FROST LAW

News

Tax

SBA EIDL Loans Sent to Treasury: What Borrowers Should Know

By Peter Mancini, Esq. & Yabriami González Feliciano

It’s a surprise many small businesses weren’t expecting.

Hundreds of thousands of businesses that took out an Economic Injury Disaster Loan (EIDL) during the COVID-19 pandemic are now finding those loans have been referred to the U.S. Department of the Treasury where they face some of the government’s most aggressive collection processes. This is an unexpected twist for some borrowers, who believe the loan is current or was transferred in error. Once this transfer happens, the Small Business Administration (SBA) loses its authority to fix the problem.

It’s a confusing situation for borrowers. Here's what's driving the surge in referrals, how the dispute process works, and why a Treasury payment offset can hit a business before that dispute is even decided. People caught in this can see money lost that they were counting on, including tax refunds, Social Security payments, federal contractor payments, and even wage garnishments.

For people struggling with this situation, Frost Law may be able to help. Schedule a consultation with the Frost Law team by calling (410) 497-5947 or through our contact form.

This is part four of a series of articles to help delinquent borrowers facing collection action for an SBA EIDL loan. Others in the series include:

- EIDL Borrowers At Financial Risk of Growing Bills, Garnishment of Wages, and Social Security Benefits
- Frost Law Alert: SBA Loan Holder Rights May Have Been Violated When Debts Sent to Treasury for Collection
- Silver Lining For Small EIDL Borrowers With SBA Loans: Closing Your Business Doesn’t Mean Financial Ruin

Info@AskFrost.com

Here are some more specifics on this complex scenario.

Why the SBA Is Sending EIDL Loans to Treasury

Federal law requires agencies to refer delinquent debts to Treasury once they are 60 to 180 days past due, under **the rules governing Treasury's Cross-Servicing program**. For several years, the SBA used a waiver to hold back on referring COVID-19 EIDL loans to Treasury, continuing to service them internally instead. That waiver expired on March 31, 2026, and delinquency referrals have accelerated sharply since then.

The scale of the underlying backlog is significant: As of December 2024, **the SBA's Office of Inspector General reported** that the agency had already charged off 369,588 COVID-19 EIDLs – meaning the agency formally recognized that additional repayment and recoveries are unlikely. That represents more than $47 billion in debt, none of which involved confirmed or suspected fraud. Less than 1% of that amount had been recovered. That's the pool of ordinary, non-fraud delinquent debt now moving into Treasury's collection process that borrowers need to be aware of.

Once a loan is transferred, the SBA cannot take it back. Treasury has stated directly that COVID-19 EIDL and Paycheck Protection Program debts cannot be returned to the SBA after referral, and the agency has pushed back on online misinformation suggesting otherwise. After the transfer out of SBA, Treasury either holds the debt in its Centralized Receivables Service or moves it into Cross-Servicing, where collection becomes more aggressive. These delinquent borrowers can face demand letters, a collection fee of up to 32% of the balance (meaning a $100,000 loan can suddenly jump to around $132,000), credit bureau reporting, referral to private collection agencies, and eventual enrollment in the Treasury Offset Program (TOP).

When the Referral Itself Was the Problem

A referral to Treasury assumes the SBA's underlying default determination against the delinquent borrower was accurate. In reality, that assumption doesn't always hold up. Businesses and their attorneys, including the Frost Law team, through our **SBA Loan Debt Relief practice**, are finding loans referred to the rigorous Treasury program despite payments having been made, balances that don't match the borrower's own records, or defaults triggered by SBA administrative errors rather than any actual failure to pay.

With hundreds of thousands of ordinary delinquent loans now moving through the pipeline at once, the odds increase that some borrowers had their cases moved to Treasury without individualized review.

For a borrower in that position, the remedy is filing a dispute with Treasury, not an appeal back to the SBA. Once a debt reaches Treasury Cross-Servicing, a borrower can submit a **Cross-Servicing Debtor Dispute Form** with supporting documentation if they believe they don't owe the money, that the amount is wrong, or that payments were misapplied. Many borrowers and their legal counsel also notify the SBA directly at this stage, not because the SBA can act on its own once the loan has left its hands, but to build a complete record and keep the door open for the SBA to reclaim the loan if the dispute is won.

That process moves slowly. Both agencies have acknowledged significant dispute backlogs, and matters are generally handled in the order received, which can mean delays of many months. A pending dispute also does not stop the clock. That means interest and penalties continue to accrue while the matter works way through the system, even though a properly filed dispute is supposed to pause active collection in the meantime.

The Treasury Offset Program (TOP) Doesn't Wait

While a dispute is pending, the government has other collection tools that don't depend on the dispute’s outcome.

Through **the Treasury Offset Program** (TOP), the government can intercept nearly any federal payment and apply it to a delinquent federal debt like an EIDL loan. Examples include federal income tax refunds, federal salary payments, and federal contractor/vendor payments. Social Security benefits can be targeted too, but they’re treated a bit differently: Social Security carries an added safeguard: The offset can’t exceed the lesser of 15% of the monthly benefit or the amount by which the benefit exceeds $750, so a benefit of $750 a month or less can’t be offset at all.

Federal administrative wage garnishment (AWG) works on a related but separate track. No court order is needed to issue an administrative wage garnishment order. Instead, under federal law, the Treasury must provide 30-day written notice to the person whose wage or salary will be garnished. That person can challenge the garnishment in an administrative hearing so long as it is done within 15 business days. Doing so triggers a temporary pause on the garnishment until the matter is settled. An administrative wage garnishment allows the government to garnish up to 15% of disposable wages.

TOP offsets can occur with little advance individualized warning once a debt goes into the program, but agencies must inform the borrowers with a notice at least 60 days before referral. The letters must explain the debt and the borrower's rights to pay, set up a payment plan, or dispute it. Once a payment and a debt are matched in the TOP database, the offset is generally automatic, meaning the funds originally intended for the recipient will go toward paying the debt, and only the remaining money, if any, reaches the recipient. For a business expecting a full refund or payment, an unexpected partial offset can be both a significant financial disruption and one that arrives faster than any pending dispute.

What Borrowers Should Do

For borrowers in these situations, there are some critical steps that should take to protect their interests:

- Identify which program inside the Treasury Department is handling the debt. The collection notice should specify whether the loan sits with the Centralized Receivables Service, Cross-Servicing, a private collection agency, or TOP. The right response depends on which program.
- File a dispute promptly, in writing. This should be fully documented if there's a basis to challenge the debt, the amount, or the transfer itself. Send the dispute to both the assigned collection entity and, as a protective step, to the SBA directly.
- If facing wage garnishment, request a hearing within 15 business days of the date the notice was mailed to pause collection while the case is reviewed.
- Don’t assume filing a dispute stops everything. TOP offsets and interest accrual can continue while a dispute is under review.

- Don’t forget to check hardship-plan eligibility before it's too late. SBA's payment assistance program (a 50% reduction in monthly payments for six months) is only available to loans under 90 days past due that don't carry a "Charged-Off" or "Uncollectible" status. Once a loan crosses into default, that door closes.
- Verify that any private collection agency that contacts you about an SBA debt is legitimate and get any payment arrangement in writing.

The consequences for borrowers aren't abstract. A business acting in good faith on what it believes is a loan in good standing can still see federal payments intercepted, wages garnished, credit reported as delinquent, and collection fees added to the balance – even if a legitimate dispute has been filed. Understanding how referrals, disputes, and offsets fit together is the first step toward protecting a business's position while that elaborate process plays out.

If your business has received a Treasury collection notice on an EIDL loan, **Frost Law's SBA loan debt relief team** can help evaluate whether the referral was proper and what options remain. You can also contact us at **(410) 497-5947** or through our **contact form**.

More News Articles