

**Abstract**

We investigate the size of the mark-up on the lending rate for endowment mortgages, due to expected prepayment by the borrower. For this type of mortgage, prepayment is mostly the result of mobility in the housing market. We control for the risk of default by using a unique data set of Dutch borrowers insured against default. The estimates indicate that households with a higher liquidity constraint are less likely to prepay, as they have a lower mark-up on the lending rate. In contrast, the collateral constraint has a very limited influence on the mark-up. We explain this result as follows. Usually, income constraint are generated at the household level, whereas constraints on housing wealth pertain to the regional level. Hence, income changes may improve the relative position of households in the housing market, but an increase in homeowners' housing wealth does not improve their relative position in the housing market