Letters of credit are distinguished by their different types of use.

**Types of Letters of Credit**

**Sight**

Under a sight letter of credit, payment is made to the seller immediately after the required documents have been submitted to the authorized bank, provided the conditions in the letter of credit have been met. Banks are, however, allowed a reasonable period of time for checking purposes (not more than five working days after they receive the documents).

**Deferred Payment**

In the case of a letter of credit with deferred payment, the payment to the seller is not made when the documents are submitted, but instead at a later time defined in the letter of credit.

This type of documentary credit is also known as a "usance L/C."

**Acceptance**

In the case of an acceptance credit, the payment to the seller is not made when the documents are submitted, but instead at a later time defined in the letter of credit.

The seller can request a discount from the bank that accepted the bill of exchange, or from another bank, and thus draw the amount of the bill minus the discount at any time after the documents have been submitted.

**Negotiable Credit**

Under UCP 600 (Uniform Customs and Practice for Documentary Credits, 2007 revision, article 2) negotiation means the purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) and/or documents
under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.

Unfortunately, the term "negotiable credit" is understood and applied in different ways in different parts of the world.

**Particular Types**

**Transferable L/C**

Transferable letters of credit are particularly well adapted to the requirements of international trade. They allow an intermediary to transfer a letter of credit to a supplier, thus enabling the intermediary to reduce the extent to which it uses its own funds to process business transactions.

**Standby L/C**

Standby letters of credit are similar to guarantees. Due to their documentary nature, they fall under the UCP (Uniform Customs and Practice for Documentary Credits). Standby letters of credit can also be issued under [ISP98](https://www.icc-international.org/standards-trade/practice-standards/ISP) (International Standby Practices).

If the guaranteed service/payment is not provided, the seller can invoke the bank's obligation to pay by submitting, together with any other documents that the letter of credit might require, a declaration stating that the letter of credit customer has failed to meet his obligations/payment.

**Revolving L/C**

If the buyer requests partial deliveries of the ordered goods at specific intervals (contract for delivery by installments), payment can be made under the terms of a revolving letter of credit that covers the value of each consecutive installment. The bank is normally liable for the total value of all agreed partial deliveries. However, the second partial payment is not effective until the first installment has been paid, and so forth.

**Red Clause L/C**
In the case of a red clause credit (letter of credit with advance payment), the seller can request an advance for an agreed amount (defined in the terms and conditions of the letter of credit) from the correspondent bank. This advance is basically intended to finance the manufacture or purchase of the goods to be delivered under the letter of credit. The advance is normally paid against receipt and a written undertaking from the seller to subsequently deliver the transportation documents before the credit expires.

**Green Clause L/C**

Unlike the red clause letter of credit, in the case of a green clause letter of credit, the advance is normally paid not only against receipt and a written undertaking from the seller to subsequently deliver the transportation documents before the credit expires, but also against receipt of an additional document providing proof that the goods to be shipped have been warehoused.