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# Financial incentives for mortgage prepayment behavior: Evidence from Dutch micro data

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## Abstract

This paper exploits a unique set of Dutch micro data between 2006 and 2014 to analyze the heterogeneous responses in prepayment behavior to changes in financial incentives. Prepayment is defined as paying back a part of the mortgage on top of the contractual payment schedule, excluding refinancing. Because interest rates on savings have decreased while the rates on existing mortgages are generally fixed for some years, the value of prepaying a mortgage has increased. This corresponds with the surge in prepayments at the Dutch mortgage market. Using various econometric specifications, that take into account unobserved heterogeneity and endogeneity, the paper finds that incentives to prepay explain only a part of prepayment behavior. However, incentives to prepay explain a much larger part of prepayments for wealthier households and for households with a high net-of-tax interest rate differential.

*Keywords:* housing market, mortgages, prepayment behavior, financial incentives

*JEL codes:* D14, G21, H26

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