

To: RISE Rulemaking Committee
From: Ashley Naporlee and Tamar Hoffman
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Memo: Principles for application of interest and principal subsidies

The One Big Beautiful Bill Act (OBBBA) provides two subsidies to borrowers. The first is an interest subsidy that eliminates negative amortization for those making required payments. The second is a principal subsidy to ensure those making required payments see their balances decrease over time.

OBBBA:

“(2) BALANCE ASSISTANCE FOR DISTRESSED BORROWERS.—

“(A) **INTEREST SUBSIDY.**—With respect to a borrower of a loan made under this part, for each month for which such a borrower makes an on-time applicable monthly payment required under paragraph (1)(A) and such monthly payment is insufficient to pay the total amount of interest that accrues for the month on all loans of the borrower repaid pursuant to the Repayment Assistance Plan under this subsection, the amount of interest accrued and not paid for the month shall not be charged to the borrower.

“(B) **MATCHING PRINCIPAL PAYMENT.**—With respect to a borrower of a loan made under this part and not in a period of deferment or forbearance, for each month for which a borrower makes an on-time applicable monthly payment required under paragraph (1)(A) and such monthly payment reduces the total outstanding principal balance of all loans of the borrower repaid pursuant to the Repayment Assistance Plan under this subsection by less than \$50, the Secretary shall reduce such total outstanding principal balance of the borrower by an amount that is equal to—

“(i) the amount that is the lesser of—

“(I) \$50; or

“(II) the total amount paid by the borrower for such month pursuant to paragraph (1)(A); minus

“(ii) the total amount paid by the borrower for such month pursuant to paragraph (1)(A) that is applied to such total outstanding principal balance.

Below is a set of principles the Department should consider when operationalizing these subsidies:

- The Department should project out borrowers’ interest and principal subsidies for the year, and adjust and re-project as needed (if a new loan enters repayment, if they use a deferment or forbearance, etc.).
- Overpayments and extra payments should be welcomed and borrowers who make them should not be penalized by losing any of the balance assistance benefits provided under OBBB.
 - When a borrower makes an overpayment, the borrower should be able to elect whether it is applied to their balance or to future payments.

- When the overpayment is applied to the balance, the borrower should still receive the full interest subsidy and principal matching benefit that the OBBB proscribes for that month based on their required payment, with the overpayment then applied to their balance after the required payment, interest subsidy, and principal match have been applied.
 - When the overpayment is applied to future payments, the borrower should receive the full interest subsidy and principal match for each of those future payments that is paid in full based on the calculation of their regular payment amount.
- Applicable monthly payments should not include any additional amounts past-due for subsidy purposes (i.e., Someone owes \$100 per month and is \$50 behind on payments from a prior month. If they make a \$100 payment this month, they have made their applicable monthly payment this month and should receive the interest and principal subsidies for the month.)
 - If a borrower makes multiple payments in a month that combined total the required monthly payment, they should receive the full interest subsidy and principal matching benefit for the month.
 - If a borrower makes a nominal underpayment, the payment should count as being fully made for purposes of subsidies.
- Additionally, we are concerned that the most distressed borrowers struggling to afford full payments and paying as much as they can, or borrowers who have set up recurring payments without realizing that their monthly payment amount has changed (either due to a servicing recalculation or annual recalculation) risk missing out on significant interest and principal subsidies over extended periods that could substantially prolong their time in repayment or increase the amount subject to collection in the event of default. Therefore, to the extent permitted by law, we encourage the Department to avoid an “all-or-nothing” approach to subsidies and to allow borrowers who make partial payments to receive proportionate partial subsidies. *One approach may be that, in the event the borrower is repaying more than one loan in RAP, partial payments should be applied to individual loans sequentially to satisfy the maximum number of applicable monthly payments in full, rather than applying partial payments proportionately across all loans such that none of the loans are paid in full that month, with subsidies applied to the individual loans for which applicable monthly payments were made.*