

The Effect of the lending policy on the Profitability of Commercial Banks Operating in Jordan

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Abstract

The lending policy contains many elements designed to achieve profitability and reducing risks of investment that banks may exposed while performing its tasks, especially providing loans to clients. As the bank's own lending policies for granting loans with its different dimensions (Central bank policies, Volume of deposits, levels of decision-making in granting Loans, guarantees, interest rate, Controlling and follow-up), may affect the profitability of commercial banks operating in Jordan, and accordingly the problem of the study stems from idea that some commercial banks operating in Jordan are adopting strict lending policies that affect their profitability, therefore this study aims to demonstrate the impact of these lending policies on the profitability of Commercial banks operating in Jordan. This study relied on the descriptive analytical approach to describe and review the theoretical framework for the effectiveness of the lending policy in commercial banks operating in Jordan, where the preliminary information was gathered through a questionnaire prepared for this purpose, and the study community consisted of all the commercial banks operating in Jordan. The study concluded that there is a statistically significant effect of lending policies on the profitability of commercial banks operating in Jordan, with a positive relationship reaching (75.3%), which means that, the credit

decisions in the Jordanian commercial banks are contributing to about 75.3% of their returns, and there is a statistically significant effect of lending policies (with their combined variables) on the profitability of commercial banks operating in Jordan. Also the lending policies adopted by the Jordanian commercial banks have interpreted (53.9%) of their profitability, which shows the importance of these policies in generating the desired returns according to the directions of administration strategies, and these policies contribute to ensure the efficiency of the credit portfolio and thus improving the profitability of banks. Depending on the results, the study recommended that the Jordanian commercial banks should focus on finding highly efficient and effective lending policies to manage their credit risk, and there is a need to a clearly allocated task, responsibilities and powers within credit policies so that different administrative levels are granted the right to make high-quality credit decisions that enhance the speed of taking decision, thereby increasing customer base and profits.

Keywords: Lending policies, Credit risk, Credit decisions, Profitability of commercial banks. Jordan.