Businesses With an SBA EIDL Loan Between $25,000 and $200,000 May Still Have Assets at Risk

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Hidden Threat Lurks for Borrowers Even Without a Personal Loan Guarantee

Selling a business. Buying out a partner. Refinancing equipment. For thousands of small businesses that took out a COVID-19 Economic Injury Disaster Loan (EIDL) between $25,000 and $200,000, any one of these ordinary moves may trigger a problem the owner didn't know was there.

For people in these scenarios, there could be, in the form of an active Small Business Administration lien on the business's assets that was never cleared or released before a deal closed.

That means a business owner who sells a piece of equipment, sells the business itself, or brings in new financing—without first getting SBA's written release, subordination, or approval—may be transferring something that still has a federal lien attached to it. That lien is on public record. The real risk isn't that the lien is hidden; it's that people see it and skip the step of getting it released or subordinated before closing.

If a lender is financing the purchase, a Uniform Commercial Code (UCC) search will typically catch this before closing. But in an all-cash deal, no lender means no built-in safety check. That means the buyer can end up owning an asset still subject to an SBA lien, with only a claim against the seller (often under a clear-title warranty) to fall back on.

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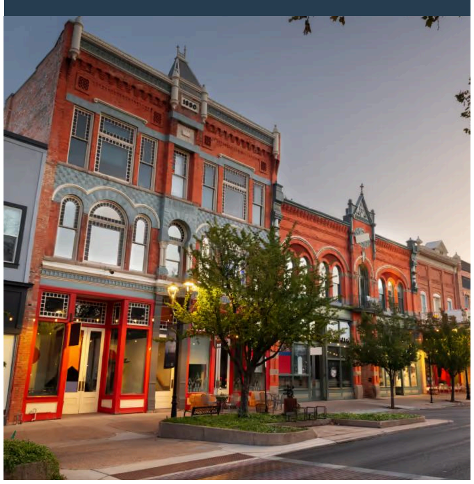

The loan range of between $25,000 and $200,000 sits in a dangerous middle zone. It's large enough that the SBA placed a blanket lien on the business's assets perfected through a UCC filing. It's small enough that, in most cases, no owner personally guaranteed the debt. That combination creates a false sense of security.

It's a real-world scenario. Frost Law has seen this situation lead to deals unravelling, sales getting reversed, and business owners finding out too late that a lien they thought was resolved was still very much attached to what they just sold.

A key question matters right now for these businesses: Did you get SBA's sign-off before you sold, transferred, or refinanced business assets tied to your EIDL loan?

Why This Loan Range Is a Trap for the Unwary

Under SBA's own published loan terms, collateral was required for every COVID-19 EIDL loan over $25,000, while a personal guarantee was only required once a loan exceeded $200,000. This usually shows up in both the SBA authorization and the loan's security agreement for EIDL loans. For loans in between these amounts, that meant a blanket lien on the business's assets, inventory, equipment, receivables, and more—with no personal guarantee attached.

Business owners often read that as good news: No guarantee means no personal exposure. But what frequently gets missed is that the lien itself doesn't disappear just because there's no guarantee behind it. It stays attached to the business's assets until the SBA formally releases it. And the SBA has made clear it does not simply let that happen.

The Mistakes Being Seen by Frost Law

Frost Law has identified a consistent pattern among EIDL borrowers in the $25,000–$200,000 range who ran into trouble:

- **Selling assets first, asking questions later.** SBA's own Release of Collateral requirements make clear that the agency must be notified before a sale closes with the sale terms and conditions fully described. In addition, a signed sale agreement or bill of sale, a current UCC lien search, and often a monetary payment to SBA are expected as part of that process. Asking for a lien release only after the deal has already closed doesn't just miss a step: it can look like misrepresentation or fraud. That can potentially turn what might have been a civil issue, like conversion, into a criminal one as well.
- **Assuming a closed business ends the loan.** SBA's regulations treat the misuse of loan proceeds as a serious violation carried by the individual, not just the business, regardless of whether that individual ever signed a personal guarantee. A business shutting its doors does not automatically clear this exposure.
- **Treating a change in ownership as a private matter.** SBA's own Assumption request requirements state plainly that approval of a new owner taking over the loan "will not release the Original Borrower(s) and/or any Guarantor(s) from liability." Selling to a new owner without notifying SBA doesn't transfer that risk away; it can leave it right where it started.
- **Not pulling a lien search before negotiating.** Every SBA servicing action tied to an EIDL lien, release, substitution, or subordination starts with a UCC lien search confirming exactly what SBA's lien covers. Business owners who skip this step are often negotiating a deal without knowing what's encumbered.

What SBA Actually Requires Before Making Changes

SBA's own COVID EIDL Servicing Center has published specific document requirements depending on what a borrower is trying to do, and none of it happens automatically:

- **Selling a specific asset** requires a formal Release of Collateral request, including a signed sale agreement, a

UCC lien search, two years of business tax returns, and in most cases a monetary payment to SBA.

- **Swapping one piece of collateral for another** requires a Substitution of Collateral request, which SBA will generally only approve if its own financial position doesn't get weaker as a result.
- **Selling the business to a new owner who will take over the loan** requires an Assumption request and even then, the original borrower isn't automatically released from liability.
- **Bringing in new financing that needs to sit ahead of SBA's lien generally requires a Subordination request**, with SBA's approval required before a new lender can take a first-lien position. One notable exception is a purchase-money security interest (PMSI), financing used to buy a specific new piece of equipment or inventory. A properly perfected PMSI can automatically take priority over SBA's existing lien on that item under the UCC, without needing SBA's approval or a formal subordination.

Every one of these servicing actions comes with the same warning directly from SBA: Prior approval is required, and there is no assurance that it will be granted. SBA can condition its approval on resolving any default, correcting collateral issues, or requiring a payment, even after a complete application is submitted.

What's At Stake If A Step Gets Missed

A lien that isn't properly released or transferred doesn't just sit quietly in the background. It can:

- Surface in a title search or UCC search after a sale has already closed, clouding the title and triggering a dispute with the buyer or the buyer's lender;
- Leave a business owner personally exposed to how loan proceeds were used, separate and apart from any guarantee;
- Complicate and, at worst, derail a sale, refinance, or ownership change;
- And leave the SBA borrower liable even after an asset's ownership has changed hands when the SBA is not properly notified.

Frost Law Can Help

If your business has an outstanding COVID-19 EIDL between $25,000 and $200,000 and you're planning to sell an asset, transfer ownership, refinance, or wind the business down, don't assume the lien is someone else's problem, or that it disappears with the sale. Frost Law can review your loan status, confirm what SBA's lien covers, and help you navigate the release, substitution, subordination, or assumption process before a deal is signed—not after.

Call **(410) 497-5947** or **schedule a consultation** for help to find out where your EIDL loan and lien actually stand.

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