What Is a Grace Period for a Credit Card?

Description

No one likes to pay interest, especially on a credit card. The good news — if your credit card has an interest-free grace period, you might never have to.

Of course, credit card providers are in the business of making money, meaning they won't extend their graces to you forever. But if you can learn how to master this interest-free benefit, you'll save yourself a ton of money over the long haul.

What is a grace period, and how can it benefit you? Let's take a closer look and see.

What is a grace period for a credit card?

The grace period for a credit card is an interest-free period between the end of your billing cycle and your billing statement's due date, usually around 21 to 25 days. As long as you pay off your balance in full during the grace period, you won't have to pay interest on your charges.

How does it work?

When your credit card has a grace period, your card provider won't immediately charge interest to your purchases. But this comes with one big caveat: in order to truly benefit from the grace period, you have to pay your balance in full and on time before your billing statement's due date.

If you don't pay your full balance, you'll pay interest on unpaid purchases. But here's where things get ugly — your credit card provider will charge interest to purchases based on the transaction date, *not* the date your grace period ended.

For example, let’s say your billing cycle is from February 16 to March 16. On March 16, you’re sent a statement with all your purchases from the last cycle — a $500 lounge chair on February 21, an $850 painting on February 22, and $125-floor mats for your car on March 6 — along with a due date of April 6.

From March 16 to April 6, you enjoy your credit card’s grace period, meaning you pay no interest on your three purchases. You also pay $500 of the total statement, effectively paying off the lounge chair, but leaving $925 unpaid.

When April 7 hits, your card provider will apply interest to the painting and floor mats based on the dates you bought them. So, that’s 45 days of accrued interest for the painting and 33 days of interest for the floor mats. You’ll continue to accrue interest daily until you pay off both purchases.

How long is the grace period?

The average grace period — from the moment you get your billing statement to the day you must pay it off — is around 21 to 25 days. Grace periods can vary in length, but they’re never any shorter than 21 days. It’s extremely rare to see a grace period that’s longer than 30 days, though, as we’ll discuss below, you can theoretically extend your grace period by timing your purchases right.

Do all credit cards have a grace period?

Most credit cards in Canada have a grace period. Though it’s not required by law, credit card companies usually give it to you as a courtesy.

The only cards that typically don’t have a grace period are those designed for Canadians with bad credit scores. Without the grace period on these cards, your purchases accumulate interest from the moment you make them. As you can guess, that can get expensive fast.

One alternative is to take out a secured credit card, which requires you to put an initial deposit down first. These cards typically come with a grace period, though your card’s APR may be significantly higher than a traditional credit card.

Does every purchase qualify for a grace period?

Most purchases do, but there are two transactions that *don’t*: cash advances and balance transfers.

For cash advances, you begin to accumulate interest the moment you use your credit card to make the advance (the APR on cash advances can be higher, too). Keep in mind that credit card providers may consider certain “cash-like” purchases to be cash advances, such as buying lottery tickets, travellers cheques, or casino chips.

Balance transfers aren't necessarily a purchase, but they can affect your grace period. Recall that a balance transfer is when you transfer a balance from one credit card to another, usually one with a lower introductory APR.

Balance transfers can be super helpful if you're trying to pay off high-interest debt, but be careful. Unless you pay off your entire balance within the first billing cycle, you'll carry a balance on the card. That means your card won't have a grace period. Every new purchase you make will start to accumulate interest immediately, usually at an APR that's higher than the promotional one.

How can you extend your grace period?

Calling your credit card provider and trying to negotiate a longer grace period probably won't work. But, for most credit cards, there is a way to double your grace period. You just have to time your purchases right.

Recall for a second how a credit card works. You have a billing cycle, which is typically a month long. At the very end, every purchase you make within the billing cycle is packaged up and sent to you in a billing statement. Once this statement is sent, you have 21 to 25 days before its due. That means that if you bought something on the very first day of your billing cycle, you could have around 51 – 55 days of interest-free time to pay it off.

If you're planning for a big expense, such as plane tickets or a major repair, you can make the charge at the beginning of your billing cycle, giving you around 7 to 8 weeks (or three to four paycheques) to pay back what you borrow.

Just be extra careful with your purchase. If you don't pay off the purchase, you'll pay 51 to 55 days of interest on top of what you borrowed. Plan effectively, however, and you can add more interest-free time to your grace period.

Foolish bottom line

The grace period on a credit card ensures you don't have to pay a dime of interest, so long as you pay your balance in full every month. If you begin to carry a balance, however, your grace period will end and you'll start paying interest on your charges.

Interest charges can get out of control fast, and if you're struggling to pay off your card, you may want to take out a balance transfer credit card. With these cards, you can benefit from a low introductory APR period, which will help you pay down debt faster.

As long as you're smart with the card — if you pay off your debt within the low APR period and don't charge new purchases you can't pay off — you can get yourself out of credit card debt.

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