

Frost Law Alert: SBA Loan Holder Rights May Have Been Violated When Debts Sent to Treasury for Collection

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Frost Law alerted business owners across the country with Small Business Administration loans that their pandemic-era debts may have been improperly transferred to the Treasury Department for collection.

The firm has seen repeated instances where SBA failed to properly notify businesses and individuals that their Economic Injury Disaster Loans (EIDL) were being sent to Treasury for handling by the government's debt collection arm, which includes private debt collectors.

Nearly 500,000 delinquent borrowers that participated in SBA's COVID-19 Economic Injury Disaster Loan have been referred to Treasury. This major change means businesses can be contacted by third-party private collection agencies pursuing collection of government debt. Delinquent borrowers now must deal with the Treasury Offset Program, which means the government can automatically seize things like tax refunds and Social Security benefits.

By moving these loans from the SBA into the Treasury collection program, it means delinquent borrowers have vastly limited financial options to repay their debts. They could face financial entanglements for years.

For those in this situation, one question matters right now: **Did the SBA send you a letter giving you 60 days to respond before transferring your loan?**

"SBA loan borrowers should have received advance notification before these loans went over to Treasury for collection," said Glen Frost, Founding Partner of Frost Law. "We're repeatedly seeing scenarios where the rights of borrowers were ignored or neglected. And once someone goes into the Treasury debt collection program, people have much less flexibility to fix things. Instead, they are looking at dealing with being pursued by third-party, private sector collection agencies working for the government. On top of that, they could have



tax refunds and federal benefits seized.”

Frost Law, a national firm headquartered in metropolitan Washington, D.C., has been working with hundreds of SBA EIDL borrowers. For people who have received an SBA notification, contact from a third-party collection agency or suspect their EIDL loan has been sent to the Treasury Department for collection, Frost Law may be able to help. [Contact Frost Law](#) to see what your options may be or if a limited exception may apply to you.

To help share information about this overlooked area, Frost Law will join a special [ALFI](#) webinar on July 21 with Partners Rebecca Sheppard and Daniel Staeven as well as Counsel Peter Mancini. Free registration is [available here](#) for the webinar, which is eligible for CPE and CE.

The SBA Was Required to Notify You First

Before referring your loan to Treasury, SBA policy required the agency to send borrowers a letter giving them 60 days to either pay the balance in full or negotiate a repayment plan. This 60-day notice was not the only communication borrowers should have received; it was part of a series of notices the SBA was required to send before any debt transfer to Treasury could occur.

That letter was the window to resolve the debt directly with the SBA - before Treasury got involved, before significant collection fees were added, and before enforcement began. Once the loan transfers to Treasury, the SBA loses all authority over the loan account. It can no longer modify terms, accept hardship requests, or negotiate settlements.

For the borrowers who never received that letter, or any of the prior notices, the question is whether they were ever

given a fair chance to respond. This is a violation of their due process rights. The SBA's failure to provide proper notice before transferring a loan to Treasury is not a technicality, it is a denial of the fair opportunity every borrower is entitled to.

Consider a borrower who had every intention of resolving their EIDL loan. Had they received the proper notices, they could have contacted the SBA, negotiated a repayment plan, or applied for hardship relief. Instead, they learned their loan was already at Treasury, maybe when a private debt collector called.

The 60-day notice wasn't just a formality, it was an opportunity to resolve the debt on far better terms. The opportunity was taken away from them due to SBA failing to follow its own rulebook.

What Treasury Can Do Without a Court Order

Once a loan goes to Treasury, the rules change completely. Under federal law, the government can garnish up to **15% of your disposable wages from every paycheck**, with no court order, judgment, or any further legal proceedings. And garnishment can affect both borrower and guarantor accounts.

Funds held in business and personal bank accounts can be pursued as well. Where a loan carried a personal guarantee, that exposure extends to the guarantor's bank accounts, not just the borrower's — making a levied or frozen account one of the more immediate risks once a debt is in active enforcement.

Treasury can also intercept 100% of federal tax refunds as well as Social Security benefits, and federal retirement



payments without any separate legal proceeding. For example, these can be up to 15% of monthly Social Security benefits.

On top of that, collection fees are added to the loan balance automatically at transfer. These can total a whopping 32% of the amount owed. For EIDL borrowers sent to Treasury, the amount owed today is likely considerably larger.

Even at this stage, the government is still required to send you a written notice at least 30 days before garnishment begins. If you did not receive that notice, you may have grounds to challenge the garnishment itself. That's a second opportunity for SBA borrowers to act to get help if this notification is missed.

Time Is the Most Important Factor

The window for borrowers to challenge what happened is narrow. Deadlines in federal debt collection are strict, and the procedural arguments required to contest an improper transfer are not something most borrowers can navigate alone. Borrowers who act early, before garnishment begins, have meaningfully more options than those who wait and have to deal with the Treasury Offset Program or a private debt collector.

Frost Law Can Help

If your SBA COVID-19 EIDL has been referred to Treasury, Frost Law may be able to help. If you never received proper notice, whether the required pre-transfer communications or the 30-day garnishment notice, contact Frost Law to evaluate whether the transfer followed proper procedure and explore what options remain. Call [\(410\) 705-2941](tel:4107052941) or [schedule a consultation](#) about your loan.

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