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Don't Get Trapped: California's New Stay-or-Pay Bill Effective as of January 1, 2026

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California's Assembly Bill 692 which prohibits employment agreements that require employees to repay any "debts" upon leaving their employer became effective on January 1, 2026 (the "Bill"). These types of contracts are colloquially referred to as "stay-or-pay" or "TRAP" clauses and typically require that the employee must repay their employer certain penalties, fees, or costs if they leave their job before a set time, with exceptions. The new law provides that it will be "unlawful to include in any employment contract, or to require a worker to execute as a condition of employment or a work relationship" the repayment obligations.

Specifically, the Bill prohibits employers from requiring, as a condition of employment, contractual provisions that impose any of the following:

1. Requires debt (e.g., employment-related costs, education-related costs, or consumer financial product or services) repayment if employment ends;
2. Allows debt collection or ends forbearance on a debt if employment ends; or
3. Any other penalty, fee, or cost if employment ends, including but not limited to reimbursement for immigration or visa costs, replacement hire fees and retraining fees.

Employers may still be repaid for certain items. The Bill provides the following two major exceptions:

1. Repayment of tuition or a "transferable credential", if the provision is included in a separate contract from the employee's main employment agreement, obtaining the credential is not a condition of employment, the contract lists the repayment amount (and the repayment amount of the



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- credential is not more than the cost to the employer), the contract provides for a prorated repayment over the required employment period, with no accelerated repayment on early exit, and repayment is not required if the employee is fired (unless the employee is terminated for misconduct).
2. Repayment of “upfront” discretionary bonuses, if that payment occurs at the start of employment, it is included in a separate contract, the employee is notified that they have the right to consult counsel and is provided five (5) business days to do so, the repayment period is prorated without interest, the retention period is two years or less, the payment may be deferred until the end of that retention period and an early separation must be voluntary (unless the employee is terminated for misconduct).

The Bill also provides certain exceptions for relocation costs for the lease, financing or purchase of residential property, a loan entered into under any loan repayment assistance program, and contracts related to enrollment in an approved apprenticeship program.

Notably, the Bill will not apply retroactively, so employers do not need to modify, revise or revoke existing, non-compliant agreements. The Bill, however, does establish a private right of action for monetary damages for the employee’s actual losses or a minimum penalty of \$5,000 (whichever is greater), injunctive relief, attorney’s fees, and costs for the employee. The Bill only applies to employees and does not apply to independent contractors or freelancers.

If you have specific questions about how the Bill may impact your company, please contact [J. Allen Holland](#) or [Ashley Berger](#).

Disclaimer: This summary is provided for educational and informational purposes only and is not legal advice. Any specific questions about these topics should be directed to attorney(s) [J. Allen Holland](#) and/or [Ashley Berger](#).

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