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# Federal Appeals Court Blocks SAVE Student Loan Repayment Plan

On August 9, 2024, the U.S. Court of Appeals for the 8th Circuit officially blocked the SAVE student loan repayment plan in its entirety, saying the injunction would remain in place "until further order of this court or the Supreme Court of the United States."[1] The ruling replaced a temporary order issued by the same court in July. The result is that millions of borrowers who enrolled in the SAVE Plan to benefit from lower monthly payments and a potentially faster path to loan forgiveness will be in limbo as the legal process plays out.

***Legal challenges to the SAVE Plan have resulted in borrowers being placed in administrative forbearance, during which no student loan payments are due and interest does not accrue.***

## Background

In August 2023, the Department of Education launched the most generous federal student loan income-driven repayment (IDR) plan to date called the Saving on a Valuable Education (SAVE) Plan. It replaced the Revised Pay As You Earn (REPAYE) Plan.

Like other IDR plans, SAVE calculates a borrower's monthly payment based on income and family size. At the time SAVE was implemented, the Supreme Court had just blocked federal student loan cancellation (under a different program) and student loan payments were set to resume in October 2023 for millions of borrowers after more than three years of payment pauses during the pandemic.

The SAVE Plan was structured to be implemented in phases, with some benefits taking effect immediately and others scheduled to go into effect in July 2024. Two key benefits that were scheduled to take effect in July 2024 were:

- Lower monthly loan payments — For undergraduate loans, monthly payments would be capped at 5% of discretionary income (compared to 10% of discretionary income under REPAYE), and graduate loans would be capped at 10% of discretionary income. Borrowers with both undergraduate and graduate loans would pay a weighted average of between 5% and 10% of their income based on the original principal balances of their loans.
- A faster path to loan forgiveness — For borrowers with original principal balances of $12,000 or less, remaining loan balances would be forgiven after 10 years of payments. For original loan balances over $12,000, the maximum repayment period would increase by one year for every additional $1,000 borrowed. For example, a $13,000 loan would be forgiven after 11 years of payments, a $14,000 loan would be forgiven after 12 years, and so on. (Under REPAYE, loan balances were forgiven after 20 years of payments.)

## Legal challenges

After the SAVE Plan was passed in 2023, it faced multiple legal challenges. In early 2024, several states joined one of two lawsuits challenging the plan on the grounds that the Department of Education was overstepping its authority and that the plan needed to go through Congress.[2]

In June 2024, two separate federal courts in Kansas and Missouri temporarily blocked key parts of SAVE, just a week before many borrowers' payments were scheduled to be cut by as much as half (from 10% under REPAYE to 5% under SAVE).[3] In response, the Department of Education placed all borrowers enrolled in SAVE into administrative forbearance, during which borrowers were not required to make any payments and interest would not accrue.

Subsequently, a federal appeals court halted the Kansas court's block on SAVE, meaning that the specific provision of SAVE allowing monthly payments to be set at 5% of discretionary income for undergraduate borrowers could move forward as planned.[4] But on August 9, a federal appeals court in Missouri blocked SAVE in its entirety.

The legal process will continue to unfold as the Department of Education challenges the ruling. However, the status of borrowers enrolled in SAVE didn't technically change as a result of this latest ruling because borrowers had already been placed in administrative forbearance as noted above.

## What's next for borrowers?

The ongoing legal uncertainty surrounding SAVE has no doubt created confusion and frustration for millions of enrolled borrowers who are unsure when their loan status will be resolved. Whether borrowers will ultimately be able to lower their monthly payments and have a faster path to loan forgiveness under SAVE remains to be seen. As the legal process plays out, here is some guidance from the Department of Education for borrowers currently enrolled in SAVE:[5]

- During forbearance, borrowers are not required to make payments and interest does not accrue.
- Time spent in forbearance does *not* count for Public Service Loan Forgiveness (PSLF) or income-driven repayment (IDR) plan forgiveness.
- Borrowers will be in administrative forbearance until the legal situation changes or until loan servicers are able to send bills for the appropriate monthly amount.
- Borrowers (and employers on their behalf) can continue to make payments during forbearance. Payments will be applied to future bills due after the forbearance ends.
- Borrowers who do not want to be in administrative forbearance can contact their loan servicer to change repayment plans (though there may still be forbearance associated with changing to certain repayment plans).
- Borrowers should hear from the Department of Education or their loan servicers in the near future about next steps.
- Borrowers can visit the federal student aid website to read status updates on SAVE.

One bright spot: the Department of Education has already forgiven $5.5 billion of federal student loan debt for 414,000 borrowers and the 8th Circuit Court of Appeals has ruled that states "cannot turn back the clock on any loans that have already been forgiven."[6]

1, 6) Inside Higher Ed, August 12, 2024

2) CNN, April 9, 2024

3) *The New York Times,* June 28, 2024

4) National Association of Student Financial Aid Administrators (NASFAA), July 2, 2024

5) U.S. Department of Education, 2024

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