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Understanding Different Types of Credit: How They Work and What to Consider

Whether you have one financing option or several, start with what you are buying, what the agreement requires and whether the payments fit your budget.

Key terms to know

- **APR:** The annualized cost of borrowing expressed as a percentage. Depending on the product, it may reflect the interest rate and certain fees.
- **Minimum payment:** The smallest amount you must pay by the due date. Paying only the minimum may increase how long it takes and how much it costs to repay a balance.
- **Due date:** The date by which your required payment must be received.
- **Repayment term:** The length of time scheduled to repay the amount borrowed.
- **Total repayment amount:** The full amount you would pay over the repayment term, including applicable interest and fees.
- **Payoff deadline:** For promotional financing, the date by which you must pay the promotional balance in full to meet the offer requirements.

If you are considering multiple financing options, compare the total cost of each one, including interest and any annual, monthly, promotional or other applicable fees. Then compare features that may matter to you, such as discounts, promotional terms, interest-free periods, rewards, credit limits and repayment periods. Check whether payment activity may be reported to credit bureaus, since reported activity can affect your credit history positively or negatively.

Credit can be a practical tool when you understand the terms and have a repayment plan. Even if you have limited options, review what the agreement requires and what it may cost before applying.

Common credit options include:

- **Revolving credit:** A reusable line of credit that lets you borrow, repay and borrow again up to a set limit. It may work well when you want flexibility and ongoing access to credit.
- **Installment loans:** A set amount of credit repaid through scheduled payments over a defined period. They may work well when you want predictable payments and a clear payoff date.
- **Short-term buy now, pay later:** A financing option that splits one purchase into a small number of payments over a shorter period. It may work well when you plan to repay quickly and the payment schedule fits your budget.
- **Promotional financing:** A credit offer with special terms for a specific purchase or period, such as deferred interest, equal payments with no interest or fixed payments at a reduced interest rate. It may work well when you understand the terms and they fit your budget and repayment plan.

Quick reference guide: How credit options compare

Credit type	May work well if	May be less appealing if	What to check
Revolving credit	You want flexibility and ongoing access to credit.	You prefer scheduled payments and a set payoff date.	• APR • Minimum payment • Due date • Fees • Credit limit • Late or missed payment terms
Installment loan	You want predictable payments and a set payoff date.	You want ongoing access to credit for future purchases.	• Monthly payment • Term length • APR • Fees

			• Total repayment amount • Late or missed payment terms
Short-term buy now, pay later	You plan to repay quickly and the schedule fits your near-term budget.	You may need more time or the payments would strain your budget.	• Payment schedule • Fees • Late or missed payment terms • Credit reporting
Promotional financing, including deferred interest offers	You want the opportunity to avoid interest and can pay the full promotional balance by the deadline.	You are unsure if you can pay the promotional balance in full by the deadline or prefer a set payment schedule.	• Payoff deadline • Promotional period • Deferred interest terms, if applicable • Minimum payment • APR • Late or missed payment terms

This chart is a quick reference, not a substitute for the terms of a specific offer. Some products may have separate promotional terms and deadlines, so review the credit agreement before applying.

Which type of credit may be right for my situation?

The type of credit that may fit your situation depends on whether the purchase is one-time or recurring, how much time you need to repay and which payment schedule fits your budget. Use the questions below to identify what matters most to you, then check the terms of any offer you are considering.

Ask yourself:

- Is this an everyday expense or a one-time purchase?

- Do I want flexibility in how I repay, or would I rather have a structured plan and set payment schedule?
- How long will I need to pay this off comfortably?
- Will I likely need access to credit again in the future?
- What monthly payment can I afford without stretching my budget?
- Could I keep up with the required payments if my budget changed unexpectedly?

If the required payments would be hard to manage within your monthly budget, it may be worth waiting, choosing a lower-cost option or reconsidering the purchase.

What should I check before choosing a credit option?

Before choosing any credit option, check whether the payments fit your budget, how long repayment will take and the total amount you could pay. Review the APR, fees, due dates, minimum payment and consequences of a late or missed payment. For promotional financing, also confirm the payoff deadline and what happens if a balance remains.

The sections below explain how each option works and when it may fit your needs.

When can revolving credit be a good choice?

Revolving credit may work well for people who want flexibility and ongoing access to credit. It provides a reusable line of credit that lets you borrow, repay and borrow again, up to your credit limit, without applying for a new account each time.

A credit card is one common example. Credit cards generally fall into three categories based on where they can be used and whether they are associated with a retailer or other brand:

- **General-purpose credit cards** are not tied to a specific retailer or brand. They can generally be used anywhere their payment network is accepted and may offer rewards or other benefits depending on the card.
- **Co-branded credit cards** carry the name of a retailer or another brand but can generally be used anywhere their payment network is accepted. They may offer additional rewards or benefits when used with the associated brand, as well as rewards on other purchases.
- **Private-label credit cards**, sometimes called store cards, can generally be used only with a specific retailer or related group of retailers. They may offer retailer-specific rewards, discounts or promotional financing. A private-label card may be a

first credit card for some consumers. If payment activity is reported to the credit bureaus, responsible use may help establish a credit history, while missed payments or other negative activity may harm it. Approval is not guaranteed, so compare rates, fees, terms and where the card can be used.

With revolving credit, the credit line generally remains available as you repay what you borrow, up to the account limit and subject to the account terms. That may be helpful if your borrowing needs change or you want to use the account for future purchases. Because the amount you owe can change as you continue using the account, consider how you will pay down any balance you carry.

- **May work well if:** You value flexibility, expect to use credit regularly or want more control over how quickly you repay purchases.
- **May be less appealing if:** You prefer a clear payoff date or find it easier to stay on track with a structured repayment plan.

When is an installment loan a good choice?

An installment loan can be a good choice when you want predictable payments and a clear payoff date. It gives you a specific amount of credit that you repay through scheduled payments over a defined period, which can make larger planned purchases easier to budget for.

Compare the monthly payment with the total amount you would repay over the loan term. A manageable payment can still lead to a higher overall cost when repayment extends over a longer period.

- **May work well if:** you like a clear plan, want to know what you owe each month and prefer knowing when the obligation is expected to end.
- **May be less appealing if:** your spending needs change frequently or you prefer ongoing access to the same line of credit for future purchases.

When does short-term buy now, pay later make sense?

Short-term buy now, pay later can make sense when you can repay a purchase quickly and the scheduled payments fit your near-term budget. These options typically break one purchase into a small number of payments over a shorter period.

- **May work well if:** you have a clear plan to pay off the purchase relatively quickly and are comfortable with the required payment schedule.

- **May be less appealing if:** you need more time to repay the purchase or the scheduled payments would strain your monthly budget.

Before choosing a short-term buy now, pay later offer, check each payment date against your near-term budget, review any fees and find out whether payment activity may be reported to credit bureaus. Reporting practices vary, and reported activity may affect your credit history positively or negatively.

When can promotional financing be a good choice?

Promotional financing can be useful when special terms are available for a specific purchase or period. Offers may include deferred interest, equal payments with no interest or fixed payments at a reduced interest rate. Because these offers work differently, review what you must pay, when you must pay it and what happens if you do not meet the terms.

Some promotional financing offers include deferred interest, giving you the opportunity to pay no interest on the promotional balance if you pay it in full by the deadline. If a balance remains, interest may be charged under the credit agreement, including interest that accrued from the purchase date during the promotional period.

For a deferred interest offer, you may need to pay more than the minimum payment to pay the promotional balance in full by the deadline, so determine the payment amount needed to meet it. Autopay can help keep payments on schedule, but confirm the amount, date and available funds. It does not guarantee the balance will be paid in full on time.

- **May work well if:** you want the opportunity to pay no interest on the promotional balance and are confident you can pay it in full by the deadline.
- **May be less appealing if:** you are unsure you can pay the promotional balance in full by the deadline or prefer a set payment schedule.

Frequently asked questions

What are the different types of credit typically available?

- **Revolving credit:** A reusable line of credit that lets you borrow, repay and borrow again up to a set limit. It may work well when you want flexibility and ongoing access to credit.
- **Installment loans:** A set amount of credit repaid through scheduled payments over a defined period. They may work well when you want predictable payments and a clear payoff date.

- **Short-term buy now, pay later:** A financing option that splits one purchase into a small number of payments over a shorter period. It may work well when you plan to repay quickly and the payment schedule fits your budget.
- **Promotional financing:** A credit offer with special terms for a specific purchase or period, such as deferred interest, equal payments with no interest or fixed payments at a reduced interest rate. These offers work differently, so compare the payment requirements, interest terms and applicable deadlines.

How do I choose between revolving credit, an installment loan, buy now, pay later and promotional financing?

Start with the purchase, the payment your budget can support and how long you want to take to repay. Then compare the total cost, repayment schedule, fees, promotional terms and consequences of a late or missed payment. For promotional financing, also check the payoff deadline and what happens if a balance remains.

Which type of credit may work for a large purchase?

No single type of credit is best for every large purchase. Compare the payment you can afford, the time you need to repay and the total amount you would owe under each offer. An installment loan may fit if you want scheduled payments and a clear payoff date. Revolving credit may fit if you need flexibility and have a plan to repay the balance. Deferred interest promotional financing may provide an opportunity to pay no interest on the promotional balance if you pay it in full by the deadline.

Which credit options offer predictable payments?

An installment loan may be useful if you want a set payment schedule and expected payoff date. Some promotional financing offers also provide equal or fixed payments over a defined period. With deferred interest, however, the required minimum payment may not be enough to pay the promotional balance in full by the deadline, so review the terms and determine the payment needed to meet your payoff goal.

Which type of credit may provide more flexibility?

Revolving credit may be useful if you want ongoing access to credit or expect your needs to change.

What should I compare before choosing a credit option?

Start with the payment you can manage and the total amount you would repay. Then compare the APR, fees, due dates and repayment term. For a promotional offer, check the

payoff deadline and what happens if a balance remains. For any offer, check what happens if a payment is late.

What is deferred interest promotional financing, and when can it be a good choice? Deferred interest promotional financing may allow you to pay no interest on the promotional balance if you pay it in full by the deadline. It may be useful when you understand the terms and are confident you can meet that deadline. If a balance remains, interest may be charged as provided in the credit agreement, including interest that accrued from the purchase date during the promotional period. Always read and understand the full terms before signing up.

What is the difference between revolving credit and an installment loan?

Revolving credit gives you access to a reusable credit line, while an installment loan gives you a specific amount of credit that is repaid through scheduled payments over a defined period.

Can using credit help build credit history?

Using credit may help build or strengthen your credit history over time if payment activity is reported to credit bureaus and you make payments on time. Late or missed payments and other negative reported activity may harm your credit history. Reporting practices vary by product and provider, so check the terms before assuming an account will affect your credit history. Choose payments you can manage within your budget. See Synchrony's Your Next Yes guide for more information about how credit scores work.

What should I consider if I'm new to credit?

There is no single best option for everyone who is new to credit. Look for payments you can manage, clear terms and fees you understand. Check whether payment activity is reported to credit bureaus because responsible use of a reported account may help establish a credit history, while missed payments or other negative activity may harm it. Approval standards, rates, fees, credit limits and reporting practices vary by issuer and product.

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