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Troutman Pepper 4th Circ. Win Confirms Derivative Sovereign Immunity for Student Loan Servicer

Decision Ratifies Government Contractors are not Liable for Eligibility Decisions Made by Federal Agency

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PHILADELPHIA – Troutman Pepper prevailed in a decision on behalf of the Pennsylvania Higher Education Assistance Agency (PHEAA), one of the country’s leading providers of student financial aid services. The U.S. Court of Appeals for the Fourth Circuit affirmed the district court ruling that PHEAA, the loan servicer, was entitled to derivative sovereign immunity and was not liable for the consequences of decisions made by the U.S. Department of Education (DOE) that PHEAA relayed to the plaintiff. On Monday, May 13, 2024, the Court denied appellant’s petition for rehearing and reargument.

The case centered on the fact that after PHEAA informed plaintiff that DOE had determined plaintiff’s employer did not qualify as an eligible employer under the Public Service Loan Forgiveness (PSLF) program, the plaintiff left their job, only to have DOE reverse its decision a year later. Troutman Pepper argued that before changing employment, plaintiff could have challenged DOE’s decision under the Administrative Procedure Act, but that PHEAA was immune to a suit for damages.

“This decision should give other federal student loan servicers and, more broadly, any government contractor that communicates with individuals at the behest of the agency for which they are working, confidence that they will not be liable for conveying decisions made by the government,” said Partner [Justin Weber](#). “DOE expressly authorized PHEAA to relay its decision to the plaintiff. The appellate court’s ruling rightfully confirmed that our client is entitled to derivative sovereign immunity for its actions and affirmed that the district court was correct in dismissing the case.”

The Troutman Pepper team also included [Christopher Healy](#), and [Ethan Ostroff](#), among others.

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