HOME EQUITY GUIDE

Fixed-Rate (Closed-End) Second Mortgage Guide

How a fixed-rate second mortgage, also called a closed-end second mortgage or home equity loan, works, when it can make more sense than a cash-out refinance or a HELOC, what it costs and what to compare.

Reviewed November 18, 2026 against the sources listed at the end of this guide.

Who might consider a fixed-rate (closed-end) second mortgage

A closed-end second mortgage, which we call a **fixed-rate second mortgage** when the rate is fixed, is a loan for a set amount, secured by your home, that you receive in one lump sum and repay over a set term. It is also often called a **home equity loan**. In this guide, “closed-end second” and “fixed-rate second” refer to the same product. If you already have a mortgage, it becomes a second mortgage that you pay in addition to your first. It may fit if you:

- Need a known amount of money at one time, such as for debt payoff, a large bill or a buyout
- Want to keep a low rate on your first mortgage instead of refinancing it
- Prefer a predictable payment
- Want to pay the money back on a schedule rather than keep a revolving line open

How it works

- **One lump sum at closing.** You receive the full amount at once and start paying interest on all of it.
- **A set term.** Terms vary by lender; you repay in regular monthly installments over that term.
- **Fixed or adjustable rate.** Many home equity loans have a fixed rate, but the CFPB notes they can be fixed or adjustable. Confirm which you are being offered.
- **Fully amortizing payments.** Most require principal and interest from the first payment, so the balance goes down every month. Some loans include a balloon payment; ask before you sign.
- **No re-borrowing.** Once you repay part of the balance, you can’t draw it again.

How much you can borrow

Lenders look at your combined loan-to-value (CLTV): your first mortgage balance plus the new loan, divided by your home’s value. Each lender sets its own maximum, along with credit score and debt-to-income requirements.

Costs and disclosures

Closed-end second mortgages generally come with a Loan Estimate and a Closing Disclosure, like a first mortgage, so you can compare offers on the same forms. Expect appraisal or valuation, title, escrow and lender fees, which vary by lender. Some loans carry a **prepayment penalty** if you pay them off early; ask

whether yours does. If the loan is secured by your primary home, federal law generally lets you cancel within three business days after closing.

A second mortgage or a cash-out refinance?

When you already have a low rate on your first mortgage, adding a second mortgage can cost less each month than replacing the whole loan, even though the second mortgage has a higher rate.

> **Hypothetical example.** David owes $500,000 on a first mortgage at 3.25%, with a principal and interest payment of $2,176. He needs $150,000 to pay off high-interest debt.
>
> | Option | New monthly principal and interest |
> |---|---|
> | Keep his first mortgage and add a $150,000 fixed-rate second at 8.5% for 20 years | $2,176 + $1,302 = **$3,478** |
> | Cash-out refinance into one $650,000 loan at 6.5% for 30 years | **$4,108** |
>
> In this example, the second mortgage keeps his payment about $630 a month lower and pays the $150,000 off in 20 years. A cash-out refinance can still be the better choice when current rates are close to his existing rate, or when he wants a single payment. All rates and amounts are illustrations only.

Second mortgages at purchase (common practice)

Some buyers use a second mortgage when they buy, for example to keep the first mortgage within the conforming loan limit or to put less than 20% down without mortgage insurance on the first loan. Whether this costs less than one larger loan depends on the rates offered at the time.

Risks to understand

- **Your home is collateral.** Missing payments can lead to foreclosure.
- **Two payments.** You will have two loans to manage, each with its own servicer.
- **Turning short-term debt into long-term debt.** Paying off credit cards with a home equity loan can lower your payment but cost more over time if you take longer to repay. It also only helps if the cards don’t fill up again.
- **Future refinancing.** If you refinance your first mortgage later, the second-mortgage lender must agree to stay in second position, or you will need to pay it off.

What to gather

- [ ] Your current mortgage statement and homeowners insurance declarations
- [ ] Pay stubs for the last 30 days and W-2s for the last two years, or tax returns if self-employed
- [ ] Two months of bank statements
- [ ] Statements for any debts you plan to pay off
- [ ] HOA statement, if applicable
- [ ] Trust documents, if your home is held in a trust

Questions to ask

- Is the rate fixed or adjustable, and for how long?
- What is the term, and is there a balloon payment?
- What are the total fees, and is there a prepayment penalty?
- How does this compare with a cash-out refinance or a HELOC for my situation?
- What will happen if I want to refinance my first mortgage later?

Not sure whether you need a lump sum or a line of credit? See our short guide, HELOC vs. Fixed-Rate (Closed-End) Second Mortgage.

Your next step

Tell us what you are trying to do and we will tell you, plainly, which options fit and what to gather. There is no cost to talk it through.

Start a free loan evaluation: journeymac.com/evaluation

Call: (626) 716-0585 **Email:** info@journeymac.com

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This guide is general education, not a loan offer, a rate quote or legal, tax or financial advice. Program rules change and lenders add their own requirements; confirm details for your situation before you act. Examples marked “hypothetical” are illustrations only.

Sources

Reviewed November 18, 2026. Program rules change; check the current version of each source.

1. CFPB: What is a home equity loan or HELOC?
   www.consumerfinance.gov/ask-cfpb/what-is-a-home-equity-loan-or-heloc-en-247/
2. CFPB: What should I look for when shopping for a home equity line of credit? (second mortgages)
   www.consumerfinance.gov/ask-cfpb/what-should-i-look-for-when-shopping-for-a-home-equity-line-of-credit-en-247/
3. CFPB: Review your Loan Estimates
   www.consumerfinance.gov/owning-a-home/compare/review-loan-estimates
4. CFPB: What is a prepayment penalty?
   www.consumerfinance.gov/ask-cfpb/what-is-a-prepayment-penalty-en-1957
5. FTC: Home equity loans and home equity lines of credit
   consumer.ftc.gov/articles/home-equity-loans-and-home-equity-lines-credit