20 apiece; that at each succeeding monthly meeting the $420 contributed was to be loaned to the member bidding the highest amount of what the members called "interest," that is to say, a sum of money to be paid by the successful bidder to each of the members who at any particular meeting had not yet received a loan from the association--except that the member who was to receive the loan at the twenty-first and last meeting need not offer or pay any "interest" or premium therefor.
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> At the fourth meeting, the defendant was the highest bidder as to the amount to be paid to the seventeen members (other than himself) who had not yet received a loan . . . and at that meeting seventeen members paid $20 apiece and the plaintiff added $80.00 to the amount so contributed, making a total contribution of $420 . . . the defendant received $420 from the meeting and paid a premium or "interest" of seventeen times $5.50 . . . Subsequently, the defendant paid to the plaintiff sixteen installments of $20 each on account of the loan or $420 which he received . . . and furnished groceries to the plaintiff in the sum of $7.95 leaving a balance of $92.05 "unpaid", which was the exact amount of the suit.

It was established in the testimony that the plaintiff had advanced the $80 to make up the deficiency caused by the failure of four members to pay the required $20 each, but it was not clear "whether she did this as a matter of duty under the rules of the tanomoshi or merely as a loan to the four delinquent members."

The defendant's attorney argued that the amount of interest paid for the loan of $420 was usurious and clearly it was (17 x $5.50 = $93.50 interest on a loan of $420——22.2 percent of the amount borrowed). However, the judge in the Supreme Court sustained the appeal for the reason the plaintiff had not proved that the loan was from her individually to the defendant.

> The judge commented, "There is no evidence before the court tending to support a finding that the $420 which the defendant received . . . was loaned to him by the plaintiff or a finding that the plaintiff was trustee for the other persons who joined her in contributing the moneys which were loaned to the defendant. So far as we know, "tanomoshis" are enterprises peculiar to certain Oriental races only and were introduced in Hawaii only after the coming of considerable numbers of the people in those races. We do not know, and it

is not generally known in this community, what the precise terms of a tanomoshi are or whether all tanomoshis are necessarily alike in all their terms. Insofar as the law of contracts goes, the terms of the tanomoshi may not be the same as the terms of another tanomoshi. The courts cannot take judicial notice of the terms of such enterprices or contracts.

The effect of this case shows that the burden of proof is upon the person who is trying to get reimbursement for money advanced to a tanomoshi through the courts. Since the rules of the tanomoshi are not normally put in writing, and the agreements (with the possible exception of the guarantee agreement signed by co-makers) are oral, it increases the risk of those involved in tanomoshis. They cannot sue in court for any lossses they sustain since there is no means of proving the terms of the arrangement, and the court has held that not all tanomoshis are operated in the same manner.

Tax Ramifications

The tanomoshi has, in the past, been investigated by the Internal Revenue Service. Since a tanomoshi is an unwritten arrangement and is often informal, the tax effects cannot be thoroughly enforced. In theory, the person who pays more into the tanomoshi than he receives, should be allowed to deduct the interest that he pays on his personal income tax return. Conversely, the individual who receives more from the tanomoshi than he pays in should declare it as income and should be liable for the income taxes on the interest he received.

There was a large tanomoshi in Wailuku, Maui in the mid-1960s which had thirty members paying $100 per month, a total monthly collection of $3,000. Thus, in the course of thirty months, $90,000 plus interest was involved. The amounts received and paid in interest were certainly considerable and the Internal Revenue office attempted to learn the details of the transaction. Nothing ever came of their investigation, however.

The State of Hawaii has a personal income tax under Chapter 235 on net incomes of individuals. Deductions normally follow federal law, and interest and certain types of contributions and dues are deductible. There is also a General Excise tax under

Chapter 237 on gross income, gross receipts, or gross proceeds of all business activities. Various business, occupation and nonbusiness licenses, fees and permits are imposed by either the state or county governments. It is apparent that taxes, licenses and other fees which normal financial institutions pay are circumvented by the tanomoshis. Under Chapter 241, Banks and other Financial Corporations are taxed on net incomes, as defined, at 11.7 percent on banks, savings and loan associations, industrial loan companies and other financial corporations (Tax Foundation of Hawaii, 1971).

While they have no published regulations or directives concerning tanomoshis, the State of Hawaii tax office reports that its field auditors in their examinations and audits of taxpayers' records have frequently discovered undeclared income which has been traced to tanomoshis. By examining cash records and bank statements, they have been able to establish income from tanomoshis and as a result have collected taxes due. They also disclosed instances where taxpayers have taken it upon themselves to declare their tanomoshi income and pay taxes on it. The tax office could not recall any instance where interest paid to a tanomoshi was treated as a deduction for income tax purposes.

Comparison with Other Financial Intermediaries

Over time, the tanomoshi has gradually been supplanted by other financial intermediaries. Most consumer savings and lending firms draw funds from households and business enterprises and make them available in turn to the same groups. In this sense, the tanomoshi is a financial intermediary. A tanomoshi, unlike a commercial bank, does not accumulate earnings. It is limited to receipt and return of funds. It is an economic unit which functions primarily as a depository of short-term funds and all funds are paid out to its members. Its net worth does not increase.

Financial intermediaries as we know them in the United States are essentially a creation of the nineteenth century. At the start of that period, there were less than three dozen commercial banks in existence. The numerous other types of financial intermediaries which we now know were not in existence and most of them had not even been thought of. There were, for example, no savings banks, no savings and loan associations, no credit unions, no mortgage companies, no personal trust departments, no investment companies, no sales or personal finance companies, and no government lending institutions. The development of financial intermediaries during the first half of the nineteenth century was very slow except in the field of commercial banking.

Credit Unions

The first credit union in North America was formed in Quebec, Canada in 1900, and was called the *Caisse Populaire de Levis.* The first law permitting credit unions in this country was passed in Massachusetts in May, 1909. By 1934 State laws had legalized credit unions in 41 of the 48 states and the District of Columbia and over 3,000 credit unions were in existence. In 1934 the Federal Credit Union Act was passed which permitted organization of a credit union anywhere in the country. In the next seven years, the total number of credit unions doubled.

The original law of 1934 limited the amount of an unsecured loan to $50.00 and the maximum maturity on loans was two years. Successive revisions of the law increased the amount of unsecured loans and the maturity was increased.

In Hawaii, as in the rest of the nation, the spread of credit unions made loan and deposit facilities more readily available to the working people. The credit union encourages its members to save regularly and to make deposits into a common pool from which loans are made to members for a wide range of consumer purposes. Credit unions are subject to detailed state regulation and supervision and are deemed a safe and secure place to deposit. Members exercise democratic control on the basis of one vote per member. Capital is derived mainly from the savings of the members and loans are made only to members at reasonable rates of interest. The organizations are nonprofit and members have limited liability. No discrimination is made on the basis of race or political or religious beliefs.

Perhaps more than commercial banks, the credit unions in Hawaii have been influential in replacing tanomoshis. Credit unions are a lot less risky than tanomoshis, but they still allow an individual to pool his resources directly with members of his own community or his fellow employees. Since credit unions rarely have branches and are only loosely associated with each other, their individual members are closely associated. Unlike the tanomoshi, the credit union is managed by a board of directors, who are elected by the membership, rather than being controlled by one man. They also pay and charge interest rates which fluctuate very little from year to year. Some credit unions are federally insured, thus providing their savers maximum security.

Savings and Loan Associations

The first savings and loan activity in Hawaii started in 1890. Not until the 1920s did they begin to spread and enjoy wider acceptance amongst the working people. Since their branch offices are restricted by regulation, some of the outside islands still [1971] did not have any savings and loan offices. Before World War II, savings and loan associations were formed to cater to particular ethnic groups. Nowadays they have broad community appeal. Since they deal primarily with long-term real estate loans, they have done little to supply the small loan needs of the consumer. However, as a depository they provided a reasonably safe place for consumers to deposit their savings. For this reason, savings and loan associations have been an important factor in replacing tanomoshis.

Consumer Finance Companies

By the end of World War II the pent-up effective demand for consumer durables was enormous—mainly due to depression postponements, wartime deferments, and greatly expanded incomes. Although consumers had become very large holders of cash and liquid assets, these resources were inadequate to finance the desired purchases. Recourse to consumer credit was quick and grew rapidly in the postwar years.

Sales and personal finance companies arose to meet this demand. While they were in existence prior to 1945, they evolved from the industrial loan companies and their previous emphasis was on business credit. The advent of Statehood in Hawaii in 1959 brought a flood of small finance companies which came along with the economic boom that Hawaii enjoyed. Many had advertised that they were located in every state and now they had to add Hawaii to the list. Normally formed as individual corporations for each branch office, they spread into every major city and town in Hawaii. As secondary financial intermediaries, finance companies derive their funds from other financial intermediaries, rather than from households and non-financial business enterprises.

Consumer finance companies specializing in the smaller personal loan needs of the public became a popular means of obtaining credit throughout Hawaii. Operating small offices with low overhead, their strong advertising campaigns attracted many of the younger generation away from the tanomoshis. Since they offer prompt approval and flexible repayment terms, they became the most convenient source of consumer credit and the most prevalent source after banks.

Investment Huis and Limited Partnerships

The *hui*, which is a Hawaiian word meaning "to come together" and "association" (the similarity to the Mandarin Chinese way of saying *wui* is coincidental) is a popular form of pooling various resources for speculative joint ventures. Land huis have been very popular, particularly amongst the Chinese in Hawaii. A typical hui is formed like this letter which solicited membership:

June 8, 1970

Dear:

We have acquired a parcel of land consisting of 20 acres of prime farmland located in ______. Terms are $31,800 down with a balance of $95,450 to be paid in five equal annual installments of $19,090 plus interest at 7% simple, commencing June 15, 1971.

Our Hui will consist of ten shareholders to each contribute $3,300 by June 20, 1970. Out of the $33,000, the down payment of $31,800 will be made, with the balance of $1,200 held in reserve for incidental expenses such as taxes and closing costs. If the property is not sold within a year we will require an assessment of approximately $2,700 each to meet the payment due June 15, 1971.

The total cost of the property is $127,250 which breaks down to under 15¢ per square foot. The land is presently being farmed with the lease to expire on June 30th. We may [have] to decide to renew the lease for one year if it is determined that this would not impair its saleability.

Since time is of the essence, please advise me of your decision as soon as possible.

Sincerely,

Partners who cannot afford the full amount required often split their share in the investment with a friend or business associate. The hui organizer normally acts as the leader, and is the general partner. The members are the limited partners.

On the mainland, these arrangements are called real estate investment partnerships. The Horizontal Property Regime Act which in 1964 created the condominium in Hawaii became a natural investment for huis. The front money or seed money often comes from huis by providing the equity which starts a condominium project. The hui normally provides three advantages to its members: limited liability, financial leverage, and a tax advantage through depreciation.

The growth of the financial intermediaries discussed here has tended to provide alternatives to tanomoshi members both for savings and investment and as a source of borrowing funds. The prevalence of these institutions and their liberal credit policies available to the consumer have caused a decline in tanomoshi activity.

Banks and Tanomoshi

While working from 1969 to 1971 in the town and plantation community of Lahaina, the tanomoshi was observed in operation. Before World War II, Bank of Hawaii was the only bank in Lahaina, having merged with the Bank of Maui in 1931. There were no other active credit unions, finance companies, savings and loan associations or any other financial institutions located in the Lahaina area in those days.

From the earliest time, the bank's principal customers were business firms, the sugar plantation, the manager and supervisors of the plantation, and certain other upper-class people in the area. Over half of the bank's loans and investments were made to accommodate business firms. Real estate loans rather than consumer loans were the next largest outlet of the bank's funds. Consumer installment credit was at that time still in its infancy.

The alien plantation laborer was generally excluded from the lending policies of the bank. His wages were quite low although his housing and medical expenses were borne by the plantation. The workers were not unionized as they are now and they were housed in camps segregated by racial groups. The bank in those days was not very public relations minded and did not actively solicit business from the laborers. Since payrolls were made in cash, the laborer rarely had any need to come to the bank.

Under these circumstances, it is easy to see what an important role the tanomoshi played in supplying the consumer credit needs of the laboring section of the community. It was the only credit facility available to many individuals who were not able to deal with the bank because of their economic, social, and language barriers.

With the onslaught of the great depression, the demand for business credit contracted sharply. Banks found themselves with an excess of funds available to invest in loans. During the late 1930s and 1940s, consumer installment credit loans became a popular bank investment. As banks, credit unions and savings institutions became more widespread throughout Hawaii, they began gradually to replace the tanomoshi. Banks became a more attractive medium for savings by the consumer. People also found financial institutions more willing to accommodate their credit needs. The Hawaiian-born generation is not as active as their parents in the tanomoshi. They would rather do business with banks which are recognized by the state and are protected by the government.

The tanomoshis began to become less popular as the number of financial institutions increased. Established financial institutions became a much more convenient source of credit after World War II and a safe place to put one's savings. The tanomoshi also carried a stigma since the one who started it was considered to be in financial distress and was sometimes avoided by his associates. A loan from a finance company or a bank is a confidential way to borrow as well as a respected one.

Banks as a general rule gradually relaxed their credit requirements for consumer loans after World War II and their installment lending programs have become more attractive to the consumer. Workers now earn better pay than they used to and thus can support more installment credit. While the tanomoshi used to be the only available means of financing in certain areas, people who formerly dealt in tanomoshis now find that consumer finance companies, credit unions, and banks are much more convenient.

Bank Marketing Efforts

The marketing programs of Hawaiian banks nowadays place a good deal of emphasis in reaching beyond racial, cultural and language barriers of the people of Hawaii. Banks advertise in Oriental language newspapers, on Filipino and Japanese language radio and television programs, and other media which are geared to reach the non-English speaking people in Hawaii. They also have amongst their employees many members of these races who are bilingual. Some banks employ specialists in their business development departments who are on the road much of the time traveling in plantation areas where the non-English speaking people are concentrated.

In the post-World War II years, Bank of Hawaii had a Filipino representative who made a circuit periodically through the Filipino plantation camps. His results in soliciting deposit and loan business was very substantial and his efforts were quite effective. He presented what he called his "medicine show" where he held an evening meeting in the camps with free refreshments and Filipino entertainment. Interspersed in the activities, he lectured the Filipinos on the advantages of dealing with the bank, and encouraged them to put their savings in an institution where it would be protected.

Banks in Hawaii project an image of reliability and safety through their marketing programs and they try to appeal to the consumer's basic needs. They stress that they have people who are competent at their jobs and are ready and willing to serve the consumer. It is this image through advertising that has made banks more popular to all groups in Hawaii.

Summary and Conclusion

The tanomoshi is a dying arrangement. It served a useful purpose in Hawaii's financial history and was an important means of providing consumer financing. Today it has been replaced by other financial intermediaries and is becoming part of the past. It is now a memory to many people who used to rely heavily on it.

The tanomoshi is a good example of a service that people can provide to each other in a mutual manner, to their mutual benefit. However, the degree of risk involved in a tanomoshi scheme has made it less preferable to other means of raising money. We have seen that the tanomoshi idea is not a new one and that its history went back for centuries. We have seen how it came to Hawaii and the useful purpose it served to the Japanese immigrant who had no financial institutions to go to. We have analyzed the risks, exposure, rate structure and some of the mechanics and variations of the tanomoshi (see Derby, 1971). We have also discussed its legal and tax aspects. But we can only conclude that, for understandable reasons, the tanomoshi is no longer as meaningful in the financial system of Hawaii as it used to be.

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NOTE: Current data on banks and other financial institutions in Hawaii are available in the *Annual Economic Review*, published by Bank of Hawaii every August.