

ENDING EXPLOITATIVE WORKER DEBT CONTRACTS

A.B. 692 Assemblymember Ash Kalra



BACKGROUND

A growing number of employers are using debt as an exploitative tool to trap workers in jobs, often with low wages and substandard working conditions.¹ Sometimes called “stay-or-pay” contracts, employers coerce workers into predatory arrangements that require the worker to pay an alleged debt or other financial penalty to their employer if the worker leaves their job before a prescribed period of time, whether the worker is fired, laid off, or quits. With the threat of having to pay back a debt or fee to their employer, stay-or-pay contracts indenture workers to remain at a job and chills workers from seeking better wages or working conditions.

Holding workers hostage as debtors to their employer, stay-or-pay provisions impose huge fees on workers for bogus on-the-job training, equipment loans, supply costs, liquidated damages, or other financial arrangements. Stay-or-pay provisions can be hidden deep in employment contracts or onboarding papers that a worker must sign as a condition of employment.²

Stay-or-pay contracts are proliferating across the economy, harming workers in the transportation, health care, retail, aviation, and tech industries.³ One common type of stay-or-pay contract is a “training repayment agreement provisions” (TRAPs), where a worker is forced to pay back a company for the often inflated costs of purported training if they leave their job before the end of minimum work period. Through TRAPs, employers shift onto workers the costs of basic on-the-job training or orientation necessary to perform their work duties.

A 2024 study found that about 1 in 12 workers in the U.S. are subject to a TRAP.⁴ In 2022, a survey of registered nurses (RNs) found that almost 40 percent of RNs who started their careers within the past decade were subject to a TRAP for new graduate “residency” pro-

grams.⁵ But nurses, who can be indebted to their employer between \$5,000 and \$30,000 with a work commitment of two or three years, report that so-called residency programs are a bait-and-switch by hospitals that force nurses to pay for orientation and basic on-the-job training.⁶

ISSUE

TRAPs and other stay-or-pay contracts lock workers into jobs, through debt that effectively serves as an “exit fee” to leave their job, limiting their job mobility and bargaining power over their working conditions. With the threat of financial ruin, stay-or-pay contracts insidiously chill workers from speaking out against unsafe or unfair working conditions for fear of losing their job and being forced to pay off debt.

Through TRAPs and other stay-or-pay provisions, employers can use the threat of debt collection to silence whistleblowers, bust union activity, and lock workers into substandard jobs. For nurses, the threat of debt stifles them from advocating for safe and effective nursing care and hospital conditions for themselves, their coworkers, and their patients. Through stay-or-pay provisions, hospitals intimidated nurses during the Covid-19 pandemic into staying in jobs with unsafe working conditions and unsafe staffing, risking their lives.⁷

The Consumer Financial Protection Bureau reported that, as noncompete agreements have fallen under increased legal scrutiny, the rise in stay-or-pay arrangements may be attributable to employers looking for new ways to discourage workers from leaving jobs.⁸ California’s Attorney General has issued repeated legal alerts reminding employers that stay-or-pay contracts may violate state Labor Code and state consumer protection statute.⁹ But the practice continues to grow.

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SOLUTION

Legislation is needed to clarify that predatory stay-or-pay contracts that lock workers into jobs are prohibited under California law. This bill would amend the Business and Professions Code to expressly make work-related debt arrangements that include minimum work requirements void and unlawful. This prohibition on stay-or-pay contracts would be enforceable by the Attorney General and other public prosecutors under state Unfair Competition Law.

To ensure that workers themselves can bring claims to void stay-or-pay contracts with the Labor Commissioner and under PAGA, this bill would also void stay-or-pay contracts as unlawful contracts against public policy under the Labor Code.

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SPONSORS

American Economic Liberties Project
California Employment Lawyers Association
California Federation of Labor Unions, AFL-CIO
California Nurses Association
Student Borrower Protection Center

ENDNOTES

- 1 See Consumer Financial Protection Bureau (2023), “Consumer risks posed by employer-driven debt.”
- 2 See Student Borrowers Protection Center (2022), “Trapped at Work.”
- 3 See Student Borrowers Protection Center (2023), “Stay-or-Pay: Federal Actions to End Modern-Day Indentured Servitude Across the Economy.”
- 4 Promarket (2024), “First Evidence on the Use of Training Repayment Agreements in the US Labor Force.”
- 5 National Nurses United (Dec. 2022), “Caught in a TRAP,” *National Nurse Magazine*.
- 6 *NBC News* (2023), “‘Indentured servitude’: Nurses hit with hefty debt when trying to leave hospitals.”
- 7 See, e.g., National Nurses United (2022), “Comments to the CFPB, Request for Information Regarding Employer Driven-Debt,” Doc. # CFPB-2022-0038-0001.
- 8 See CFPB (2023), “Consumer risks posed by employer-driven debt.”
- 9 California DOJ OAG (2023), “Legal Alert, State Law Restrictions on Employer-Driven Debt.”