

**THE EFFECT OF THE REAL COST OF BORROWING ON BORROWER
BEHAVIOR IN COMMERCIAL BANKS: A CASE OF CENTENARY BANK
MUKONO BRANCH**

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J22B34/025

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF SCIENCE
IN ECONOMICS AND STATISTICS OF UGANDA CHRISTIAN UNIVERSITY**

September, 2024



**UGANDA CHRISTIAN
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DECLARATION

I, **NAKIGANDA SAMALIE** declare that this is an original and independent copy of my research report and has not been previously submitted to any higher institution of learning for any academic award.

Signature *NSamal* Date: 09 / 09 / 2024

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APPROVAL

This research report entitled “**THE EFFECT OF THE REAL COST OF BORROWING ON BORROWER BEHAVIOR IN COMMERCIAL BANKS**” has been under the supervision of the undersigned academic supervisor, and now it is ready to be submitted to the School of Business of Uganda Christian University.

Sign: *Mirembe*

Date: 09/09/2024

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DEDICATION

To the experiences we never expected and paths that were redirected. To the friends and family, we found along the way and those continuing with their academic journey, I dedicate this work to you with love.

ACKNOWLEDGEMENT

First, I would like to thank God who gave me the strength and ability to carry out my research in short time. I also want to thank my supervisor Mrs. Elsie Nsiyona for supervising my work and teaching me as well as my other colleagues for guiding me and cooperating with me during this research.

To the academic staff of Uganda Christian University, especially my dear lecturers in the faculty of business for your love, support and knowledge that they gave me to enable me attain practical skills.

I also acknowledge my academic supervisor Mrs Elsie Nsiyona for the time and efforts in supervision and guidance throughout the whole research period.

My sincere gratitude also goes to my mother for her courage and friends who gave me financial and moral support to be able to successfully complete this research.

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LIST OF ABBREVIATIONS AND ACRONYMS

APR -	Annual Percentage Rate
CB -	Commercial Bank
EU -	European Union
FDIC -	Federal Deposit Insurance Corporation
GDP -	Gross Domestic Product
KYC -	Know Your Customer
NPA -	Non-Performing Assets
TILA -	Truth in Lending Act
USD -	United States Dollar

ABSTRACT

The study sought to determine the impact that real borrowing cost had on borrowers' behavior in commercial bank lending. The present study examined the components of real borrowing cost from commercial banks and its impact on borrowers' behaviour.

It intends to study the influence of interest rates, service charges, insurance premiums, and opportunity cost on borrowers' decisions and repayment patterns at Centenary Bank in Mukono, Uganda. A combined approach is followed in this study, where both quantitative and qualitative methods are used to assess behaviour related to loan uptake, loan repayment rates, and perceptions on the cost of the loans.

The findings underneath this figure make it clear that interest rates, service charges, and insurance premiums each have a significant impact on the total cost of borrowing in important ways that influence both borrowers' decisions about their borrowings and their repayments. High levels of financial literacy are associated with better borrower decision-making and satisfaction; transparency and flexible repayment options are important for managing financial stress and enhancing repayment rates. The study identifies the ways to support borrowers in decision-making and retaining financial stability: improved communication on all elements of cost and their explanation, financial literacy programs, and flexibility regarding loan contracts. Further research is thus recommended into the long-term effects of borrowing costs, borrower decision processes, and the role of financial literacy in different economic contexts.

Key words: true cost of credit, interest rates, service charges, insurance premiums, opportunity cost, borrower behaviour, financial literacy, repayment rates, take-up of loans, borrower satisfaction.

The main purpose of the study was to determine the effect of the real cost of borrowing on borrower behavior from commercial bank. The study investigated the components of the real cost of borrowing from commercial banks and their effect on borrower behavior.

Focused on Centenary Bank in Mukono, Uganda, the research explores how interest rates, service charges, insurance premiums, and opportunity costs influence borrower decisions and repayment patterns. Using a combination of quantitative surveys and qualitative interviews, the

study assesses borrower behavior, including loan uptake, repayment rates, and satisfaction with loan costs.

The findings reveal that interest rates, service charges, and insurance premiums significantly affect the total cost of borrowing, influencing borrowers' decisions and repayment behavior. High levels of financial literacy are associated with better borrower decision-making and satisfaction, while transparency and flexible repayment options are crucial for managing financial stress and enhancing repayment rates. The study highlights the need for improved communication of all cost components, financial literacy initiatives, and flexible loan terms to support borrowers in making informed decisions and maintaining financial stability.

Future research is recommended to explore the long-term effects of borrowing costs, borrower decision-making processes, and the role of financial literacy in different economic contexts.

Key Terms used: Real cost of borrowing, interest rates, service charges, insurance premiums, opportunity cost, borrower behavior, financial literacy, repayment rates, loan uptake, borrower satisfaction.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The nature of the problem concerning the true cost of borrowing from commercial banks can be said to be multilayered at Centenary Bank, Mukono. It may include certain other than nominal interest rate costs, such as fees, service charges, and insurance premiums that borrowers are likely to incur. In this respect, these ancillary costs could make loans more expensive than initially perceived by increasing the overall financial burden on borrowers. Understanding these complexities is important for both borrowers and lenders, since it has implications for financial planning and even confidence in banking institutions (Berger & Udell, 2016).

The actual cost of credit directly affects the personal and business economy of those seeking credit. In light of uninformed borrowers coming into contact with efficient conditions of repayment, their entering a state of financial distress can lead to possible defaults (Hannoun, 2018). Moreover, it dents trust in financial institutions since it lacks transparency in the cost of borrowing. Such a situation does not augur well for economic growth. It is against this that the study tries to research on implications of the cost of borrowing to increase communication between banks and their customers.

The study attempts to offer practical solutions that might increase borrower awareness and increased Centenary Bank lending practices, hence promoting a healthier financial environment through providing a broader insight into these costs and their impacts. This chapter consequently focuses on the background of the study, problem statement, purpose of the research, objectives, question and significance of the study.

1.1 Background to the Study

Globally, various regions have tackled the issue of real cost of borrowing through different regulatory frameworks. For instance, the European Union developed the Consumer Credit Directive with the aim of increasing transparency and protecting its consumers from excessive borrowing costs (European Commission, 2018). Similar efforts are being made in the emerging markets where their financial inclusion initiatives are focused on conveying more explicit information to their borrowers.

The true cost of borrowing has been a concern for many people worldwide, especially now that economies are either emerging or their capital markets are getting quite sophisticated. Globally, financial institutions have been pushed towards lending in an open manner so that consumers do not get overexposed to the cost of borrowing. For example, the European Union enacted the Consumer Credit Directive that was meant to ensure clarity in credit agreements and that consumers are fully informed of the credit costs. In this regard, this directive stipulates full disclosure of interest rates, charges, and fees, hence making such loans facilitate rational decisions of the borrowers. It is regulatory frameworks like these that will help strike a balance in the financial landscape, where consumers are empowered to make more effective choices about their options for borrowing.

In the United States, the Truth in Lending Act (TILA) of 1968 was a significant milestone in addressing the issue of hidden borrowing costs. TILA requires lenders to disclose the Annual Percentage Rate (APR), which includes both the nominal rate and additional fees, providing borrowers with a clearer understanding of the total cost of credit (Federal Reserve, 2021).

In the African region, another pressing issue has been that of borrowing costs. Several countries have made efforts regarding financial inclusion by creating more banking facilities, along with advocacy towards more transparent lending. The African Development Bank called for clarity on the costs of borrowing in order to allow consumer empowerment to take place. Yet despite these various efforts, challenges persist, especially in rural areas where sources of reliable information on financial matters are sparse.

Similarly, the challenges in Africa that commercial banks have been facing are not equally isolated. In East Africa for example; Kenya's bank costs fees spread has been relatively higher than the average for Tanzania but lower than that of Uganda. This is because; Kenyan commercial banks charge higher rates to riskier borrowers in anticipation of defaults, therefore account for loss provisions in the decomposition. Charges also account for overhead costs, taxes, and required reserves, all the above are factors that contribute to higher spreads (Hamid, 2017).

Within the East African region, the dynamics of borrowing costs are shaped by both local economic conditions and global influences. Countries like Kenya, Uganda, and Tanzania exhibit significant variations in the cost of borrowing, influenced by factors such as risk assessment

practices and regulatory environments. For instance, research indicates that Kenyan banks tend to charge higher interest rates to riskier borrowers, anticipating potential defaults, which contributes to a higher cost of borrowing compared to Tanzania and Uganda (Hamid, 2017).

In Uganda, Kithinji and Waweru (2017) argued that banking problems began as early as 1986 culminating in major bank failures following the crises of 1986 to 1989, 1993/1994 and 1998. They attributed these crises to non-performing assets which is due to the commercial banks spread.

The banking industry has faced the twin devils of non-performing assets and interest rates. These two factors render the borrowing environment to be very complex; hence, there is a great need for the borrower to have full knowledge of the complete cost of credit. Additionally, the EAC has acknowledged that there is a need for harmonized regulations in securing financial transparency and consumer protection for the member states. Such initiatives are fundamental in nurturing a healthy banking environment which, in turn, would result in benefits for the borrowers.

It is with increased consumerism that the real cost of borrowing in Uganda has now been an issue of great concern not only to consumers but also to financial institutions.

The banking sector has faced challenges related to non-performing assets and fluctuating interest rates. These factors complicate the borrowing landscape, making it essential for borrowers to understand the full scope of costs associated with loans. Furthermore, the East African Community (EAC) has recognized the need for harmonized regulations to improve financial transparency and protect consumers across member states (EAC, 2021). Such initiatives are vital in fostering a more competitive banking environment that benefits borrowers.

The banking industry in Uganda has been subjected to numerous changes throughout the last decades, and most significantly after those economic crises in the late 1980 and 1990s, which led to some major bank failures (Kithinji & Waweru, 2017). These are historical challenges that have contributed to a very cautious lending environment, where the banks charge more for the risks involved in non-performing loans. Real cost of borrowing: defined as the total amount paid by borrowers for their loans from financial institutions, adding on all other fees and service charges, among other hidden costs, on top of the nominal real cost. For financial institutions and

borrowers, full understanding of the coverage of cost of borrowing is important in terms of transparency and well-informed decisions (Chomsisengphet, C. 2016).

Historically, there is an evolution in the concept of real cost of borrowing as far as the maturation of the banking sector is concerned. Since most early days' borrowing costs focused on real costs, the invention of modern banking paved the way for financial products to become sophisticated. Banks then devised various fees and charges for covering administrative costs, risk management, and margins of profit (Hudgins 2019).

In the context of commercial banks, the real cost of borrowing plays a significant role in shaping lending practices and borrower behavior. For instance, studies have shown that the hidden costs of borrowing can impact small businesses' access to credit, influencing their growth and sustainability (Berger & Udell, 2016). It is therefore against this background that the study intends to investigate the effect of real cost of borrowing from commercial banks; A case of Centenary bank, Mukono.

1.2 Statement of the Problem

These influential factors include the real cost of borrowing, which encompasses the nominal rate of interest, several fees, service charges, and insurance premiums, on the part of borrowers in the Ugandan commercial banking sector. Most of these hidden costs always come with heavy financial burdens, hence characterizing the behaviors of borrowers and the wider economic landscape.

Borrower behavior in Uganda's commercial banking sector is significantly influenced by the real cost of borrowing, which includes not only the nominal interest rate but also additional fees, service charges, and insurance premiums. These hidden costs often impose substantial financial burdens on borrowers, shaping their borrowing behaviors and impacting the broader economic landscape (Kithinji & Waweru, 2017).

Many borrowers in Uganda lack a clear understanding of the total costs associated with borrowing, which leads to unexpected financial strain and complicates effective financial planning. This lack of transparency not only diminishes the credibility of commercial banks but also erodes trust between lenders and borrowers, ultimately contributing to increased rates of default and repayment rates and financial distress (Ssewanyana & Okidi, 2007).

This cycle of misunderstanding and mistrust hinders economic growth, as borrowers become reluctant to seek loan uptakes, stifling investment and innovation in the economy. Given these challenges and consequences, the researcher seeks to determine the effect of the real cost of borrowing on borrower behavior in Uganda's commercial banks.

1.3 Purpose of the study

The main objective of the study was to determine the effect of real cost of borrowing on borrower behavior from commercial banks; A case of Centenary bank, Mukono.

1.4 Objectives of the study

- i) To investigate the components of real cost of borrowing from commercial banks
- ii) To examine the status of borrower behavior in commercial banks
- iii) To assess the effect of real cost borrowing on borrower behavior from commercial banks.

1.5 Research Questions

- i) What are the components of real cost of borrowing from commercial banks?
- ii) What is the status of borrower behavior in commercial banks?
- iii) What is the effect of real cost borrowing on borrower behavior from commercial banks?

1.6 Significance of the study

The study enabled the researcher to fulfill the partial requirements for the award of a Degree in Economics and Statistics from Uganda Christian University, Mukono. Through this study, the researcher developed an in-depth understanding of how the real cost of borrowing influences borrowers' behavior and effectively how financial institutions can mitigate exchange hazards like the opportunistic behavior of borrowers.

The research provided valuable reference materials for investors who would wish to invest in the banking sector in the Mukono region and Uganda at large for investment purposes. The study also offered relevant information and knowledge that financial institutions could use to identify factors influencing the real cost of borrowing from commercial banks and to gain insights into binding and bonding social capital.

Additionally, the research offered explanations as to why customers continued to face challenges in loan repayment despite efforts by commercial banks to revise the real cost of borrowing. The findings provided the government with insights into potential interventions to reconcile banks with their customers, with the aim of increasing loan accessibility for potential borrowers.

The study also equipped the Government of Uganda, particularly the Ministry of Finance, with a detailed analysis of factors contributing to the rising real costs imposed by commercial banks. Attempting to analyze the determinants of the real cost of borrowing in commercial banks across Uganda, the study made a significant contribution to understanding the financial landscape and identifying potential areas for policy improvement.

1.7 Conceptual framework

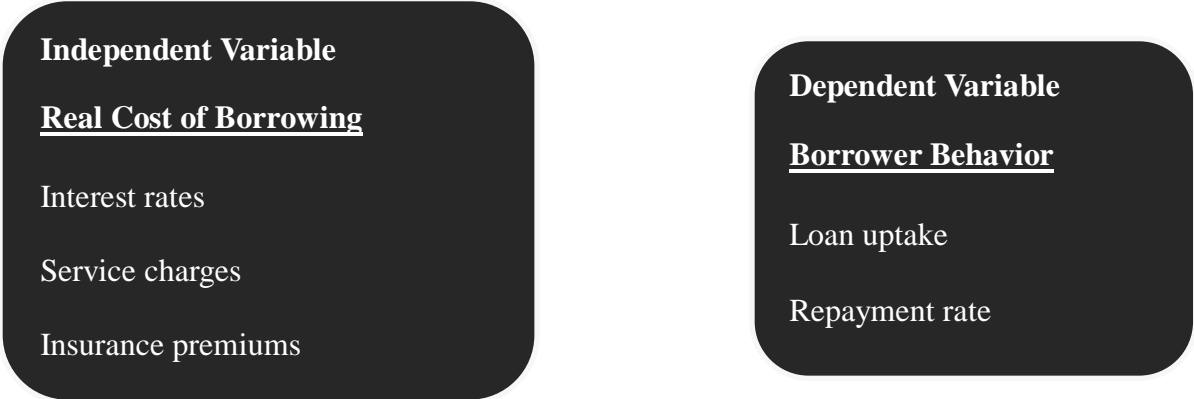


Figure 1: Conceptual framework

Adapted from Johnson (2021) and modified by the researcher

The conceptual framework illustrates how the “Real Cost of Borrowing,” which includes factors like interest rates, service charges, insurance premiums, and opportunity costs, as the independent variable. Whereas “Borrower Behavior,” encompassing loan uptake, repayment rates, and borrower satisfaction is the dependent variable. The cost-benefit analysis theory supports this conceptual framework by assessing the trade-offs between the real costs of borrowing and the benefits borrowers expect to receive. This theory thus underscores the decision-making process as reflected in the framework.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter critically reviewed earlier scholarly contributions and empirical evidence about real cost of borrowing from commercial banks. This section sets the base for a clear comprehension of the phenomenon, identification of gaps in prevailing knowledge and justifies the rationale of undertaking this study through a critical review of relevant contemporary literature.

2.1 Theoretical framework

This study was addressed and theoretically guided by the Cost Benefit Analysis theory that is explained below;

2.1.1 Cost Benefit Analysis Theory

The CBA theory provides a basic framework for understanding the processes that a borrower goes through in making decisions on the true cost of borrowing. According to this theory, individuals weigh the total costs of borrowing against expected benefits to arrive at a decision on financing (Mwesigwa, 2018). It bases its application on comparing the total expected costs of an action against the total expected benefits from the action and enabling stakeholders to make appropriate choices. During the actual research into the cost of borrowing at Centancy Bank, Mukono Branch, CBA can be applied as below:

Borrowers consider nominal rates of interest aside from other costs of service charges and insurance premiums, opportunity costs. A borrower may consider a loan with relatively lower interest rate, which has high service charges and insurance costs. These ingredients will, therefore, enable the borrower to determine the actual cost of the loan. A borrower thus weighs up the benefits that accrue from the loan, such as increased profits, expansion of the business, or creating opportunities for investment in other fields. Such benefits weighed against the summation of costs will enable the borrower to come to a more rational decision on whether to borrow or not.

CBA application would, therefore, help borrowers to have an in-depth analysis before closing the deal on a loan. This would be appropriate in the Ugandan context, given that most borrowers may not have built any capacity for financial literacy. On the side of the borrower, being in a better position to appreciate what the real cost is against the anticipated benefits would help debtors avoid falling into open debt traps (Nuwagaba, 2020).

Generally, if it is continuously viewed by the borrowers as a loan structure that is unfavorable, then the banks can make adjustments in the kinds of offerings to be more attractive and transparent. Policymakers can also make use of such insights in promoting financial literacy programs, helping borrowers understand the actual true cost of borrowing (Mwesigwa, 2018) Using the Cost-Benefit Analysis Theory applied in the study helps in attaining a lot of information pertaining to the decision-making process for Centenary Bank borrowers. This information improves the ability of lenders and legislators to create favorable financial conditions, other than helping borrowers to make better decisions regarding their finances. The framework provokes a more enlightened and transparent borrowing climate in Uganda, with stability and economic progress in view.

2.2 Real Cost of Borrowing

The actual cost to the borrower for assuming debt, therefore, goes beyond the rate of interest to include extra fees, insurance costs, and the impacts of inflation. According to Choudhry (2018), it is an all-inclusive measure of the real cost of a loan to the borrower. This includes interests payable, administrative charges, among other charges that significantly increase the total amount repaid. Secondly, inflation is a significant determinant of the real cost of borrowing as it affects the purchasing power of money during the life of a loan. Shen & Corneille, 2019 state the importance of the real cost understanding by the borrower for informed financial decision-making and avoidance of unexpected expenses. For instance, high interest rates prevail in Uganda, making the prospects very reluctant to borrow. Mwesigwa (2018) illustrates that volatility of interest rates increases the financial burden on the borrowers, particularly in terms of low-income households. This does not only affect their capability of loan servicing but also generally the financial stability.

On the other hand, service charges are also one of the important determinants of real cost of borrowing. These may include application fees, processing fees, and other administrative charges by the financial institution for loan disbursement. As Atingi-Ego (2019) observes, most of the borrowers in Uganda may not have prior knowledge of such charges; hence, the lending process is partly not very transparent. This obscurity can lead to increased financial pressure on the borrower since the actual cost of borrowing could be very high. Insurance premiums often come tagged along with loans, especially in cases where lenders require borrowers to insure their loans in mitigation of their risk. This can be added to the already high real cost of borrowing. A study done by Nuwagaba (2020) shows that insurance premiums, due to increase by a large magnitude in financial obligations, are normally disregarded by many borrowers. Insurance is often integrated into the loan agreement and might further complicate the assessment of the real cost of borrowing on behalf of the borrower.

What is more intriguing about opportunity cost is when it involves loans, as the amount that goes toward loan repayment may go to other ventures or investments. According to Okello (2021), some Ugandan entrepreneurs have an extremely high opportunity cost in loan repayment, as the capital could have been used in expanding or making investments in other businesses. The ability to understand the trade-off decision allows borrowers to appreciate the true cost of their decision to borrow.

Instead, interest rates, service charges, insurance premiums, and opportunity cost are among the factors that account for the real cost of borrowing in Africa. Each of these factors is contributive in modifying borrower behavior and financial outcomes; hence, enhancing transparency over such costs is considered critical in improving financial literacy among borrowers and better financial decisions and economic stability.

2.2.1 Interest rates

Interest rates are important because they impact the cost of borrowing, saving behavior, and overall economic activity. Interest rates are basically the price of having access to money lent or return on savings expressed as a fraction of the amount lent in monetary terms. This interest rate is crucial for both the lender and the borrower. Especially, the interest rates have to be understood within the African environment where the economic situations change so much. Central banks have great impacts on interest rates. For example, the Bank of Uganda sets

benchmark rates that determine the lending rates in the economy. The increase in the rates by central banks to curb inflation raises the costs of borrowing; hence, slowing down economic growth (Mwesigwa, 2018).

Inflation rates impact directly on the interest rates too. With an increase in the rate of expected inflation, nominal interest rates also increase since the lender will seek to recompense for such loss in buying power over time. Thus, this tends to be a meaningful basis upon which borrowers would want to consider the true cost of borrowing, now made real by accounting for inflation through the nominal interest rates (Atingi-Ego, 2019).

The market conditions, including supply and demand dynamics, further influence interest rates. In times of economic decline, the demand for loans would decrease and, therefore, lower the rates. In high economic times, demand for credit rises and, therefore, the rates rise too. High-interest rates may lower borrowing, particularly for the low-income category and small businesses. Access to credit would be more limited and, as such, this slows down economic growth. According to Mwesigwa (2018), in Uganda, whenever the rates remain high, this has often led to reduced uptake of loans amongst those who may want them.

Moreover, as interest rates increase with a hike, so does the servicing cost of current debts. The emergence of such development portends a likelihood of default, especially for the vulnerable borrower who may not be able to meet his or her obligations. Interest rates also influence investment decisions, whereby at ease, that is, low rates, there is borrowings towards investments in businesses or infrastructure. In such a case, capital expenditure may be cut down. Interest rate is the most direct factor of borrowing cost, which refers to the proportion of a loan that the borrower needs to pay to the lender for his or her use of money. Conventionally, the rate of interest is quoted on an annual basis as the Annual Percentage Rate of interest, APR. The interest rate rewards the lender for giving up an alternative use of capital and for assuming risk in making the loan. Interest rate, although the most advertised feature of a loan facility, is according to Choudhry (2018), only one aspect of the cost of borrowing, and concentration on it alone may be misleading.

2.2.2 Service charges

Service charges are fees that financial institutions impose for processing loans and providing various banking services. These charges can significantly influence borrowers' decisions and overall borrowing costs, making them a crucial independent variable in financial studies. It is, therefore, very important that the implications of service charges by both borrowers and lenders are well understood at the time of assessing the affordability and attractiveness of loans. High service charges would make people refrain from applying for loans or look elsewhere for other financial opportunities. According to Atingi-Ego (2019), some of these charges are always overlooked by the borrower when considering alternatives and thus come as a shock to the borrower's finances.

Besides the interest rate, there are many fees and charges which almost all borrowers have to bear, adding a great deal to the overall cost of borrowing. These range from origination fees charged by the bank for processing the loan, to processing fees paid for covering administrative costs, to late payment fees whereby borrowers are penalized for failing to make payments on time, to prepayment penalties for paying off loans early. Mian and Sufi 2015 add that the service charges are, at times, disguised and thereby unknown to the borrowers. This makes the overall cost of credit much higher than expected or perceived.

At most instances, service charges occur in tandem with interest rates, considering the overall cost of credit. Mwesigwa, 2018 observes that borrowers often stress interest rates and disregard service charges, which on most occasions take a lion's share of the general cost of borrowing. This again possibly causes borrowers to take on more expensive debt burdens than perhaps they had initially intended. The level of financial literacy among the borrowers is a very key factor in the understanding of the meaning of service charges. With respect to such fees, most of the borrowers in developing economies may not be knowledgeable enough, hence causing them to make uninformed decisions. Nuwagaba, on the other hand, in 2020, emphasizes that the financial education programs should provide customers with service charge awareness and its impact so that the borrowing decision can be made more informatively.

Lenders must comprehend how borrowers see service fees in order to properly create and sell their products. Financial institutions can increase market competitiveness by reducing or explicitly disclosing service prices. According to Okello (2021), openness about all fees—

including service charges—can increase consumer satisfaction and foster confidence among borrowers. Service charges serve as a key indicator of the overall cost of borrowing and significantly influence borrower behavior. Their relationship with interest rates, the importance of financial literacy, and implications for lenders underscore the need for a comprehensive understanding of these charges. As financial products evolve, both borrowers and lenders must navigate the complexities of service charges to foster a more transparent and accessible borrowing environment.

2.2.3 Insurance premiums

Insurance premiums are the expenses that a policyholder has to pay against receiving insurance cover. They may have a significant impact on the true cost of borrowing and decision-making in financial matters, particularly in environments where it is common to sell loans combined with insurance products. It is important to understand the role that insurance premiums have on both the borrower and lender. According to Atingi-Ego (2019), if the premiums are not spelt out, there is a risk that the borrowers may underestimate the overall cost of borrowing. This might be a burden, particularly on the budget of low-income borrowers whose budgets are already strained to the limit.

It is true that including premium in loan products would impact attractiveness towards it. According to Mwesigwa (2018), compelled insurance in a loan product may discourage prospective borrowers, mainly if they perceive the premiums charged as high. This calls for transparency in the package offered to a client and the need for the borrower to be fully informed of all the costs involved.

The bigger influencing factor is the borrowers' view about insurance premiums, which mainly emanates from the levels of financial literacy. Most of these people may lack the pertinent and relevant knowledge to make a judgment on how insurance premiums can affect their economic lives. Nuwagaba (2020) further expounds that increased levels of financial literacy would provide borrowers with a better and rational judgment of insurance and how these have impacts on their financial performances.

From the perspective of lenders, financial literacy determines how changes in insurance premiums influence the behavior of borrowers in coming up with appropriate product designs and, indeed, undertaking efficient marketing campaigns. According to Okello, 2021, the lenders

can improve the level of customer satisfaction by providing flexible insurance alternatives or disclosing the premium costs. Such transparency will help in gaining trust and enable borrowers to approach the financial institutions with more confidence. Insurance premium cost is an inherent part of the overall cost of the loan; it can have great strategic consequence on the borrower's choice and behaviour. Their relation to loan products, the relevance of financial literacy, and implications for lenders all combine to underline the necessity for an all-rounded understanding of these premiums. As financial products continue to get refined, both borrowers and lenders will need to understand the dynamics of insurance premiums as a means of driving towards an open and inclusive financial ecosystem.

2.3 Borrower Behavior

Borrower behavior is a crucial section that falls within the scope of finance, dealing with the decision-making and actions executed by individuals and businesses when approaching loans. Analyzing borrower behavior as the dependent variable helps the researcher contextualize what influences decisions to borrow, the ways in which the borrower will repay, and their general financial outcomes. The interest rates and associated costs form, no doubt, one of the main determinants of borrower behavior. High interest rates commonly serve to deter potential borrowers, often sensing that the loan might be too expensive. That is supported by Smith (2020), who states that on most occasions, the concern of the borrower is the interest rate. It is at this point that often leads to several misconceptions on the amount it costs to borrow.

Financial literacy plays a very important role in influencing borrowers' actions. According to Johnson (2021), persons with high financial literacy have been able to make good analyses when it comes to borrowing and its implications. It leads to better decisions being made instead of the persons who do not have this experience or knowledge and may find difficulties in loan decision evaluation, hence poor borrowing decisions. In short, inflation and employment security are the two basic economic circumstances that govern the borrower's attitude in most aspects. According to Brown, when an economic downturn occurs, most people tend not to borrow money due to uncertainty over their financial state. Its adverse impact could surface as a decrease in the demand for loans and shifting attitudes in borrowing attitude.

Repaying behaviour is another main dimension of borrower's attitude. Taylor adds that these patterns may be related to "initial borrowing experience, financial constraints, and access to alternative finance". Knowing such behavior will enable lenders to formulate appropriate repayment schemes and, thus, assistance programs. Borrowers' behavior is also subject to psychological factors. The level of risk aversion and the level of confidence in financial institutions are factors affecting attitudes towards borrowing. According to Lee (2020), there is a predisposition by borrowers to borrow more when they have confidence in the lenders, since they are assured of not failing to pay back.

2.3.1 Loan uptake

The factors determining loan uptake are important, especially in the African context, in informing financial institutions, policy, and researchers on how economic development can be influenced by access to finance. Interest rates and loan terms also have considerable influences on loan uptake. Various studies, such as that by Mwangi 2020, show that high-interest rates deter potential borrowers, especially in low-income settings. Borrowers often aim for loans with friendly terms, and perceived cost of borrowing tends to bind them either way. Kihanda 2021, also found out that increased financial literacy can make consumers more aware of loan products and their implications, hence increasing uptake. Low levels of financial literacy make people wary and uncertain; this cautiousness could curtail credit availability.

The general state of the economy has a great influence on loan uptake. Chikoko 2019, also found out that stability in the economy and economic growth relates positively to increased take-up of loans. During times of economic contraction, borrowers tend to be very shy and demand fewer loans. Social networks also act as a significant determinant in people's decisions regarding loan uptake. According to research by Oduro (2022), people are likely to take loans if they see their peers managing similar loans positively. Peer influence can act as motivation to participate in financial products.

One of the major reasons for this situation is the lack of sufficient information on available accessible loan products.

According to Ndiritu (2020), lack of information on the types of loans available and on the eligibility criteria that must be fulfilled to access them results in the partial utilization of financial services. Collateral requirements are considered generally to be one of the major difficulties that borrowers face, especially in the informal sectors. Most of them do not have adequate assets that can be used as collateral for securing loans; hence, they cannot access credit facilities. (Karanja, 2021)

2.3.2 Repayment rate

Demographic variables like age, education, and income status determine the rate of loan repayment. According to Adebayo (2020), the young and low-income earners are likely to experience incidences of loan delinquency since at this stage, their financial standing is not stable. On the other hand, most borrowers with higher levels of education have better repayment records due to, among other reasons, increased financial literacy. Loan terms such as interest rates and repayment schedules also are some of the pertinent factors that surround repayment behavior. In an empirical study, Mwangi (2021) found that flexibility in the repayment plan increases the likelihood of borrowers fulfilling their obligations compared to inflexible terms. Conversely, high-interest rates translate to more defaults especially among those borrowers of low income.

Inflation, unemployment rates, and general economic stability are some of the economic aspects that affect loan repayment. In a study conducted by Chikoko, 2019, when the economy is in a slump, so do the repayments as borrowers go through increased financial hardships. Stability of sources of income is an influential factor on maintaining the repayment schedules for self-employed persons. Social networks and community ties may have a place in influencing the prospects of the repayment behavior. For instance, Oduro (2022) established that perceived social pressure, either by the community or peer groups, will make them more willing to repay. Community support and collective responsibility might improve your commitment to repay.

Financial Literacy is one of the key drivers of loan repayment rates. Ndiritu, (2020) confirms that with a better financial literacy level for borrowers there would be appropriate management of their finances and, therefore, timely repaying. Financial literacy education programs could, therefore, help in improving the repayment rates. The business policies of lending institutions also contribute to the repayment rates. Adebayo, (2020) observes that those institutions which

are involved in supporting the borrowers through their businesses and offer some financial advice have higher repayment rates. The terms and conditions of the loan are clearly and transparently communicated to establish trust and ensure that repayments would be made on time.

2.3.3 Borrower satisfaction

Borrower satisfaction refers to the degree of comfort a borrower enjoys with the financial institution. It refers to the credibility of the service provided, as well as the total experience encountered by the borrower. Generally, service quality forms the foundation of borrower satisfaction. It is said that borrowers are very pleased when they experience faster and active service provisions (Agboola, 2021). The basis dimensions responsiveness, reliability, and empathy left by the financial institution on the customer will determine customer satisfaction.

Loan terms have a meaningful influence on borrower satisfaction. According to a study conducted by Mwangi in 2022, it came out that clear and transparent loan terms, like clear interest rates and schedules for repayment, are some of the aspects contributing to higher levels of satisfaction. The borrowers appreciate the fact that they are cognizant of the full cost of borrowing, hence there are no hidden fees. There is a need for proper communication between the lender and the borrower. As Ndiritu (2020) details, clear regular updates and open lines of communication make the borrowers happy. Follow-up services that include financial advice and reminders from institutional support also improve the experience of the borrowers.

Financial literacy influences satisfaction levels in that, from the study done by Kihanda, 2021, borrowers better educated about the financial products are satisfied with their loans. Such beneficial knowledge can be improved through education as these informed choices increase satisfaction.

Expectation of the borrower is also important in satisfaction. Adebayo, 2020 argues that satisfaction is experienced when expectations of borrowers are met or exceeded. Partial satisfaction of expectations often tends to lead to dissatisfaction, hence all it takes should be applied to ensure that service delivery does not contradict what borrowers need. The reputation of lending institutions affects the satisfaction of borrowers. A person will be more inclined to be

satisfied with those perceived to enjoy a good reputation concerning ethics and customer service. Overall satisfaction with the borrowing experience increases trust in the institution.

Service quality, loan terms, communication, financial literacy, borrower expectations, and institutional reputation are important drivers or impediments of satisfaction among borrowers. These issues should, therefore, be paid close attention by every financial institution that aspires to increase the level of customer satisfaction and loyalty. Further, ongoing research in this area will be imperative for changing the borrower experience in a fiercely competitive financial future.

2.4 Summary of Literature gap

Up to now, the literature has shown that loan uptake, repayment rates, and borrowers' satisfaction are all influenced by a number of key factors, especially in an African context. There is, however, considerable scope for further research. On the other hand, some gaps have been noted and need further research. For instance, there have been various studies focusing on loan uptakes, the repayment rate, and level of satisfaction by borrowers; however, few combine all these factors as a whole. Understanding the relationship between these aspects is expected to provide complete understanding of the behavior of borrowers regarding microcredits (Adebayo, 2020; Mwangi, 2021; Agboola, 2021).

As a result, most of the studies available have used cross-sectional data and therefore have restricted information to detail how borrowers' behaviors and satisfaction levels change over time. Longitudinal studies may show how the dynamics of the experience of borrowers and the long-term effects of financial literacy and service quality are constituted. Research also tends to target specific and narrow demographic segments, such as low-income borrowers and smallholder farmers. In fact, there is a need for studies that take into consideration not only diversified borrower segments but also different socio-economic backgrounds with their manifold needs and behavior in general.

Empirical data are also lacking from countries other than Kenya and Nigeria, where most of the studies are concentrated. The implication of widening the scope of research in terms of countries studied on the overall understanding of the behaviour of borrowers on the continent is an added dimension of knowledge. This is in agreement with works by Ndiritu 2020, and Oduro, 2022.

These informational gaps, once addressed, do much to enhance one's understanding of borrower dynamics and have a role in informing the formulation of targeted strategies with a view to improving financial services in Africa.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter contains the details of research design, study population, sample size and sample design, data sources, data collection instruments, measurement of variables, validity and reliability of the research instruments, data process and analysis, ethical considerations, and the limitations of the study.

3.1 Research Design

The study design adopted a descriptive research design, using a mixed method approach. The design was chosen because it is flexible in both quantitative and qualitative data collection. Quantitative data analysis was used to describe the statistics of the results using indices while the qualitative approach described the current situation and investigated the associations between the study variables using information gained from the interview guide.

3.2 Area of Study

The study was conducted at Centenary Bank-Mukono, which is located in Mukono Municipality, central region. Centenary is regarded one of the cheapest banks, used by a quarter of the banked population of 1.4m people. The bank holds customer days to get feed-back from them on how it can improve its services.

3.3 Study Population

The study targeted a selected total of 182 both employees and clients from different departments in Centenary Bank ranging from; IT department, finance department, executive, audit, credit, liabilities, human resource and customers of the bank since they had key information pertaining to the variables of the study and all these were summed to a population of 182 respondents (Adong & Mucunguzi, 2023).

3.4 Sampling Design and Sample Size

3.4.1 Sample Design

In this study, a stratified random sampling was adopted where by the selected customers in Centenary Bank constituted the strata from each stratum, there after simple random sampling techniques were applied so as to enable the customers have equal representation. In order to

gather qualitative data, purposive sampling techniques were also applied to the study. This enabled the researcher to come up with findings that were reliable and valid.

3.4.2 Sample Size

The sample size refers to the selection of a sub set of the population of interest in a research study. Sample size for this study was determined using the Krejcie and Morgan (1970) table for determining the sample size. Therefore, from the selected total population of 182 both respondents and participants, a sample size of 123 were selected to provide relevant information on the phenomena.

Table 1: Distribution sample size distribution of respondents

Category of Respondents	Population of Respondents	Sample size	Sampling technique
IT Department	2	2	Purposive sampling
Finance Department	2	2	
Executive	1	1	
Audit	1	1	
Credit	2	2	
Liabilities	7	5	
Human Resource	9	5	
Customers	158	105	Stratified random sampling
Total	182	123	Simple random sampling

Source; primary data, 2024

3.4.3 Response rate

The study's response rates were strong across both quantitative and qualitative data collection methods:

Table 2: Response Rate

Approach	Sample Size	Number of Responses/Participants	Response rate
Quantitative	105	104	99%
Qualitative	24	20	83%

Field data, 2024

Quantitative Data: The overall response rate was 99%, with 104 out of 105 selected sampled customers responding.

Qualitative Data: The response rate for interviews was 83%, with 20 out of 24 sampled Bank staff participating in the interview process.

The table therefore illustrates that the study achieved high engagement in both quantitative surveys and qualitative interviews, ensuring a comprehensive dataset for analysis.

3.5 Data Sources

The study generated data mainly from primary sources and this informed the study extensively.

3.5.1 Primary Data

For the purposes of this research, primary data was collected by use of questionnaires and interviews. The questionnaires were distributed to staffs of the Centenary Bank (Uganda) to weigh the different views of each department studied in the research. The main concern was to ensure that the results of the research are accurate and applicable.

3.6 Data Collection Instruments

During the process of data collection, the searcher employed a variety of instruments and these varied depending on the category of respondents. Interview guide and questionnaire instruments of data collection were employed.

3.6.1 Interview guide

These involved the use of an interview guide which was conducted face to face with respondents. Formal key informant interviews were particularly helpful because they helped the researcher to be systematic and get expert knowledge and opinion in the process of data collection. Key informant interviews also helped the researcher explain and prove aspects that were unclear and not easy to understand.

3.6.2 Questionnaire

The study used a structured questionnaire measured using a 5point Likert scale (Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree) so as to ascertain completeness of data by permitting the collection of pre-conceived responses. The questionnaire was designed in such a way that it captured quantitative responses.

3.7 Measurements of Variables

The independent variable for this study was the real cost of borrowing from Centenary bank while borrower behavior served as the dependent variable. The scales of both variables were measured using on a 5- point Likert scale such that Strongly Disagree = '1', Disagree = '2', Not Sure = '3', Agree = '4' and Strongly Agree = '5', respectively as adopted from Saunders, Lewis & Thornhill (2009).

3.8 Validity and Reliability of Data

For reliability of the questionnaire, the researcher used experienced academicians to review the questions and categories listed in the original questionnaire and interview. In addition, a Cronbach α coefficient was used to test the internal consistency for all items under respective variables. Hair et al. (2016) suggested that Cronbach's α coefficient over 0.6 is adequate for basic research. To ensure the perfection of the study tool, a pilot study was also conducted.

To assure validity, questionnaires were designed on the basis of previous studies' Questionnaires and review of related literatures. Furthermore, the questionnaire used in this study was given to independent experts in consultation with a statistician to evaluate it for content validity as well as for conceptual clarity and investigative bias.

3.9 Data Analysis

Data analysis was done through a combination of both descriptive and inferential statistics. Descriptive data was collected, edited then transformed into frequencies, percentages then reported with mean and standard deviation. This was carried out to ensure that the data from the respondents was accurate, complete, reliable and consistent. Inferential statistics of regression analysis was applied to objective 3 on the effect of the real cost of borrowing on borrower behavior. The study was further compiled and analyzed using content analysis for qualitative

data and an interpretation was presented in a detailed format through explanatory notes, quotations and the use of a thematic analysis table that was appended.

Moreover, all the questionnaires from the respondents were properly and carefully scrutinized so as to check on the omissions, completeness and inconsistencies upon which coding was done in SPSS v25.

3.10 Ethical Considerations

The researcher acted responsibly according to research ethical standards to ensure that the information gathered would not bring disrepute. The researcher also made sure that all the respondents had a right to privacy, to safety and that they knew the true purpose of the research and most important of all, the researcher gave them the liberty to abstain from answering questions where they felt uncomfortable with the study.

Besides that, the intellectual property rights were also respected by properly citing and referencing to avoid plagiarisms. The researcher also respected the respondents and the information they provided was highly confidential and non-discriminatory measures were undertaken as well to safeguard the interest of the respondents.

3.11 Limitations and delimitations of the study

The small sample size used in this study may have compromised the generalization of results. This limitation relates to the participant selection delimitation, which only involved selected active borrowers from Centenary bank within a particular time frame. This indeed narrowed down the participants to a few focused ones, but it has meant that other people who recently exited the borrowing market or were inactive were further compromising the truthfulness of the results.

The case study had to be conducted within a narrow time frame, which means that only a non-longitudinal analysis of data could be undertaken and that the opportunity to analyze long effects of the borrowing costs was excluded. Deliberately delimiting research to a period so as not to complicate it with longer economic changes emphasized this limitation. Such a focus helped to maintain the scope relatively manageable but meant failing to capture the extended-time effects of borrowing costs.

The study was focused within Mukono municipality only; therefore, it cannot represent the full variety of experiences in borrowing from different areas. Consequently, it has limited external validity. This was done in line with the delimitation to a particular economic environment in order to understand its effect within a particular setting. The fact that it has provided insights relevant to that setting also narrows down the generalization of these results into other geographical and economic settings.

The investigation was done in an economic fluctuation time, which might disturb the real cost of borrowing apart from the results of other variables. This limitation occurred due to the limit of delimitation in which the nominal interest rate was the only main measure for the cost of borrowing, while other costs associated with it, such as fees and service charges, were treated as secondary measures. Although this allowed concentrated analysis to fall on the interest rates, it might have missed other important variables that could have altered the real cost of borrowing. The study was conducted during a period of economic fluctuation, which might have influenced the real cost of borrowing, making it challenging to isolate the impact from other economic variables. This limitation was linked to the delimitation where the study focused specifically on nominal interest rates as the primary measure of borrowing costs, with other associated costs like fees and service charges considered secondary. While this allowed for concentrated analysis on interest rates, it potentially overlooked other significant factors affecting the real cost of borrowing.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.0 Introduction

This chapter covered the detailed analysis and interpretation of data gathered from 123 respondents in Mukono Municipality. This study was meant to establish the effect real cost of borrowing on borrower behavior from commercial banks in Mukono municipality. The study also tends to find out the components of real cost of borrowing from commercial banks, and it tries to assess the status of borrower behavior in commercial banks. This chapter analyses the dynamics of borrowing in commercial banks through a complete analysis of demographic characteristics, real cost of borrowing, and borrower behavior.

4.1 Demographic Characteristics of the Respondents

It is of essence to understand the nature of demographic variables, since such information provides a background against which subsequent analysis of the real cost of borrowing and its implications on borrower's behavior is drawn. The data collected on gender, age group, marital status, number of years spent with the bank, and education level of the respondent form the bases of this section. These variables help to understand the background of the respondents, which in turn affects their perceptions and experiences of the real cost of borrowing and borrower behaviour.

Table 3: Demographic Characteristics of the Respondents

Category	Subcategory	Frequency	Percent
Gender of respondents	Female	57	54.3
	Male	47	45.7
	Total	104	100.0
Age group of respondents	18-29	20	19.2
	30-39	37	35.6
	40-49	28	27.0
	Above 50	19	18.2
	Total	104	100.0
Marital status	Married	38	36.5
	Single	53	51.0
	Widowed	13	12.5
	Total	104	100.0
Education level	Diploma	14	13.5
	Degree	35	33.7
	Masters	21	20.2
	PhD	5	3.8
	Professional Certificate	10	9.6
	No formal education	20	19.2
Total	104	100.0	
No. of years spent with the bank	1 year & less	18	17.3
	2 - 4 years	47	45.0
	5 - 7 years	23	22.1
	Above 7 years	16	15.6
	Total	104	100.0

Field data 2024

The data explains the demographic and employment details of the respondents and encompasses information that points to gender, age, marital status, education level, and the number of years with bank from the respondents in order to show the real cost of borrowing on borrower behavior.

The response distribution within the survey at Centenary Bank, Mukono branch, has a slight preponderance of female customers over male customers, at 54.3% and 45.7%, respectively. This near-equal distribution suggests that any findings on borrower behavior obtained in the study were fairly representative for both genders, although the slight majority of females may indicate a marginal gender difference in borrowing patterns or attitudes toward the cost of borrowing.

The respective age brackets represented are between 30-39 years (35.6%), between 40-49 years (27%), between 18-29 years (19.2%), and above 50 years (18.2%). It is, therefore, expected that the highest number of borrowers at Centenary Bank, Mukono branch, are within these active working years, which again shows their more probable involvement in economic activities with a felt need to have access to more capital through borrowing. The smaller representation of younger and older borrowers may suggest that either the needs for borrowing are different or the real cost of borrowing Level has a lesser impact on these age groups. A majority of the respondents are single, 51.0%, followed by married, 36.5%, while a small percentage reported themselves as widowed, 12.5%.

Most of the respondents reported being single, 51.0%; married ones constituted 36.5%, while the least constituted 12.5% being widowed. This higher proportion among single respondents may thus indicate that unmarried people are more willing or able to take on debt, probably because of fewer family obligations. Currently married, on the other hand-which is the biggest group of respondents at 36.5%-can borrow for family-related needs and may thus be more sensitive to borrowing costs. The group of widowed is smaller and may thus have other priorities or constraints on their financial decisions that make their sensitivity different. On the level of education of the respondents, the data shows that a big group of respondents holds a degree course 33.7%, while 20.2% possess a master's degree, hence meaning that Centenary Bank, Mukono branch, has quite educated borrowers. This relatively high level of education may be positively related to the level of financial literacy and implications of borrowing costs. The existence of respondents with no formal education equaled 19.2%, while those who possess only professional certificates were 9.6%. These, therefore, suggest that there is also an appreciable portion of the customer base with probably low financial literacy and whose borrowing decisions might be influenced differently.

The majority of the respondents have been with Centenary Bank, Mukono branch, for between 2 and 4 years, taking a total percentage of 45.0%, then followed by between 5 to 7 years, taking 22.1%. A smaller percentage falls below one year and those above 7 years, taking 17.3% and 15.6%, respectively. This skewed distribution suggests that the majority of the respondents are relatively established customers who, by this time in their relationship with the bank, have had sufficient experience with the bank's services to have reasonably informed views about the costs

of borrowing. Longer-term customers may perceive the true cost of borrowing differently compared to shorter-term customers and might therefore borrow differently.

The demographic data reveals a diverse range of respondents in terms of gender, age, marital status, education level, and duration of their relationship with the bank. The diversity in demographic characteristics is crucial as it allows the study to capture a broad spectrum of borrower behavior.

4.2 Findings on the components of real cost of borrowing from commercial banks.

This analysis examines the components of real cost of borrowing from centenary bank, Mukono branch. The data highlights various aspects of the real cost of borrowing, providing insights into their effect on borrower behavior.

4.2.1 Findings on Interest rate

According to the study objectives, the study was set to investigate the components of real cost of borrowing from commercial banks and particularly in this set to findings on the interest rate were revealed as follows;

Table 4: Findings on Interest rate

Interest rate	SD	D	SD+D	N	A	SA	A+SA	Mean	SDV
The interest rate significantly influences my decision to take out a loan.	8.70%	10.43%	19.13%	10.43%	52.17%	18.26%	70.43%	4.07	1.3400
I am fully aware of how the interest rate is calculated on my loan.	3.48%	6.96%	10.43%	19.13%	46.09%	24.35%	70.43%	4.07	1.3400
The interest rate on my loan is transparent and easy to understand.	16.52%	25.22%	41.74%	20.87%	24.35%	13.04%	37.39%	2.73	1.5872
The interest rate charged by commercial banks is fair and reasonable.	12.17%	13.91%	26.09%	14.78%	33.04%	26.09%	59.13%	3.71	1.5048
I consider the interest rate as the most important factor when choosing a loan.	13.04%	16.52%	29.57%	12.17%	27.83%	30.43%	58.26%	3.91	1.6432
AVERAGE	10.78%	14.61%	25.39	15.48%	36.70%	22.43%	59.13%	3.87	1.4351

Field data 2024

The analysis of consumer perceptions regarding interest rates in loan decisions reveals several important insights. The first statement, which asserts that interest rates significantly influence loan decisions, has a mean score of 4.07. This indicates that a majority of the respondents, approximately 70.43%, either agreed or strongly agreed with this statement. The standard deviation (SDV) of 1.3400 suggests a strong consensus among participants, reflecting a shared

understanding of the pivotal role that interest rates play in their borrowing decisions at Centenary Bank, Mukono.

. This statement was confirmed by majority of the bank staff that were interviewed, they affirm by saying that: *“Our bank determines interest rates through a complex algorithm that considers multiple factors: the central bank’s base rate, the borrower's credit score, loan amount and term, current market conditions, and our operational costs. We aim for transparency by clearly displaying the Annual Percentage Rate (APR) for each loan product, which includes the interest rate and certain fees. However, we could improve in explaining how individual rates are calculated. We provide a general range on our website and marketing materials, but the specific rate offered can sometimes surprise customers.”* (Participants 1, 3 and 9, 2024).

This implies that the bank uses a complex algorithm to set individualized interest rates, balancing transparency through APR disclosures with the need to improve customer understanding by offering more accurate pre-application estimates.

Similarly, when asked about their awareness of how interest rates are calculated, respondents reported the same mean score of 4.07. This consistency implies that a majority of the participants, again around 70.43%, feel informed about the mechanics of interest rate calculations. The SDV remains at 1.3400, reinforcing the notion that there is uniform understanding among respondents regarding this aspect of financial literacy.

In contrast, the perception of transparency concerning interest rates received a mean score of 2.73. This score suggests that only 37.39% of respondents agreed or strongly agreed that interest rates are clearly communicated. The higher SDV of 1.5872 reveals significant variability in responses, pointing to a divide in opinions. While some respondents find the information transparent, others perceive it as unclear, highlighting a critical area for improvement in lender communication strategies.

Regarding the fairness of interest rates charged by commercial banks, the mean score of 3.71 indicates that approximately 59.13% of respondents view the rates as fair and reasonable. However, the SDV of 1.5048 demonstrates that perceptions of fairness vary among respondents, suggesting that while a majority are satisfied, there are notable dissenting opinions that banks should address to enhance customer trust.

Finally, when considering the importance of interest rates in selecting a loan, the mean score of 3.91 reflects a strong sentiment that interest rates are a critical factor in decision-making, with about 58.26% of respondents agreeing or strongly agreeing. The SDV of 1.6432 indicates some variability in this perspective, but the overall agreement underscores the necessity for financial institutions to prioritize competitive interest rates in their offerings.

While the majority of respondents express strong awareness and agreement regarding the influence of interest rates, significant concerns about transparency and fairness remain.

4.2.2 Findings on Service charges

According to the framework, the study was set to investigate service charges as a component of the real cost of borrowing from commercial banks and the results were revealed as follows;

Table 5: Service charges

Service charges:	SD	D	SD+D	N	A	SA	A+SA	Mean	SDV
The service charges associated with my loan are clearly explained.	4.3%	7.0%	11.3%	3.5%	37.4%	47.8%	85.2%	4.30	0.0430
Service charges add a significant burden to the overall cost of my loan.	4.3%	7.8%	12.2%	10.4%	42.6%	34.8%	77.4%	4.10	0.0410
I am satisfied with the transparency of service charges on my loan.	0.9%	2.6%	3.5%	13.0%	48.7%	34.8%	83.5%	3.50	0.0091
I factor in service charges when deciding whether to borrow from a bank.	3.5%	4.3%	7.8%	11.3%	40.9%	40.0%	80.9%	4.30	0.0353
Service charges have impacted my ability to repay the loan on time.	10.4%	16.5%	27.0%	8.7%	40.9%	23.5%	64.3%	3.50	0.1041
Average	4.68%	7.64%	12.36%	9.38%	42.10%	36.18%	78.36%	3.82	0.0468

Field data, 2024

The findings reveal a mean score of 4.30, indicating that a substantial 85.2% of respondents either agreed or strongly agreed. The standard deviation (SDV) of 0.0430 suggests a strong consensus among participants, reflecting a shared belief in the clarity of communication around service charges. This was confirmed by majority of the staff that were interviewed and participant number 5 said that:

“A few service charges are associated with our loans, including application fees, processing fees, and sometimes late repayment fees. These can significantly impact the total cost, especially for smaller loans. In my experience, these charges often influence borrowers’ decisions, sometimes deterring them from taking loans or pushing them to borrow larger amounts to justify the fees. They can also affect satisfaction, particularly if borrowers feel blindsided by these additional costs. We’re transparent about these charges in our loan agreements, but I believe we could do a better job of highlighting them earlier in the process and explaining their necessity to improve customer understanding and satisfaction.” (Participant 5, 2024).

This implies that the bank acknowledges that service charges significantly affect borrowers’ decisions and satisfaction, suggesting a need for better upfront communication and explanation to enhance transparency and customer understanding.

Respondents also reported that “service charges add a significant burden to the overall cost of my loan,” with a mean score of 4.10. This indicates that 77.4% of participants recognize the financial effect of these charges. The Standard deviation of 0.0410 highlights that while most respondents share this view, there is slightly more variability in opinions compared to the clarity of service charges.

The results gathered from the statement regarding satisfaction with the transparency of service charges, the mean score is 3.50, suggesting that approximately 83.5% of respondents are satisfied. With a standard deviation of 0.0091 the findings indicate a low variability in responses, showing a general agreement on the level of transparency provided.

The mean score for considering service charges when deciding to borrow from a bank is 4.30, with about 80.9% of respondents acknowledging the significance of these charges in their decision-making process. The SDV of 0.0353 suggests a moderate level of agreement, indicating that while most borrowers factor in service charges, there is some diversity in how strongly they feel about this.

Finally, the statement regarding the impact of service charges on the ability to repay loans on time received a mean score of 3.50, indicating that about 64.3% of respondents feel these charges affect their repayment capabilities. The higher SDV of 0.1041 indicates greater variability in responses, suggesting that some individuals are more significantly impacted than others.

The findings therefore reveal a general consensus among respondents regarding the clarity and importance of service charges, with most recognizing their burden on loan costs. The varying SDVs highlight nuances in perceptions, particularly concerning the impact on repayment ability.

4.2.3 Findings on Insurance premiums

This analysis examines insurance premiums as a component of the real cost of borrowing in commercial banks. The data comprises of the elements structured in the table presented below:

Table 6: Insurance premiums

Insurance premiums	SD	D	(SD+D)	N	A	SA	(A+SA)	Mean	SDV
The insurance premiums required for my loan are clearly communicated.	18.26%	24.35%	42.61%	18.26%	23.48%	15.65%	39.13%	3.16	0.0958
Insurance premiums significantly increase the total cost of my loan.	6.09%	26.96%	33.04%	16.52%	38.26%	12.17%	50.43%	3.47	0.0851
I understand the purpose of insurance premiums on my loan.	9.57%	21.74%	31.30%	31.30%	25.22%	12.17%	37.39%	3.35	0.0893
I believe the insurance premiums on my loan are reasonable.	13.91%	11.30%	25.22%	21.74%	34.78%	18.26%	53.04%	3.63	0.0739
The insurance premiums have affected my willingness to take out a loan.	5.22%	15.65%	20.87%	13.91%	35.65%	29.57%	65.22%	4.00	0.0739
Average	10.61%	20.00%	30.61%	20.35%	31.48%	17.56%	49.04%	3.44	0.0848

Field data, 2024

The statement “The insurance premiums required for my loan are clearly communicated” yielded a mean score of 3.16 indicating that respondents are closer to being neutral but with a slight tendency towards agreeing with the statement. The findings further suggest that only 39.13% of respondents felt positive about the clarity of communication. The standard deviation (SDV) of 0.0958 indicates a moderate level of variability in responses, suggesting that clarity remains a concern for many borrowers. Participant number 9 was quoted affirming that:

“Insurance premiums, particularly for secured loans, can substantially increase the total cost of borrowing. They are crucial for protecting both the borrower and the bank, but they are often overlooked in initial cost considerations. We communicate these premiums in our loan offers and agreements, but I’ve noticed that many borrowers don’t fully grasp their impact until they see the final monthly payment. To address this, we’ve started incorporating insurance costs more prominently in our loan calculators and initial discussions with potential borrowers. This helps provide a more accurate picture of the total cost and allows borrowers to make more informed decisions.” (Participant 9, 2024).

The statement above implies that the bank recognizes that insurance premiums significantly raise borrowing costs and are often underestimated by borrowers, highlighting the importance of clearer communication and better integration of these costs in the loan process to aid informed decision-making.

Respondents recognized that “insurance premiums significantly increase the total cost of my loan,” with a mean score of 3.47 indicates that respondents generally agree with this statement. Moreover, 50.43% of respondents agreed that these premiums add a notable financial burden. The SDV of 0.0850 reflects a consensus on this issue, indicating a shared understanding of the financial implications.

The statement regarding understanding the purpose of insurance premiums scored a mean of 3.35, with about 37.39% of respondents expressing agreement. The SDV of 0.0893 indicates some variability, suggesting that while many borrowers grasp the rationale behind these premiums, a significant number still do not fully understand their purpose. For the perception of whether the insurance premiums are reasonable, the mean score was 3.63, with 53.04% of

respondents agreeing. The SDV of 0.0802 suggests a moderate consensus, indicating that a majority find the premiums justifiable, though there remains a notable portion of dissatisfaction.

The findings revealed that willingness to take out a loan received a high mean score of 4.00, with 65.22% of participants agreeing. This indicates a significant impact on borrowers' decisions related to loans. (SDV = 0.0739) suggests more agreement, highlighting that insurance premiums play a crucial role in borrowing decisions. Findings also indicate that while there is some understanding and acknowledgment of the impact of insurance premiums, concerns about clarity and communication persist.

4.2.4 Findings on opportunity cost

This analysis examines opportunity cost as a component of the real cost of borrowing in commercial banks. The data comprises of the elements structured in the table presented below:

Table 7: Opportunity cost

Opportunity cost	SD	D	(SD+D)	N	A	SA	(A+SA)	Mean	SDV
The opportunity cost of borrowing is a major consideration for me.	12.1%	9.1%	21.2%	7.6%	51.5%	19.7%	71.2%	4.00	0.754
I understand the financial sacrifices required when taking out a loan.	13.6%	34.8%	48.4%	1.5%	37.93%	12.17%	50.43%	3.14	0.0912
Borrowing from a commercial bank limits my ability to invest in other areas.	19.1%	32.7%	51.8%	6.10%	15.9%	26.2%	42.1%	2.83	0.0958
I weigh the opportunity cost heavily before deciding to borrow	15.3%	18.6%	33.9%	5.6%	39.3%	21.2%	60.5%	3.62	0.0841
The opportunity cost of borrowing has led me to delay or avoid taking loans.	3.0%	10.6%	13.6%	2.8%	64.7%	18.9%	83.6%	4.30	0.0558
Average	12.62%	21.16%	33.78%	4.72 %	41.86%	19.63%	61.57%	3.58	0.0815

Field data, 2024

The statement “The opportunity cost of borrowing is a major consideration for me” received a strong mean score of 4.00, indicating that approximately 71.2% of respondents either agree or strongly agree. The standard deviation (SDV) of 0.0754 reflects a high level of consensus, suggesting that most borrowers recognize the importance of opportunity costs in their borrowing decisions. From the qualitative data collected, participant number 3 commented that;

“The opportunity cost of borrowing is a concept that many of our customers struggle with, but it’s crucial in the decision-making process. It most significantly influences more financially savvy borrowers or those taking out large loans. For instance, business owners often weigh whether taking a loan to expand their business is more beneficial than using their existing capital. Similarly, individuals considering small loans often compare the cost of the loan against potential returns from investing their money elsewhere.” (Participant 3, 2024)

The statement from participant 3, (2024) implies that understanding the opportunity cost of borrowing is essential for making informed financial decisions, particularly for financially savvy borrowers and those considering large loans, but many customers struggle with this concept.

Understanding Financial Sacrifices: Respondents indicated a mean score of 3.14 for the statement “I understand the financial sacrifices required when taking out a loan.” Approximately 50.43% agree with this statement, but the higher SDV of 0.0912 indicates a wider range of opinions, implying some uncertainty or lack of clarity about the financial implications of loans.

The perception that “borrowing from a commercial bank limits my ability to invest in other areas” scored a mean of 2.83, with only 42.1% agreeing. The SDV of 0.0958 suggests significant variability in responses, indicating that opinions on this matter are mixed, with many borrowers not feeling strongly about the limitations imposed by borrowing.

The statement "I weigh the opportunity cost heavily before deciding to borrow" yielded a mean score of 3.62, with 60.5% of respondents acknowledging that they consider opportunity costs. The SDV of 0.0841 indicates a moderate level of agreement, reflecting a thoughtful approach by many borrowers when considering loans. The highest mean score of 4.30 was associated with the statement “The opportunity cost of borrowing has led me to delay or avoid taking loans.” This indicates that 83.6% of respondents feel that opportunity costs significantly influence their

borrowing behavior. The low SDV of 0.0558 suggests a strong consensus on this issue, highlighting its critical role in decision-making. These findings therefore, reveal that opportunity costs are a major consideration for borrowers, significantly affecting their willingness to take out loans. While many respondents understand the implications of borrowing, there is variability in perceptions regarding investment limitations.

4.3 The status of borrower behavior

This sub-section entails information regarding the analysis on the status of borrower behavior that has been integrated to cover key components including: Loan uptake, Repayment rate and borrower satisfaction as presented below;

4.3.1 Findings on Loan uptake

This analysis evaluates perceptions regarding loan uptake in commercial banks. The data reflects respondents' views on the loan uptake as a component of borrower behavior and the results are presented below.

Table 8: Loan uptake

Loan uptake	SD	D	SD+D	N	A	SA	A+SA	Mean	SDV
I frequently consider taking out loans from commercial banks.	7.8%	17.4%	25.2%	14.8%	48.7%	11.3%	60.0%	3.70	0.0875
The total cost of borrowing has influenced my decision to take out loans.	6.1%	21.7%	27.8%	20.0%	38.3%	13.9%	52.2%	3.52	0.0823
I am confident in managing loans due to an understanding of all costs involved.	16.5%	26.1%	42.6%	16.5%	24.3%	16.5%	40.9%	3.23	0.0900
Hidden costs have deterred me from borrowing from commercial banks	8.7%	32.2%	40.9%	18.3%	28.7%	12.2%	40.9%	3.18	0.0854
Frequent borrowing has affected my willingness to seek additional loans.	14.8%	16.5%	31.3%	14.8%	39.1%	14.8%	53.9%	3.65	0.0789
Average	10.78%	22.7%	33.56%	16.88%	35.82%	13.74%	49.58%	3.56	0.0848

Field data, 2024

The statement “I frequently consider taking out loans from commercial banks” has a mean score of 3.70, indicating that 60.0% of respondents either agree or strongly agree. This suggests a significant interest in loan options among borrowers, bolstered by a relatively low standard deviation (SDV) of 0.0875, indicating a consistent viewpoint. A statement from participant number 1 said that;

“In my experience, the factors that most influence a customer’s decision to take out a loan are immediate financial need, perceived future benefit, and the apparent affordability of the loan.

The real cost components definitely play a role, but their influence varies. The headline interest rate is often the most noticed factor, followed by the loan amount and term. More sophisticated borrowers also consider fees and insurance costs. The opportunity cost tends to be considered mainly for larger, long-term loans.” (Participant 1, 2024)

This implies that the bank’s observations indicate that while immediate financial need and perceived affordability are primary factors in loan decisions, the influence of real cost components, including interest rates, fees, insurance, and opportunity cost, varies among borrowers, with improved communication about these costs leading to more informed and sometimes altered loan choices.

Respondents indicated that “The total cost of borrowing has influenced my decision to take out loans,” with a mean score of 3.52 and 52.2% agreeing. The SDV of 0.0823 indicates a moderate level of variability, suggesting that while many consider costs, there are differing opinions on its influence.

The statement “I am confident in managing loans due to an understanding of all costs involved” scored a mean of 3.23, indicating that only 40.9% feel confident in their understanding of loan management. The higher (SDV = 0.0900) reflects uncertainty, suggesting that many borrowers may not fully grasp all associated costs.

Respondents reported that “Hidden costs have deterred me from borrowing from commercial banks” with a mean score of 3.18, indicating that 40.9% are affected by this concern. The SDV of 0.0854 shows a notable range of opinions, revealing that hidden costs are a significant deterrent for many borrowers.

The statement “Frequent borrowing has affected my willingness to seek additional loans” yielded a mean of 3.65, with 53.9% of respondents agreeing. (SDV = 0.0789) suggests strong consensus, indicating that those who have borrowed frequently may be hesitant to take on more debt.

The findings illustrate that while there is significant consideration of loans among borrowers, concerns regarding costs and hidden fees persist.

4.3.2 Findings on Repayment rate

This analysis focuses on perceptions of loan repayment rate related to borrower behavior among respondents in Centenary bank, Mukono. The data investigates the effect of repayment rate on borrower behavior as presented below;

Table 9: Repayment rate

Repayment rate	SD	D	(SD+D)	N	A	SA	(A+SA)	Mean	SDV
I am able to meet my loan repayment obligations without difficulty.	9.6%	29.6%	39.1%	17.4%	28.7%	14.8%	43.5%	3.27	0.092
Understanding all costs involved has helped me avoid loan defaults.	7.8%	19.1%	27.0%	16.5%	40.0%	16.5%	56.5%	3.55	0.078
Hidden costs have made it challenging for me to repay my loan on time.	6.1%	18.3%	24.3%	18.3%	42.6%	14.8%	57.4%	3.36	0.081
I regularly review my loan repayment plan to ensure I stay on track.	6.1%	5.2%	11.3%	13.9%	51.3%	23.5%	74.8%	3.82	0.075
Frequent borrowing has led to financial strain during repayment periods.	3.5%	6.1%	9.6%	15.7%	50.4%	24.3%	74.8%	3.63	0.071
Average	6.62%	15.66%	22.26%	16.36%	42.60%	18.78%	61.40%	3.46	0.079
Field data, 2024									

The results reveal that borrowers face challenges in meeting their loan repayment obligations, as indicated by a mean score of 3.27 (SDV = 0.092), with 39.1% expressing disagreement. This suggests that a notable portion of borrowers struggle to manage their payments effectively.

More than half of the respondents (56.5%) believe that understanding all costs involved in the loan process has helped them avoid defaults, emphasizing the importance of transparency and financial literacy in ensuring successful loan repayment. This statement was confirmed by participant number 7 who stated that;

“Repayment rates are significantly impacted by the total cost of borrowing, including fees and insurance premiums. However, challenges arise when borrowers don’t account for these costs, leading to late payment fees and unexpected financial difficulties. Despite offering flexible repayment options and financial counseling, maintaining healthy rates remains a significant challenge.”

This means that the real cost of borrowing affects repayment rates significantly, as borrowers who are fully aware of and prepared for all associated costs tend to manage repayments better, while those unprepared or facing unexpected financial issues often struggle, leading to late fees and a challenging cycle. The bank’s efforts to offer flexible repayment options and financial counseling aim to mitigate these challenges.

Furthermore, the understanding of loan costs plays a crucial role in preventing defaults, reflected in a mean score of 3.55 (SDV = 0.078). Here, 56.5% of respondents agree that awareness of all associated costs helps them avoid falling behind on repayments.

The issue of hidden costs is also significant, with a mean score of 3.36 (SDV = 0.081), indicating that these costs pose a challenge for many borrowers, as 57.4% report difficulties in making timely payments due to these unforeseen expenses. In contrast, the statement regarding regular review of repayment plans received a mean score of 3.82 (SDV = 0.075), suggesting a strong commitment among borrowers to actively manage their repayment strategies. A remarkable 74.8% of respondents agree with this statement, indicating that regular reviews contribute positively to their repayment success.

Lastly, the mean score of 3.63 (SDV = 0.070) for the statement on financial strain from frequent borrowing highlights that borrowing multiple times can lead to significant stress during repayment periods, as 74.7% of respondents acknowledge this burden.

Overall, these findings emphasize the importance of financial literacy and proactive management in ensuring successful loan repayments, with hidden costs and frequent borrowing emerging as critical factors influencing borrowers' financial well-being.

4.3.3 Findings on borrower satisfaction

This analysis examines perceptions of borrower satisfaction related to borrower behavior in commercial banks. The focus is on experience, borrowing process, financial well-being and hidden costs as presented below;

Table 10: Borrower satisfaction

Borrower satisfaction	SD	D	(SD+D)	N	A	SA	(A+SA)	Mean	SDV
I am satisfied with my overall experience with commercial bank loans.	9.57%	21.74%	31.30%	12.17%	39.13%	17.39%	56.52%	3.27	0.092
The transparency of costs has influenced my satisfaction with the borrowing process.	19.13%	23.48%	42.61%	10.43%	31.30%	15.65%	46.96%	3.55	0.078
I feel that commercial banks consider my financial well-being when setting loan costs.	9.57%	16.52%	26.09%	24.35%	35.65%	13.91%	49.57%	3.36	0.081
Hidden costs have negatively affected my satisfaction with borrowing from commercial banks.	16.52%	28.70%	45.22%	20.00%	21.74%	13.04%	34.78%	3.82	0.075
I would recommend commercial bank loans to others based on my experience.	6.09%	18.26%	24.35%	13.91%	40.87%	20.87%	61.74%	3.63	0.071
Average	12.18%	21.74%	33.91%	16.17%	33.74%	16.17%	49.91%	3.46	0.079

Field data 2024

The findings reveal that borrower satisfaction with commercial bank loans is mixed, as evidenced by a mean score of 3.48 (SD = 0.1218). Specifically, 31.30% of respondents expressed disagreement (SD + D) with the statement “I am satisfied with my overall experience with commercial bank loans,” indicating that a significant number of borrowers are not fully satisfied with their experiences.

The transparency of costs significantly influences borrower satisfaction, reflected in a mean score of 3.47 (SD = 0.1913). Here, 42.61% of respondents disagreed with the notion that transparency positively impacts their satisfaction. This suggests that many borrowers may feel uncertain about the costs associated with their loans, which affects their overall satisfaction with the borrowing process.

. Majority of the participants in qualitative data were in agreement especially number 12 who mentioned that;

“Borrower satisfaction with loan costs is mixed, with those with a good understanding of finance and informed decision-making feeling more satisfied. However, frustration does arise when, due to service charges and insurance premiums, the total cost comes out higher than initially anticipated. Transparency foremost, improvement in communication and education is being pursued to enhance overall satisfaction for borrowers.” (Interview, 2024)

This means that satisfaction for borrowers is mixed, with a tendency to be more satisfied when understanding the costs of loans and options being compared. Generally, most dissatisfactions come from unexpected high costs-especially service charges and insurance premiums. Interest rates drive initial satisfaction, but over time, other costs become more significant. The clear communication of all costs improves transparency and thereby borrower acceptance and satisfaction.

The perceived consideration by banks for their borrowers' financial well-being has a mean score of 3.43 (SD = 0.0957). A total of 26.09% of the respondents disagreed that commercial banks consider their financial well-being when setting the cost of loans. This would show there is some sort of disconnection between borrowers and banks regarding perceived concern for borrower welfare.

Regarding the question of hidden costs, which lower satisfaction, the average score is 3.26 (SD = 0.1652). The high rating of 45.22% of agreement in that matter of hidden costs affecting their

satisfaction shows the common concern of a client on extra charges during the time of borrowing.

Lastly, the willingness to recommend commercial bank loans to others, based on personal experience, scored a mean of 3.65 (SD = 0.0609). An encouraging 61.74% of respondents (A + SA) expressed a positive sentiment in this regard, suggesting that despite some dissatisfaction, many borrowers are willing to endorse commercial bank loans to potential borrowers.

Overall, these findings indicate that while there are areas of borrower satisfaction, significant concerns about transparency, hidden costs, and the overall banking relationship remain.

4.4 The effect of real cost borrowing on borrower behavior from commercial banks.

The third objective focused on the effect of the real cost borrowing on borrower behavior from commercial banks, by use of Regression analysis, the findings were presented in the table below.

Table 11: The effect of the real cost of borrowing and borrower behavior

Coefficients

		Coefficients ^a			
		Unstandardized Coefficients			
Model		B	Std. Error	T	Sig.
1	(Constant)	2.835	.406	.979	.000
	Interest rates	.457	.121	.569	.000.
	Serv Char	.356	.113	.391	.002
	Ins Prem	.398	.128	.485	.002
	Opp. cost	.242	.220	.200	1.100

a. Dependent Variable: Borrower behavior

From the above findings, interest rates show a significant positive relationship with borrower behavior undertaking a coefficient of 0.457, a standardized beta of 0.569, and a significance level of 0.000. This indicates that higher interest rates are associated with improved borrower behavior, reflecting that borrowers' may be more responsive to favorable or competitive interest rates.

Furthermore, service charges reveal a significant positive relationship borrower behavior with a coefficient of 0.356, a standardized beta of 0.391, and a significance level of 0.002. This suggests that service charges significantly influence borrower behavior, with higher charges potentially leading to a more engaged or responsive behavior from borrowers.

Additionally, insurance premiums also have a significant positive effect on borrower behavior with a coefficient of 0.398, a standardized beta of 0.485, and a significance level of 0.002. This indicates that borrowers who perceive insurance premiums as part of their loan costs may display better borrower satisfaction, more loan uptakes and a higher repayment rate, possibly due to the added security or perceived value.

Opportunity Cost remains non-significant with a coefficient of 0.242, a standardized beta of 0.200, and a p-value of 0.274. This suggests that opportunity is not associated with loan uptakes, repayment rates and borrower satisfaction in centenary bank, Mukono branch.

Generally, the analysis demonstrates that Interest Rates, Service Charges, and Insurance Premiums all have a significant positive association on borrower behavior, indicating that these factors are crucial in shaping how borrowers engage with and respond to loan products.

CHAPTER FIVE
SUMMARY, DISCUSSION OF FINDINGS, CONCLUSION AND
RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary, discussions, conclusions and recommendations of the findings presented in the previous chapter. The summary focuses on the findings in relation to the research questions of the study it intends to achieve. The summary is in sequence with the conclusion, which is also based on the findings of the study and finally the recommendations and areas for further research.

5.1 Summary of findings

5.1.1 Components of the Real Cost of Borrowing:

Interest rates have a significant positive impact on borrower behavior. Higher interest rates, when perceived as competitive or favorable, are associated with more positive borrower engagement. This highlights the importance of clearly communicating interest rates and their implications for borrowers.

Service charges are another important factor affecting borrowers' behavior. These include application fees, processing fees, and late repayment fines, which influence borrowers in one way or another. While they are stated in the loan agreements, early understanding and explanation could lead to a higher level of satisfaction among the borrowers.

Insurance premiums, especially for secured loans, carry a lot of weight in the overall cost of borrowings. The conspicuousness of insurance premiums within loan calculators and discussions depicts better awareness on the part of the borrowers. Although they are meant to protect both parties, their impact needs more articulate communication to fully aware borrowers.

This study does not show any significant effect of opportunity cost on borrower behavior. Even though it is an important factor for borrowers who are financially conscious and, likewise, where the loans amount is big, at the same time, it is less influential where the loans are for small personal amounts in which case immediate needs may override all else.

5.1.2 Status of Borrower Behavior in Commercial Banks:

The factors that would influence the borrowers' behavior would include perceived cost of borrowing and understanding of loan components. Whereas the interest rate may be paramount

in the initial decision to borrow, over time it becomes less important than service charges and insurance premiums.

Borrowers with a good understanding of the costs involved tend to make more informed decisions and show higher satisfaction. However, unexpected costs or a lack of clear communication can lead to frustration and dissatisfaction.

5.1.3 Effect of Real Cost Borrowing on Borrower Behavior

Higher interest rates, when communicated effectively, lead to more an enhanced borrower behavior. Competitive rates attract borrowers and influence their satisfaction and engagement.

The findings revealed that when insurance premiums are clearly communicated, there is a positive and significant association with borrower behavior. Therefore, effective integration of the real cost of borrowing in loan discussions helps borrowers understand the total cost and make better decisions.

However, Opportunity cost does not significantly influence borrower behavior of the borrowers in Centenary bank, Mukono. While relevant for some borrowers, it does not appear to be a primary concern for most individuals taking out loans.

Overall, addressing the real cost components comprehensively and transparently can lead to more informed decisions and improved borrower satisfaction.

5.2 Discussion of Findings

5.2.1 Real cost of borrowing

The study shows that interest rates have a significant positive effect on borrower behavior ($\beta = .457$, $p = 0.000$). High-interest rates often discourage potential borrowers by increasing the perceived cost of borrowing. This aligns with Smith (2020), who notes that borrowers tend to prioritize interest rates over other costs, potentially leading to misconceptions about the overall expense. In the context of Uganda, as highlighted by Mwesigwa (2018), high-interest rates can reduce loan uptake and impact financial stability.

Service charges positively impact borrower behavior ($\beta = .356$, $p = 0.02$). This means that the added cost of service charges to the borrowing cost makes this variable important for the principle of clarity and early disclosure. Atingi-Ego, (2019), argued that most borrowers do not

know of such fees, thereby causing unintended financial burden. The findings also support clarity in disclosure of service fees to avoid dissatisfaction among borrowers and improve decision making.

Insurance premiums are also seen to positively influence the behavior of borrowers, $\beta = .398$, $p = 0.02$, which means that when the cost of insurance is well explained, borrowers are able to appreciate better the total financial implications of their loans. This is supported by Nuwagaba (2020), who says that insurance premiums inflate the cost of borrowing if not well disclosed.

As indicated by $\beta = .242$, $p = 1.10$, opportunity cost played no significant role in modifying borrowers' behavior in the present study. Where opportunity cost is a major consideration, this seems less influential when it comes to smaller personal loans where there exists an immediate need for finance. This agrees with Okello (2021), since, as much as he insists on the need to include returns on other investments, he also maintains that immediate needs always thrive on having smaller loans.

5.2.2 Borrower behavior

The emphasis placed by the study on the need for clarity on all components of the costs - the interest rate, service charge, and insurance premium - are in agreement with Choudhry (2018) and Atingi-Ego (2019). Choudhry (2018) identifies that it is only when a borrower has full information about all costs that he can really know the burden of borrowing. Disclosures on service charges and insurance premiums are important, as their nondisclosure exposes the borrower to financial stress. In consonance with this logic, Atingi-Ego (2019) mentions that one should be clearly communicated so that there could not be any hidden costs, which may further cause dissatisfaction among the borrowers.

The study's emphasis on the importance of clear communication regarding all cost components—interest rates, service charges, and insurance premiums aligns with findings from Choudhry (2018) and Atingi-Ego (2019). Choudhry (2018) highlights that understanding the true financial burden of borrowing requires comprehensive information about all costs. Transparency about service charges and insurance premiums can prevent unexpected financial strain and help borrowers make informed decisions, which resonates with Atingi-Ego (2019), who underscores the need for clear communication to avoid hidden costs that can lead to borrower dissatisfaction.

The scope of the study on improving loan uptake repayment and borrower satisfaction is in good agreement with Ndiritu (2020). As cited by Johnson (2021), a more financially literate borrower is better capable of understanding the implications of borrowing, hence making superior choices. Ndiritu's idea was corroborated in citing that better knowledge of one's finances enhances decision-making which can reduce dissatisfaction and, to some degree, improve repaying.

The study emphasizes a holistic approach in understanding the true cost of borrowing, a view that coincides with works by Choudhry (2018), Atingi-Ego (2019), Johnson (2021), Ndiritu (2020), Taylor (2022), and Mwangi (2021). Interest rates, service charges, insurance premiums, and opportunity cost, through transparency, educational drives, and flexible repayments, indeed better enhance borrower satisfaction and decision-making.

5.2.3 Effect of Real Cost Borrowing on Borrower Behavior

The study has confirmed that true cost of borrowing-interest rates, service charges, insurance premiums, and opportunity cost-actually influences borrower behavior to a great extent. High-interest rates have a tendency to make loans unaffordable, thus discouraging good borrower behavior. This tallies with Choudhry (2018) in asserting that interest rates remain one of the most critical overall cost-of-borrowing determinants.

5.3 Conclusion of the findings

The true cost of borrowing from commercial banks is an interesting study in lending that points out several key insights into borrower behavior and the overall impact of loan costs. The findings can be concluded upon as follows:

Other important determinants of the true cost of borrowing include interest rates, service charges, insurance premiums borrowed, and opportunities denied. High interest rates with other costs such as service charges and insurance premiums raise the overall cost of borrowing. This may discourage and affect the financial choices borrowers will make. Therefore, full disclosure of such costs is highly essential to ensure that the meaning of the total financial burden is clearly understood by the borrowers.

Awareness of the true cost elements significantly influences borrowers' behavior. The more informed and financially literate the borrower, the more informed decisions they make about

their loan and are generally more satisfied with it. As such, these borrowers feel frustrated when they find themselves having to deal with hidden costs for want of financial knowledge. This underlines the need to increase financial literacy as a means of assisting borrowers in estimating the true cost of credit.

The finding is that clear understanding of the total cost of borrowing positively affects the borrowers' repayment behaviour. In this respect, the borrowers for whom all the cost components are crystal clear and who have flexibility in the options of repayment are better off in managing their financial engagements and keeping up with timely repayments. On the contrary, unexpected costs and unyielding terms can force people into financial distress and thus default more.

5.4 Recommendations of the study

The lending institutions should take full responsibility for improving transparency in showing the borrower exactly what costs comprise the price of loans, including but not limited to interest rates, service charges, insurance premiums, and any other charges. Clearly indicating these costs in the loan documents and their promotional materials will enable borrowers to make much better choices and avoid financial distress. Clear and accessible communication strategies will go a long way in making the borrowers fully aware of the extent of the costs they are likely to incur; this may hopefully lead to better financial planning and satisfaction.

It is important that financial literacy among borrowers increases for a better understanding and management of loan costs. Financial institutions should invest in programs that educate about various components of borrowing costs and effective financial management practices. Programs can take the form of workshops, web-based tools, and one-on-one counseling about finances. Moreover, considering the educational toolkits and guides that will help borrowers in their calculations and full understanding of the cost of borrowing, this may provide better opportunities for them to make more fully informed decisions and improve financial well-being. The institutions, in that respect, should design flexible repayment plans which help the borrowers to handle the financial burden. Such plans can be adjusted based on the changing financial situation of the borrowers, and these can include options for deferred payments, extended term on the loan, or changing the payment schedule. The access to financial counseling services will be helpful for the borrower to understand the problems in repaying debt and adjusting to

economic ups and downs, resulting in good performance regarding repayment on time and less financial burden.

The financial services providers have to be open about service charges and insurance premiums. All the fees and premiums must be clearly indicated and explained to the borrowers before the actual commitment of taking a loan. Satisfaction will be increased if charges are reviewed from time to time, changed to retain competitiveness, and in reflection of value created. Wherever possible, superfluous fees can be reduced or avoided as a way of making the loan products more appealing and within means.

Institutions should help borrowers understand the concept of opportunity cost and its impact on financial decisions. Educating people through initiatives about how opportunity costs influence borrowing and investment choices is helpful. Besides, developing loan products with the inclusion of opportunity cost of money and matching investment needs can lead to optimization in general financial strategies and decision-making.

Building trust through excellent customer service is paramount. A bank should provide timely, consistent, and empathetic support during the loan process. The establishment of feedback channels would be critical in eliciting observations from borrowers with regard to experiences at the institutions for areas of improvement. In this way, it would allow the quality of service to increase and open the lines of communication for improved satisfaction and a better means of gaining enduring confidence from borrowers.

In fact, some potential benefits that these recommendations can offer not only to the financial institutions but also to the customers are that of better-informed borrowers, improved borrower satisfaction, and improved financial outcomes themselves. This will be presented in the next section.

5.5 Areas for further research

Other studies may investigate the extent to which diverse financial literacy programs can enhance the actual perception of the true cost of borrowing by consumers. Researchers could try to understand how various forms of educational interventions-such as workshops, online courses, and personalized counseling-influence a borrower's financial decision-making regarding costs

related to the management of loans. Such research would provide best practices for the design and implementation of financial education initiatives.

The effectiveness of transparent loan disclosures in influencing borrower satisfaction may be better understood by probing into how transparency functions to instill trust in borrowers. Studies such as these will be conducted through field testing of different disclosure techniques, including line-item cost breakdowns, explicit explanation of fees and premiums, and clear statements regarding the loan terms.

The role of economic conditions in loan repayment behavior: Analyzing various economic factors, such as inflation, unemployment, and economic slowdowns, that affect loan repayment behavior may provide a clearer insight into the challenges faced by borrowers. Research in this respect could study the effects of such conditions on the rate of repayment and what possible measures may be taken by lenders to support their borrowers during an unstable economy.

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APPENDICES:

APPENDIX A

Questionnaire for customers

Dear respondents,

I am **Nakiganda Samalie** pursuing a Bachelors' degree in Economics and Statistics at Uganda Christian University, Mukono. I would like to carry out a study on the effect of real cost of borrowing on borrower behavior from commercial banks; A case of Centenary bank, Mukono. Your feedback is very important and your inputs will be strictly used for academic purposes only. I greatly appreciate if you could take a few minutes to provide me with relevant information for this study. Your response will be kept confidential and it will not be divulged to any person or institution outside this corporation.

Thank you for your consideration.

SECTION A: BACKGROUND DATA

(N.B Answer by Ticking where applicable)

1. Gender of the respondent

a) Male

b) Female

2. Age group

a) 18-29

b) 30-39

c) 40-49

d) 50 and above

3. Marital Status

a) Married

b) Single

c) Widowed

4. Level of Education

Diploma

Degree

Masters

PHD

Professional certificate

No formal education

5. No. of years working with the Bank

1-2 years

3-4 years

5 years and above

Thank you for completing this section of the questionnaire guide. Proceed to the next sections as applicable.

NB: For the following sections tick your level of agreement or disagreement as most appropriate to your view.

Section B: Real cost of borrowing

For section B to D are structured questions, you are requested to tick (column) of the scale 1-5 which you feel according to your opinion is the most suitable answer for a particular number.

1	2	3	4	5
Strongly Disagree (SD)	Disagree(D)	Neutral(N)	Agree(A)	Strongly Agree (SA)

	Statements on Real Cost of Borrowing	1	2	3	4	5
	Interest Rate					
1	The interest rate significantly influences my decision to take out a loan.					
2	I am fully aware of how the interest rate is calculated on my loan.					
3	The interest rate on my loan is transparent and easy to understand.					
4	The interest rate charged by commercial banks is fair and reasonable.					
5	I consider the interest rate as the most important factor when choosing a loan.					
	Service charges					
1	The service charges associated with my loan are clearly explained.					
2	Service charges add a significant burden to the overall cost of my loan.					
3	I am satisfied with the transparency of service charges on my loan.					
4	I factor in service charges when deciding whether to borrow from a bank.					
5	Service charges have impacted my ability to repay the loan on time.					

	Insurance premiums					
1	The insurance premiums required for my loan are clearly communicated.					
2	Insurance premiums significantly increase the total cost of my loan.					
3	I understand the purpose of insurance premiums on my loan.					
4	I believe the insurance premiums on my loan are reasonable.					
5	The insurance premiums have affected my willingness to take out a loan.					
	Opportunity cost					
1	The opportunity cost of borrowing is a major consideration for me.					
2	I understand the financial sacrifices required when taking out a loan.					
3	Borrowing from a commercial bank limits my ability to invest in other areas.					
4	I weigh the opportunity cost heavily before deciding to borrow					
5	The opportunity cost of borrowing has led me to delay or avoid taking loans.					

Section C:

You can fill out the corresponding cells with "Strongly Disagree =1", "Disagree = 2," "Neutral =3," "Agree= 4," and "Strongly Agree = 5,".

	Statements on Borrower Behavior	1	2	3	4	5
	Loan uptake					
1	I frequently consider taking out loans from commercial banks.					
2	The total cost of borrowing has influenced my decision to take out loans.					
3	I am confident in managing loans due to an understanding of all costs involved.					
4	Hidden costs have deterred me from borrowing from commercial banks					
5	Frequent borrowing has affected my willingness to seek additional loans.					
	Repayment rate					
1	I am able to meet my loan repayment obligations without difficulty.					
2	Understanding all costs involved has helped me avoid loan defaults.					
3	Hidden costs have made it challenging for me to repay my loan on time.					
4	I regularly review my loan repayment plan to ensure I stay on track.					
5	Frequent borrowing has led to financial strain during repayment periods.					
	Borrower satisfaction					
1	I am satisfied with my overall experience with commercial bank loans.					
2	The transparency of costs has influenced my satisfaction with the borrowing process.					
3	I feel that commercial banks consider my financial well-being when setting loan costs.					
4	Hidden costs have negatively affected my satisfaction with borrowing from commercial banks.					
5	I would recommend commercial bank loans to others based on my experience.					

THANK YOU FOR YOUR COOPERATION

APPENDIX B

Interview guide for banking staff

Dear participants,

I am **Nakiganda Samalie** pursuing a Bachelors' degree in Economic and Statistics at Uganda Christian University, Mukono. I would like to carry out a study on the effect of real cost of borrowing on borrower behavior from commercial banks; A case of Centenary bank, Mukono. Your feedback is very important and your inputs will be strictly used for academic purposes only. I greatly appreciate if you could take a few minutes to provide me with relevant information for this study. Your participation will be kept confidential and it will not be divulged to any person or institution outside this corporation.

Section A: Components of the Real Cost of Borrowing

1. How does the bank determine the interest rates on loans, and how transparent are these rates to borrowers?
2. What service charges are associated with loans, and how do you think they impact borrowers' decisions and satisfaction?
3. How do insurance premiums influence the total cost of borrowing, and how are they communicated to borrowers?
4. In your experience, how does the opportunity cost of borrowing influence loan uptake and borrower decisions?

Section B: Borrower Behavior

5. What factors most influence a customer's decision to take out a loan, and how do the real cost components affect this?
6. How does the real cost of borrowing impact loan repayment rates, and what challenges do borrowers face in repaying their loans?
7. How would you describe the overall satisfaction of borrowers with the cost of loans, and what role do the real cost components play in this?

APPENDIX C: THEMATIC ANALYSIS FOR QUALITATIVE DATA

Theme/Concept	Frequency	Context and Significance	Category of participants
Cost(s)	22	Central to discussions; includes various components like interest, fees, and insurance. Often linked to transparency and borrower understanding.	Participant 3, 4 and 1
Borrower(s)	18	Frequently mentioned in context of decision-making, understanding, and satisfaction. Indicates customer-centric approach.	Participant 5
Loan(s)	17	Discussed in terms of products, decisions, and repayment. Forms the core subject of most responses.	Participant 9
Interest rate(s)	9	Often mentioned as the most visible cost component to borrowers. Discussed in context of determination and transparency.	Participant 3
Fees	8	Highlighted as an important, often overlooked component of total borrowing cost. Associated with borrower surprise and dissatisfaction.	Participants 7 and 8
Satisfaction/Satisfied	6	Discussed in relation to cost understanding and expectation management. Viewed as a key outcome of transparent practices.	Participant 11 and 13
Decision(s)	6	Focuses on how various cost components influence borrower choices. Highlights complexity of decision-making process.	Participant 2 and 5
Repayment	5	Discussed in context of challenges and link to understanding of total costs. Indicates concern for long-term loan performance.	Participant 3 and 1
Challenges	4	Mainly associated with repayment	Participant 4

Theme/Concept	Frequency	Context and Significance	Category of participants
		and customer understanding. Suggests awareness of difficulties faced by borrowers.	
Opportunity cost	4	Mentioned as an often-overlooked aspect of borrowing. Associated with more financially savvy customers.	Participant 1, 13 and 3

This table provides a snapshot of the key themes and concepts in the responses, their frequency, and their significance in the overall context of the discussion about the real cost of borrowing and borrower behavior.

APPENDIX D: WORK PLAN

ACTIVITY	JUNE			SEPTEMBER			NOVEMBER		
Topic formulation and approval									
Report writing									
Data collection									
Data analysis									
Typing the draft copy									
Typing the fair copy and submission									

**APPENDIX E: KRECJIE AND MORGAN (1970) TABLE. SAMPLE SIZES(S)
REQUIRED FOR THE GIVEN POPULATION SIZES (N)**

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	256	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384