

Question on 2 Hypotheticals for Repayment Draft Submitted by Alex Holt:

The Department requested hypotheticals ahead of time in writing, so I wanted to send a hypothetical for (h)(4) [RAP's interest subsidy] and (o)(2)(ii) [RAP's principal subsidy] in the Repayment Draft. They relate to each other, and are both about pre-payment of loans.

For (h)(4) [RAP interest subsidy]:

Say that the borrower is required to make a \$20 scheduled payment for that month and accrues \$30 in interest. If the borrower makes a \$20 on-time payment, that would lead the Secretary to forgive the remaining \$10 in interest under RAP.

But say instead that the borrower makes a \$30 dollar payment, even though he only is required to make a \$20 payment. Would the additional \$10 be applied to interest, thus meaning the Secretary forgives no interest? Or would the additional \$10 be treated as a prepayment, and thus the Secretary would forgive \$10 in interest and the extra \$10 in payment would reduce the outstanding principal by \$10? Or would the extra \$10 go toward the next month's scheduled payment, leaving the borrower's interest and principal subsidies unaffected by the pre-payment?

For (o)(2)(ii):

Say that the borrower is required to make a \$20 scheduled payment for that month and accrues \$10 in interest. In that case, the borrower pays down \$10 in interest and \$10 in principal, and the Secretary further reduces the principal by \$10 through the matching principal subsidy, thus reducing the principal by \$20 in total.

But say instead that the borrower makes a \$30 payment, even though he only is required to make a \$20 payment. His payment pays the \$10 in interest, and could repay another \$20 in principal. In that case, does the Secretary reduce the principal by \$20 through the matching principal payment, thus reducing the principal by \$40 in total for that month? Or does the Secretary treat the additional \$10 as a prepayment (applied either this month or toward the next month's payment), and thus only provides the matching \$10 principal payment required based on the scheduled payment amount?