

Outcomes-Based Financing (OBF) for Students Act

Section-by-Section

TITLE I—TAX TREATMENT OF OBF PRODUCTS

This title clarifies the federal tax treatment of OBF products for both recipients and providers. It ensures individuals are not taxed when an OBF obligation is discharged, terminated, or altered; treats certain payments under outcomes-based payment agreements as student loan interest when used for qualified higher education expenses; allows qualifying employer payments toward OBF obligations to be treated as educational assistance; and clarifies that OBF providers are not taxed on payments that merely recover the original amount financed.

TITLE II—DISCLOSURES APPLICABLE TO OBF PRODUCTS

Sec. 201. Disclosures.

This section clarifies the disclosure guidelines for OBF products within the Truth and Lending Act (TILA). It takes into account the unique nature of these products and requires particular terms to be disclosed more clearly, as well as describing standardized terminology to be used in OBF disclosures. It also requires disclosures to include an income scenario table (including APR) that shows borrowers what repayment could look like at different income levels.

Sec. 202. Advertising of OBF Products.

This section describes standardized terminology to be used in regards to the advertising of OBF products. This mirrors the treatment of conventional loans under TILA.

TITLE III—CONSUMER PROTECTIONS FOR OBF PRODUCTS

Sec. 301. Consumer protections.

This section creates a variety of consumer protections for OBF products, as well as definitions related to OBF products in the Truth and Lending Act, including terms like “outcomes-based financing product,” “outcomes-based loan,” “outcomes-based payment agreement,” and more. This section also creates payment affordability regulations for OBF products, such as: OBF payments cannot constitute more than 20% of a borrowers’ income; the income threshold for OBF products may not be less than 250% of the federal poverty guidelines (FPL) for a single person; and borrowers with an after-school income that is below 350% FPL could not have an APR on the OBF product that is higher than ~12% (at current market rates).¹

In addition, this section prohibits wage assignment, prohibits acceleration entirely for outcomes-based payment agreements and, for outcomes-based loans, prohibits acceleration except after at least 180 continuous days of delinquency/default, provides for the discharge of the OBF product in the event of permanent disability or death, places limits on the types of income that can be

¹ This limit is set to 8% + the current 10-year Treasury rate. The 10-year Treasury rate was ~4.15% as of December 2025.

used to calculate income under an OBF product, and puts limits on the duration and number of required payments for an OBF product.

Finally, this section preempts state usury laws, but states can reverse this by enacting explicit legislation for OBF products. States may also enact legislation explicitly addressing OBF products that creates limits stricter than the federal limits for the affordability limits in the bill. Some other state laws are preempted because they conflict with how OBF products operate (such as laws requiring that payments be in substantially equal amounts). Existing state laws that explicitly reference income share agreements are not preempted.

Sec. 302. Treatment under bankruptcy laws.

This section treats OBF products as normal consumer debt which are easier to discharge, in contrast to student loans which can only be dischargeable in bankruptcy if the borrower can show “undue hardship.”

TITLE IV—OTHER CLARIFICATIONS TO SUPPORT OBF PRODUCTS

Sec. 401. Consent to continuing release of taxpayer information under OBF products.

This section makes income verification easier by directing the IRS to allow taxpayers to authorize (in ink or e-signature) the release of their income to the financing provider over the life of the OBF product.

Sec. 402. Interplay with the Higher Education Act of 1965.

This section clarifies that the preferred lender rules in existing law apply to schools that partner with OBF providers, and therefore the institution and the lender must make specific disclosures to borrowers. It also clarifies the treatment of OBF products under the 90/10 rule that applies to for-profit schools. Specifically, it states that schools can count payments on an OBF product (up to the amount financed) as non-federal revenue in the same way they can count payments toward the principal balance of a conventional student loan.

Sec. 403. Supporting outcomes-based underwriting.

This section creates a safe harbor under the Equal Credit Opportunity Act for OBF providers that use empirically derived credit systems to approve applications or set financial terms. The bill allows providers to consider outcomes-based metrics, such as historical graduation rates, debt-to-income ratios, income or earnings of prior students by institution, major, or program of study, or earnings data for workers in the relevant field, so long as the system is demonstrably and statistically sound under CFPB regulations.

Sec. 404. Treatment under the Fair Credit Reporting Act.

This section explains what consumer reports made by a consumer reporting agency may include in regards to an OBF product (contract terms and amount owed). It states that speculation of future amounts that may be owed under an OBF is not allowed.