Training Repayment Agreements and the Federal Truth in Lending Act: Case Update

Class Claims May Continue Against A Health Care Company Based Upon Allegations That It Provided "Private Education Loans" That Violated Federal Law

September 5, 2025

A US District Court Judge for the Middle District of Tennessee recently issued a ruling in a class action case brought against a private company that offers outsourced health care services to hospitals and surgery centers throughout the United States (Provider). In its ruling, the Court granted the Provider's motion to dismiss on all counts except for the count premised on an alleged violation of the federal Truth in Lending Act (TILA).[1] This ruling, which allows claims to proceed against the Provider on a class basis, serves as a "yellow light/proceed with caution" call to all firms providing educational training services to employees who are contractually required to repay some or all of the training costs incurred by the employer if the employment relationship is severed before the predetermined "loan forgiveness" period set forth in the contractual agreement lapses.

Background

Initially filed in August 2023, the case, brought as a class action, involved claims that included alleged violations of the Fair Labor Standards Act and TILA, as well as unlawful restraint of trade claims. With respect to the TILA claim, in its third amended complaint,[2] the plaintiffs set out the relevant facts, noting that the Provider offered them and others who are similarly situated a year-long training program for surgical neurophysiologists that included in-person and online coursework, laboratory practicums, and practical training in the operating room (Training Program). The Training Program required that the employees/students sign a Training Repayment Agreement, which, among other things, required the employees/students to reimburse the Provider for the cost of their training if the employee/student left their position within three years of completing the training.[3]

According to the plaintiffs, although the training program was only one year long, the Training Repayment Agreement allowed interest to accrue on the amount "owed" for the two years after training completion, creating an agreement whereby employees would be subject to an interest rate

of approximately 25 percent if the employee resigned between year one and year two of employment, and an interest rate of approximately 50 percent if such employee resigned between year two and year three of employment. According to the plaintiffs, however, the Training Repayment Agreements are "private education loans" and the defendant was a "covered educational institution" that offered consumer debt that pertained to the "cost of attendance" of a post-secondary educational program in a manner that violated TILA.

Factoring in TILA

Importantly, TILA defines a "private education loan" as a "loan provided by a private educational lender that . . . is issued expressly for postsecondary educational expenses to a borrower."[4] The same law defines a "private educational lender" as any "person engaged in the business of soliciting, making, or extending private education loans."[5] Finally, the law defines "post-secondary educational expenses" as "any of the expenses that are included as part of the cost of attendance of a student."[6]

In its holding with respect to the defendant's motion to dismiss on this TILA count, the Court found that

> Taking the allegations in the [third amended complaint] as true and drawing all reasonable inferences in Plaintiff's favor, the Court finds that plaintiffs plausibly allege that [a plaintiff] was both a student and an employee of [Provider], that [Provider] engages in extending loans to [surgical neurophysiologists such as a named Plaintiff], and that these loans are for post-secondary private education, i.e., training to become a [surgical neurophysiologist].

Next Steps

While the Court's decision is not a final ruling, it underscores the potential legal hazards that are inherent in the offering of training programs with associated agreements that require the employee's repayment of training costs (typically prorated based upon the period of time employed post-training) if such employee does not continue employment after a prescribed period of time. To that end, Katten recommends that health care companies that provide such programs consider undertaking the following:

Inventory existing programs to determine if any programs require an employee's repayment of employer-incurred training expenses if the employee's role is terminated within a contractually prescribed amount of time.

To the extent that programs are identified as a result of the efforts described in (1) above, determine whether the facts related to the identified programs could support an allegation that the program is providing "private education loans" or some other type of loan.

To the extent that programs are identified that may be subject to TILA's private education loan provisions, work with counsel to determine the necessary disclosures, documentation and calculations that must be put in place to ensure TILA compliance. Document efforts to ensure that the company is aware of the date upon which a compliant program was offered to employees.

In addition to issues related to TILA compliance, one must also determine whether consumer lending licenses in the states where employees reside are necessary to engage in such activity. While this issue was not raised in the case considered by the Tennessee court to date, claims related to unlicensed lending could create results that range from prohibition, to collecting any amount advanced or agreed upon,[7] to a civil penalty, to, in certain states, the potential for criminal liability.[8]

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1 Fuchs et al. v. SpecialtyCare, Inc., U.S. Dist. Ct. Mid Dist. TN, Case No: 3:23-cv-00892 (Aug. 15, 2025), available here.

2 The Third Amended complaint was filed on November 22, 2024.

3 Note that the Training Repayment Agreement is filed under seal and thus unavailable for public review.

4 15 U.S.C. § 1650(a)(8).

5 15 U.S.C. § 1650(a)(7).

6 15 U.S.C. § 1650(a)(5).

7 See, for example, CA Fin. Code § 22750(b) which provides as follows with respect to willful violations of California's consumer lending law: "if any provision of this division is willfully violated in the making or collection of a loan, the contract of loan is void, and no person has any right to collect or receive any principal, charges, or recompense in connection with the transaction" (emphasis added). See also CA Fin. Code § 22752(a) which provides as follows with respect to violations that are not willful: "If any provision of this division is violated in the making or collection of a loan, for any reason other than a willful act of the licensee, the licensee shall forfeit all interest and charges on the loan and may collect or receive only the principal amount of the loan" (emphasis added).

8 See, for example, CA Fin. Code § 22753 which states: "Any person who willfully violates any provision of this division or who willfully violates any rule or order adopted pursuant to this division, shall, upon conviction, be punished by a fine of not more than ten thousand dollars ($10,000), by imprisonment in a county jail for not more than one year or pursuant to subdivision (h) of Section 1170 of the Penal Code, or by both that fine and imprisonment."

CONTACTS

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