

# What Is an Open End Loan?

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A loan can be a closed-end loan or an open-end loan. A closed-end loan is often an installment loan in which the loan is issued for a specific amount that is repaid in installment payments on a set schedule. An example of this is an auto loan. An open-end loan is a revolving line of credit issued by a lender or financial institution. It comes in two types and has certain characteristics that can benefit the borrower.

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## Open-End Loans

With an open-end loan, you're approved for a specific amount. This is called your credit limit. You don't have to use up the entire credit limit all at once. You access the line of credit as needed. Once you pay off that amount, you can reuse the line of credit again later. The line of credit remains "open" for your use. Examples of open-end loans are credit cards and a home equity line of credit, or HELOC.

## Open-End Unsecured

An unsecured open-end loan is a line of credit that's not attached to a piece of collateral. An unsecured credit card is an example of this type of loan. The approval of the line of credit is based primarily upon the creditworthiness of the borrower. Lenders consider an applicant's credit score when issuing an unsecured credit card, as there isn't a physical item that the credit is attached to. Generally, the more creditworthy the lender considers the borrower to be, the higher the approved credit limit.

## Open-End Secured

A secured open-end loan is a line of credit that's secured by, or attached to, a piece of collateral. A secured credit card and home equity line of credit are examples of secured, open-end loans. In addition to the creditworthiness of the borrower, the lender will also base the approved credit limit amount on the value of the collateral item. The credit limit of a secured credit card, for example, is often equal to the amount of money the

borrower has on deposit with the issuing bank. For HELOCS, the value of a home plays a role in how much of a credit line the lender will approve. Unlike an unsecured open-end loan, however, failure to repay the loan on a secured open-end loan could possibly result in the loss of the property used as collateral.

## Considerations

There are benefits to both types of open-end loans. Lines of credit are flexible, meaning you can take out as much or as little as you need up to the amount of your credit limit. They also come in handy when unexpected emergencies arise. HELOCS generally have low interest rates, according to University Federal Credit Union. For credit cards, an unsecured card offers an additional payment option and gives consumers access to credit when cash is low. **A secured credit card allows a consumer who doesn't qualify for an unsecured credit card the opportunity to rebuild his credit.** Proper handling of that account, which includes making payments on time and keeping credit card balances low, can improve a credit score over time. This may permit the borrower to qualify for an unsecured credit card in the future and free up the cash reserves once used for the secured credit card.

		APR	Rate	Est. Payment
	30 Yr. Fixed	4.495%	4.250%	\$738
	15 Yr. Fixed	3.797%	3.375%	\$1,063
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## About the Author



Mack Mitzsheva is a tax lawyer, personal finance expert and the author of the forthcoming ebook, "10 Best Places to Work Online." Mitzsheva is also a social media entrepreneur with five successful sites under her belt. Always innovative, Mitzsheva is currently developing a cutting-edge budgeting app for newlyweds.

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