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What Is a Closed-End Loan

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Closed-end, or installment, loans are when you borrow a certain amount of money from a lender, then repay the loan at a specified interest rate over a number of payments. Closed-end loan payments are fixed, and the payment amount never changes during the life of the loan. Mortgages and auto loans are examples of closed-end loans.

The Facts

In a closed-end loan, the full amount of the loan is taken immediately, then is repaid over an agreed number of equal installments. When you make the final payment, the loan is closed, and no further money can be borrowed and no additional payments are due. If you require additional funds, you must apply for a new loan. The terms of a closed-end loan are fixed, and the interest rate, payment amount and number of payments will not change during the life of the loan.

Function

The terms of a closed-end loan ensure you repay the original amount borrowed (principal) and any interest due by the maturity date. The lender divides the total amount to be repaid by the number of payments, and the borrower then makes equal payments during the life of the loan. Closed-end loans are attractive to someone interested in a predictable monthly payment that will not change. They provide peace of mind and help with budgeting because you always know the exact payment amount in advance.

Features

The main feature of closed-end loans is they end at maturity. When the loan is paid,

the lender cannot require any additional payments, and you must submit a new application if you wish to borrow more money. This feature distinguishes installment loans from open end, or revolving, loans, in which you have more funds available as you repay borrowed funds. Credit cards and home-equity loans are common types of open-end loans.

Considerations

You should look at more than just the monthly payment if you are interested in a closed-end loan. It is important to be aware of the total amount paid during the life of the loan. Lenders will sometimes have to increase the number of payments or length of the repayment period if a borrower requires a lower monthly payment. In some cases, the amount of interest over a longer repayment period will be more than the original amount borrowed. Be aware of the total interest and amount paid when considering a closed-end loan.

Warning

Be sure you clearly understand all the terms of a closed-end loan, including what happens if you don't make the payments. Loans require collateral, which is often the item the loan is used to purchase. Mortgages are secured by a house and auto loans by a car, for example. If you fail to make payments, the lender can usually take back the collateral. Also, be aware of any fees associated with closed-end loans, such as late fees.

Resources

- [Closed-End vs. Open-End Loans](#)