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Got a COVID-19 EIDL Loan? The Government Can Garnish Wages or Social Security; Here's What to Do

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It can be a terrifying moment. When a notice arrives saying the federal government intends to start garnishing a paycheck or Social Security check, keep in mind many people are in this situation and there are options for help.

Every year, the U.S. Department of the Treasury and agencies like the Small Business Administration (SBA) move thousands of delinquent debts, including defaulted COVID-19 Economic Injury Disaster Loans (EIDL), into collection programs. They can use tools like Administrative Wage Garnishment (AWG), the Treasury Offset Program (TOP), and can even bring in private-sector collection agencies.

But people have rights. Federal law requires the government to warn taxpayers first, to explain the debt, and to give people a chance to respond. Generally, this step is supposed to be in a written letter sent to the debtor's last known address with the government well in advance of any actions being taken. However, government agencies routinely make mistakes in this process that borrowers can use to halt garnishment. Here's what's happening when the government garnishes pay or benefits, what rights people have, and ways to deal with this.

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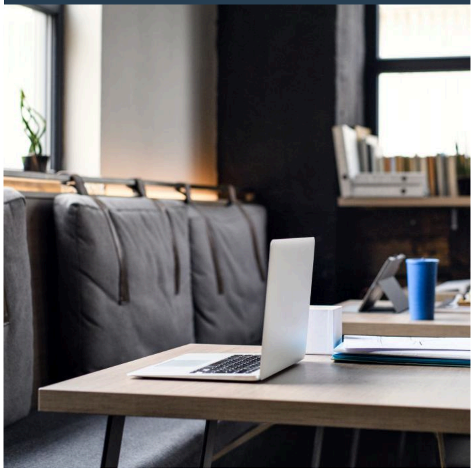

Frost Law is working extensively on COVID-19 EIDL issues. There's been increasing activity in this area in recent months after the SBA sent about 500,000 of these delinquent pandemic loans into the Treasury collection system. To help borrowers understand what they face, Frost Law has written a series of articles covering the loan program. Explore the rest of the series here:

- Overlooked: Nearly A Half-Million Delinquent SBA Loans Sent To Federal Collection Process and Private Debt Collectors
- Frost Law Alert: SBA Loan Holder Rights May Have Been Violated When Debts Sent to Treasury for Collection
- SBA EIDL Loans Sent to Treasury: What Borrowers Should Know

- Businesses With an SBA EIDL Loan Between $25,000 AND $200,000 May Still Have Assets at Risk
- SBA EIDL Loans Over $200K: The Personal Risk for Business Owners That Can Be Overlooked

How the Government Can Seize Paychecks or Benefits

Under the law, the federal government has two separate legal tools for collecting delinquent nontax debt, like a defaulted SBA loan, an overpayment, or another debt owed to a federal agency. In both situations, no lawsuit needs to be filed.

Administrative Wage Garnishment (AWG) lets a federal agency order an employer to withhold money directly from a paycheck and pay it to the federal government for amounts that are owed. This authority comes from the Debt Collection Improvement Act and is spelled out in detail at 31 CFR 285.11. It applies to wages earned from an employer, not to Social Security.

The Treasury Offset Program (TOP), run out of the U.S. Treasury's Bureau of the Fiscal Service, works differently. TOP intercepts federal payments for debts. These include payments like tax refunds, federal salary, and, importantly, Social Security retirement, survivor, and disability benefits. The process redirects a portion of these payments to offset the debt.

Many delinquent debts, including charged-off COVID-19 EIDLs from SBA, eventually move into Treasury's **Cross-Servicing program**, which is authorized to use both AWG and TOP. To recover what's owed, tools can include demand letters, credit bureau reporting, referrals to private collection agencies, and referrals to the Department of Justice for litigation.

The Notice You're Entitled to Receive

Before either tool can be used to collect on a delinquent government debt, the law requires the agency to warn people in writing. The required notice periods differ depending on which tool is used.

- **Before AWG Occurs:** The agency must mail a written notice at least 30 days before garnishment begins. That notice must state the nature and amount of the debt, explain that the agency intends to collect through wage deductions, and lay out legal rights and the deadline for exercising them. The idea behind this is to give a debtor the opportunity to make other arrangements or challenge the debt before this happens, which is due process.
- **Before TOP Occurs:** The agency must send a letter at least 60 days before a payment, including a Social Security benefit, is referred for offset. Just as with AWG, a debtor should be given the opportunity to make other arrangements or challenge the debt before this happens.

For those blindsided by a garnishment, with no earlier letter, phone call, or attempt to verify an address, that's worth flagging immediately. The person's due process rights may not have been upheld by the governmental agency. Agencies are required to keep evidence of when and how these notices were mailed, and a missing or defective notice is one of the more common grounds for challenging a garnishment or collection action under TOP.

Your Rights Before Your Money Is Taken

Under federal law – specifically 31 CFR 285.11 — once the 30-day AWG notice is received, people have the right to:

- **Inspect and copy the agency's records** related to the debt.
- **Enter into a written repayment agreement** with the agency on terms it finds acceptable, instead of having wages withheld.
- **Request a hearing**, oral or written, to dispute the existence or amount of the debt, or the terms of the proposed repayment schedule.

To preserve the strongest protections, a written hearing request generally needs to be submitted within 15 business days of the notice being mailed. Do not ignore this or delay acting. Request it in time, and the agency cannot issue a wage withholding order until a hearing is held and a decision is made. Miss that window, and the agency can move forward with garnishment while the hearing is still pending, even though a hearing is still available.

At the hearing, the agency has the burden of proving the debt exists and is accurate. For those disputing it, they need to show, by a preponderance of the evidence, that no debt exists, the amount is wrong, or that collection would work an undue hardship.

How Much Can Actually Be Taken

Both tools are capped; the government cannot take everything.

- **Wage garnishment (AWG)**: The withholding is the lesser of 15% of disposable pay, or the amount by which disposable pay exceeds 30 times the federal minimum wage. For those already subject to another withholding order (other than family support, which takes priority), the combined AWG amount is further limited to 25% of disposable pay minus what's already being withheld. And there are exceptions if you recently changed jobs.
- **Social Security offset (TOP)**: For most non-tax federal debts, Treasury can take the lesser of 15% of the monthly benefit or the amount by which the payment exceeds $750 a month, meaning the check generally cannot be reduced below that floor. (However, Supplemental Security Income is a separate, needs-based program and is not subject to this kind of offset.)

If a garnishment already in place is pushing someone into real financial hardship because of changes like disability, divorce, or serious illness, they can ask the agency at any time to review and reduce the amount based on the current ability to pay.

Where Government Agencies Get It Wrong

Agencies don't always follow their own rules, and a federal watchdog recently documented exactly how. A 2025 audit by the SBA's Office of Inspector General found that when borrowers defaulted on COVID-19 EIDLs, the SBA often relied on automated calls and demand letters, then abandoned collateral and charged off loans, sometimes the very same day it had contact with the borrower, without confirming what assets or repayment options actually existed. The audit also found the SBA failed to report the vast majority of delinquent borrowers to credit bureaus and never referred debts to the Department of Justice for litigation, despite requirements to do so.

Why does this matter for borrowers? Because the law and policy are clear. Debt collection cannot be based on rushed automation. It cannot be based on shortcuts where due process rights are not upheld. And rushed collections or shortcuts often result in missteps ranging from in the wrong balance being owed, a notice being sent to the wrong address or other missteps in the required process. And for debts that were already settled or discharged in bankruptcy, it could lead to them being collected once again. Any of these can be grounds to dispute a garnishment and get it paused until the dispute is resolved. The burden is on the government to prove the debt, not on borrowers to disprove it.

What People Can Do

- **Don't ignore government notices.** Deadlines for requesting a hearing are short and unforgiving. Silence generally leads straight to garnishment.
- **Get the debt in writing and verify it.** Request the agency's records. Confirm everything — the amount, the loan or program it relates to, and whether it's already been paid, discharged, or settled.
- **Request a hearing in writing.** Ideally, do this within 15 business days of the notice, to preserve the right to have the garnishment paused until a decision is made. If no notice was ever given, then there may be more time, but do not wait too long. Inaction can lead to problems.
- **Consider a repayment agreement.** If the debt is valid, a voluntary agreement can often avoid wage withholding altogether and gives more control over the amount and timing.
- **Document financial hardship.** If garnishment would leave people unable to cover basic living expenses, gather proof of income, expenses, and any recent change in circumstances to support a hardship request.
- **Get help before money starts coming out.** Once garnishment begins, recovering withheld funds, even after a successful hearing, is far harder than preventing it in the first place.

Talk to Frost Law Before Your Notice Deadline Passes

Garnishment notices come with real, short deadlines, and missing one can mean money leaves your paycheck or Social Security check before you ever get a hearing. For those who have received a notice — or money is already being withheld – time is critical. The sooner Frost Law reviews your file, the more options are still on the table. Remember, every day of delay brings the hearing deadline closer.

Schedule a consultation with Frost Law or call **(410) 497-5947** now to protect your paycheck or benefits before it's too late.

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