Frequently Asked Questions: Navigating COVID-19 EIDL Loan Repayment

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The Economic Injury Disaster Loan (EIDL) is a longstanding program offered by the Small Business Administration (SBA) that provides low-interest loans to small businesses and nonprofits that have experienced significant economic injury due to a declared disaster. During the COVID-19 pandemic, under the CARES Act,[1] the SBA expanded this program to provide working capital loans to small businesses, farms, and nonprofits affected by the pandemic, helping cover operating expenses such as rent, utilities, and supplies.

Many small business owners, sole proprietors, and community-serving nonprofit organizations that took out SBA EIDL loans during the pandemic are now struggling with repayment, causing new financial stress, contributing to widespread business closures, and exposing borrowers to severe personal financial penalties and aggressive government collection actions.[2]

This FAQ is designed for small business owners and nonprofit organizations nationwide that received an SBA COVID-19 EIDL and are now navigating repayment, delinquency, or default. It covers program basics, the consequences of missed payments, the U.S. Treasury collection process, and available resolution options, including settlement, bankruptcy, and dispute procedures.

We encourage SBA COVID-19 EIDL borrowers who are struggling with repayment to contact their elected officials to discuss their hardships and urge them to take action.

Disclaimer: This resource is provided for informational purposes only and does not constitute legal, tax, or financial advice; borrowers facing financial difficulty should consult a qualified professional for guidance specific to their situation. Nonprofits and small businesses may contact Public Counsel to inquire about free legal services: https://publiccounsel.org/issues/community-development/nonprofit-services-capacity-building/ and https://publiccounsel.org/issues/community-development/small-business-legal-services/.

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[1]Enacted in response to the economic fallout of the global pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. No. 116-136, 134 Stat. 281 (2020)) provided approximately $2 trillion in emergency financial assistance to individuals, businesses, healthcare systems, and local governments affected by the COVID-19 pandemic.

[2]Bruce R. Lindsay, Cong. Rsch. Serv., R47509, *SBA COVID-19 EIDL Financial Relief: Policy Options and Considerations* (2023), https://www.congress.gov/crs_external_products/R/PDF/R47509/R47509.6.pdf

1. **How is an SBA COVID-19 EIDL loan different from a PPP loan?**

The COVID-19 EIDL program was a specialized, nationwide expansion of the SBA EIDL program, created by the CARES Act to support businesses experiencing temporary revenue losses resulting specifically from the COVID-19 pandemic.[3] The Paycheck Protection Program (PPP) was a pandemic-specific program created by the CARES Act that offered loan forgiveness to borrowers who met specific criteria.[4]

Unlike PPP loans, EIDL loans must be fully repaid. The exception was a small, separate forgivable grant issued as part of the initial EIDL Advance.[5]

2. **What are the basic repayment terms of an SBA COVID-19 EIDL loan?**

SBA COVID-19 EIDL loans have a 30-year repayment term, a fixed interest rate of 3.75% (2.75% for nonprofits), and a maximum loan amount of $2 million.[6]

3. **Why is my current loan balance higher than the amount I originally borrowed?**

The SBA granted borrowers a 30-month deferment before repayment began.[7] However, interest accrued on loans during the deferment period was rolled into the loan balance.[8] By the time repayment started, many borrowers owed more than they had originally received, resulting in higher monthly payments based on the increased balance.

4. **Can an SBA COVID-19 EIDL loan be forgiven?**

Currently, no. The SBA itself does not have the authority to cancel EIDL debt and has not indicated any intention to do so. Broad-scale COVID-19 EIDL debt forgiveness would require an act from Congress, and as of early 2026, no such law has been passed.[9]

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[3] *About COVID-19 EIDL*, U.S. Small Bus. Admin., https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/about-covid-19-eidl

[4] *Paycheck Protection Program*, U.S. Dep't of the Treasury, https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/paycheck-protection-program

[5] Unlike standard EIDLs, Emergency EIDL Grants (advances) authorized under CARES Act § 1110(e) do not require repayment. *See* 15 U.S.C. § 9009(e)(5). In December 2020, Congress established the Targeted EIDL Advance program, providing up to $10,000 in non-repayable grant funds for qualifying low-income community businesses with up to 300 employees and over 30% revenue loss. *See* Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, Pub. L. No. 116-260, § 331 (codified at 15 U.S.C. § 9009b(b)); *About Targeted EIDL Advance and Supplemental Targeted Advance*, U.S. Small Bus. Admin., https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/about-targeted-eidl-advance-supplemental-targeted-advance#program-overview

[6] *About COVID-19 EIDL*, U.S. Small Bus. Admin., https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/about-covid-19-eidl

[7] *SBA Extends Deferment Period for COVID Economic Injury Disaster Loan*, Nat'l Fed'n of Indep. Bus. (Mar. 22, 2022), https://www.nfib.com/news/legal-blog/sba-extends-deferment-period-for-covid-economic-injury-disaster-loan/

[8] *About COVID-19 EIDL; Existing Borrowers*, U.S. Small Bus. Admin., https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/about-covid-19-eidl#existing-borrowers

[9] As an agency of delegated powers, the SBA cannot unilaterally forgive or restructure COVID-19 EIDL principal or interest absent express Congressional authority. *See* 15 U.S.C. § 636(b)(2) for EIDL Loan terms expressly authorized by Congress under the CARES Act. Doing so would be *ultra vires* action taken by the SBA under the

Advocates are encouraging SBA borrowers struggling with their COVID-19 EIDL debt to reach out to their state representatives, share their hardships, and urge them to address the significant COVID-19 EIDL debt and default crisis. Borrowers can find their representatives by entering their home address in the locator found here.

5. **Did SBA COVID-19 EIDL loans require collateral or a personal guarantee? Why does this matter?**

SBA COVID-19 EIDL loans of $25,000 or less typically did not require collateral or a personal guarantee.[10] Loans between $25,000 and $200,000 generally required the SBA to have a claim on business assets (called a "UCC-1 lien") but no personal guarantee, meaning that, in the case of default, for businesses with a corporate form (such as an LLC or S corporation), the SBA can collect against business assets but not personal property.[11]

Loans over $200,000 require both business collateral and a personal guarantee from any owner with at least 20% ownership. Personal guarantees in EIDL documents mean that a borrower is personally liable if the business cannot repay the loan, potentially affecting personal credit, savings, assets, and income.[12]

If the borrower is a sole proprietorship without a separate legal identity, the owner remains personally liable for the entire debt, regardless of whether the loan balance is below $200,000 or whether a formal guarantee agreement was executed.[13]

Administrative Procedure Act. *See* 5 U.S.C. § 706(2)(C). Furthermore, federal law limits debt modifications without explicit appropriations and restricts compromises to case-by-case determinations. *See* 2 U.S.C. § 661c(e); 31 U.S.C. § 3711(a)(2); 15 U.S.C. § 634(b)(6) (authorizing administrative adjustments like deferments, but not alterations of statutory loan terms).

[10] *Supra* note 6.

[11] SBA collateral and personal guarantee requirements depend on total loan size. *See About COVID-19 EIDL*, *supra* note 6. 13 C.F.R. § 123.11(b) (requiring collateral or a security interest for Economic Injury Disaster Loans exceeding the unsecured threshold) (promulgated pursuant to 15 U.S.C. § 636(b)). Loans over $25,000 generally required a security interest in business assets, perfected by a UCC-1 financing statement covering tangible and intangible property. *See* U.C.C. §§ 9-203, 9-310(a). For loans between $25,000 and $200,000, recovery upon default is generally limited to seizing and liquidating corporate collateral, though for sole proprietors, the "debtor" under U.C.C. § 9-102(a)(28) includes personal assets directly. Loans exceeding $200,000 require an unconditional personal guarantee from any owner holding a 20% or greater stake, converting corporate liability into a direct personal obligation and exposing personal assets and federal benefits to administrative collection.

[12] Sole proprietors and business owners who personally guaranteed an EIDL, or who signed as co-borrowers assume direct personal liability for any deficiency following collateral liquidation. Upon default, owners face credit reporting, administrative wage garnishment, and federal benefit offsets under Treasury cross-servicing. *See* 31 U.S.C. §§ 3711(e)(1) (credit reporting), 3716(a) (administrative offset), 3720D (wage garnishment); 31 C.F.R. § 285.12(c) (mandating referral of debts past 120 days to Treasury for collection and credit bureau reporting). *See also: U.S. Dep't of the Treasury, Cross-Servicing Program Guidelines*, https://fiscal.treasury.gov/debt-management/cross-servicing

[13] A sole proprietorship is not a legal entity separate from its individual owner. *See* U.C.C. § 9-102(a)(28) (defining "debtor" as the person holding an interest in the collateral); U.C.C. § 9-503(a)(4) (requiring UCC filings for sole proprietorships under the individual owner's name). Consequently, security agreements and debts incurred by a sole proprietorship bind the owner's personal assets directly without requiring a separate personal guarantee.

6. What does it mean to be "delinquent" on an SBA COVID-19 EIDL loan?

The SBA considers a borrower "delinquent" when one payment is missed. Initial delinquency will trigger an automatic warning from the SBA portal or communication from an EIDL servicing agent. During the first 90 days, the SBA will send notices alerting borrowers to a missed payment, explaining the consequences if the delinquency is not cured, and outlining the steps borrowers must take to bring their account current. After a loan is 90 days past due, the SBA may begin a charge-off (an administrative accounting classification in which the SBA removes the debt from its books as an active asset because it is in default) or send it to the U.S. Treasury for collection.

7. What is a "charge-off"? Does it mean a borrower's SBA COVID-19 EIDL debt is canceled?

A charge-off is an internal administrative action the SBA takes when it deems a loan unlikely to be repaid. [14] It does not cancel the debt, and borrowers remain fully responsible for the amount due, including interest and penalties. [15] The SBA can continue collection efforts, including lawsuits, asset foreclosures, and reporting the default to credit bureaus, unless legal defenses, such as bankruptcy or the statute of limitations, apply.

If a loan has been charged off, the SBA reports the default to credit bureaus, but the loan remains within the SBA's servicing framework, allowing borrowers to work with the SBA to bring the loan current and continue making payments. Generally, if an EIDL loan has been charged off but not yet referred to Treasury for cross-servicing, borrowers can log in to the SBA Loan Portal to submit a payment for the full overdue balance, restore the loan to good standing, and email CovidEIDLServicing@sba.gov to request reinstatement of the loan to "current" status after the payment has been processed.[16] Borrowers can also contact their SBA District Office, found here: https://www.sba.gov/about-sba/sba-district-offices/.

The critical takeaway for borrowers is that a charge-off is merely the SBA preparing the debt for collections, whereas a Treasury referral is the actual execution of federal debt collection (detailed below).

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[14]Upon reaching 120 days of delinquency, the SBA escalates enforcement by referring the loan to the U.S. Department of the Treasury and executing an administrative charge-off. *See* 31 U.S.C. § 3711(g)(1)(B); 31 C.F.R. § 285.12(c). Treasury manages the debt through the Centralized Receivables Service (CRS) or Cross-Servicing for enforced collection. A charge-off is purely an internal accounting entry for uncollectible debt and does not constitute debt forgiveness or release borrower liability. *See* 13 C.F.R. § 120.540; SBA SOP 50 57 2, ch. 22. *See also* U.S. Small Bus. Admin. Off. of Inspector Gen., Rep. No. 25-23, *Audit of SBA's COVID-19 EIDL Direct Loan Portfolio Charge-Offs* (2025), https://www.sba.gov/sites/default/files/2025-08/SBA%20OIG%20Report%2025-23.pdf

[15]*See* 31 U.S.C. § 3711(a)(1) (requiring federal agencies to collect all claims of the United States); 31 U.S.C. § 3717(a), (e) (mandating assessment of interest, administrative costs, and penalties on delinquent debt); 31 C.F.R. § 285.12(j) (establishing debtor liability for collection fees upon debt transfer to Treasury).

[16]*Manage Your EIDL*, U.S. Small Bus. Admin., https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/manage-your-eidl

8. What happens after a Loan is charged off? Can borrowers still work with the SBA to try and bring the loan current?

After a charge-off, the SBA can refer the debt to the Treasury for collection.[17] Before referring a delinquent loan to the U.S. Department of the Treasury for collection, the SBA must issue a written 60-day demand notice informing the borrower of the past-due debt and the agency's intent to initiate administrative offset.[18] The SBA must also provide Borrowers with information about the servicing program in the notice they receive: Centralized Receivables Service ("CRS"),[19] Cross-Servicing Program,[20] Treasury Offset Program ("TOP"), [21] or a private collection agency (PCA).[22]

After a loan is referred to the Treasury, the SBA freezes normal servicing options and generally loses all servicing authority over the loan. All communications, payment negotiations, disputes, or repayment arrangements must go through the servicing program assigned to the borrower on referral (listed above and detailed in the footnotes below). Once a loan is referred to the Treasury for collection, it cannot be transferred back to the SBA for repayment, except in narrow cases.[23]

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[17] While federal law requires debt transfers past 120 days delinquent (31 U.S.C. § 3711(g)), the pace of EIDL referrals accelerated significantly through bulk automated transfers. For example, the SBA executed mass transfers of over 560,000 delinquent pandemic-era loans totaling $22.2 billion directly to the Treasury for Cross-Servicing enforcement (*U.S. Small Business Administration Press Release*, April 24, 2026), https://legacy.sba.gov/article/2026/04/24/sba-sends-562000-suspected-fraudulent-loans-treasury-collections-totaling-22-billion#:~:text=But%20the%20Biden%20Administration%20deliberately%20protected%20more,of%20de%20facto%20amnesty%20and%20loan%20forgiveness.

[18] *See* Debt Collection Improvement Act of 1996, 31 U.S.C. § 3716(a)(1)–(2); 31 C.F.R. § 901.3(b); 13 C.F.R. § 140.3.

[19] The Centralized Receivables Service (CRS) acts as Treasury's initial billing and servicing system, issuing collection notices, processing voluntary payments, negotiating installment plans based on financial hardship, and resolving balance disputes. *See* 31 U.S.C. § 3711(a)(1); 31 C.F.R. § 901.8. If a borrower defaults on a CRS payment plan or fails to respond, the debt escalates to Treasury Cross-Servicing for enforced collection. *See* 31 U.S.C. § 3711(g)(1)(B); 31 C.F.R. § 285.12(c); *Centralized Receivables Service (CRS): Frequently Asked Questions (FAQs) for Individuals*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/debt-management/centralized-receivables-service-crs/faqs-individuals

[20] The Cross-Servicing Program is Treasury's primary enforcement mechanism for delinquent federal debt. Collection methods may include demand letters and phone calls, reporting to credit bureaus, wage garnishment, referral to the DOJ for litigation, referral to private collection agencies, or borrower enrollment in the Treasury Offset Program. *See Cross-Servicing*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/debt-management/cross-servicing; https://fiscal.treasury.gov/debt-management/contact

[21] The Treasury Offset Program (TOP) allows Treasury to intercept federal payments (including tax refunds, Social Security benefits, and non-tax vendor payments) or initiate wage garnishment to satisfy the debt. *See* 31 U.S.C. §§ 3716(c), 3720D; 26 U.S.C. § 6402(d); 31 C.F.R. §§ 285.2, 285.4, 285.11; *Treasury Offset Program: Summary of Program Rules and Requirements*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/system/files/files/top/TOP-rules-reqs-fact-sheet.pdf

[22] A PCA is a private company that specializes in collecting overdue (delinquent) debts from individuals, businesses, and other entities. The Treasury's Bureau of the Fiscal Service contracts with Private Collection Agencies (PCAs) to collect delinquent non-tax debts referred under the Cross-Servicing Program. *See* 31 U.S.C. § 3718(a) (authorizing agency contracts for debt collection services); 31 C.F.R. § 285.12(h) (referral of transferred debt to collection agencies); *Private Collection Agencies*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury., https://fiscal.treasury.gov/debt-management/cross-servicing/private-collection-agencies

[23] *Id.* Failure to comply with these statutory notice requirements provides grounds to challenge the referral and request an SBA recall of the debt from Treasury Cross-Servicing.

9. **What options are available to borrowers who are struggling to make their payments but have not yet defaulted?**

The SBA's primary relief program for borrowers, the Hardship Accommodation Plan ("HAP"), ended on March 19, 2025.[24] The SBA had also previously implemented a limited "Goodwill Exception Period" beginning January 1, 2024, during which it agreed to refrain from escalating collection activities against borrowers with loans under $100,000 to ensure that they were aware of HAP and other repayment options.[25] The termination of these two programs has significantly limited the options available to EIDL-burdened borrowers seeking relief.

10. **Are there any SBA relief options still available now that HAP has ended?**

The SBA retains general administrative authority to approve certain loan-servicing actions, such as changes in ownership, release of collateral, and subordination or relocation of a business, but these are structural modifications, not payment relief.[26] The SBA currently offers a program to help small businesses and nonprofits manage short-term financial difficulties by allowing eligible COVID-19 EIDL borrowers to reduce their payments by 50% for six months. After this period, borrowers must resume full payments.[27]

To apply, borrowers can request help through the SBA Loan Portal (https://lending.sba.gov/). Eligible borrowers can enroll in this program once every five years.[28]

Eligibility criteria:

- The loan must be less than 90 days past due at the time of the request.
- The loan must not have a "Charged Off" or "Uncollectible" status.
- The business must be actively open and operating.
- The borrower and all owners must not be subject to active bankruptcy proceedings.
- The request must be due to temporary financial difficulties or cash-flow issues, rather than a long-term challenge.

Borrowers considering a modified payment schedule should be aware that interest on loans continues to accrue during the six-month reduced-payment period. This will result in a higher balloon payment at the end of the borrower's loan term, similar to the increase from accrued interest during the initial 30-month deferment period discussed above.

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[24] The Hardship Accommodation Plan (HAP) provided pre-default relief by temporarily reducing monthly payments for loans under 90 days past due (and not charged off), though interest continued to accrue during the six-month accommodation period. The SBA terminated HAP on March 19, 2025. *See* U.S. Small Bus. Admin. Off. of Inspector Gen., Rep. No. 25-16, *COVID-19 Economic Injury Disaster Loan Servicing Capability* at 9 (2025), https://www.oversight.gov/sites/default/files/documents/reports/2025-05/SBA%20OIG%20Report%2025-16.pdf

[25] Press Release, *U.S. Small Bus. Admin., Small Business Administration Announces Further Action to Help PPP and COVID EIDL Borrowers* (Jan. 5, 2024), https://www.sba.gov/article/2024/01/05/small-business-administration-announces-further-action-help-ppp-covid-eidl-borrowers (establishing a 60-day goodwill exception period running from January 1 through March 3, 2024, for COVID-19 EIDL and PPP loans under $100,000, during which the agency paused escalated collection actions to conduct outreach regarding Hardship Accommodation Plans (HAP) and loan forgiveness options).

[26] *Manage Your EIDL*, supra note 21.

[27] *Id.*

[28] *Id.*

11. What should borrowers do if they are falling behind on payments?

The SBA has been accelerating collection efforts against delinquent COVID-19 EIDL borrowers. For borrowers who have received a notice from the SBA or are delinquent by 90 days or less, there may still be options to work with the SBA to bring an account current and avoid referral to the Treasury. It is important to respond to the SBA's written notice by following the instructions in the notice or contacting the SBA agent or entity identified in the notice.

If a borrower receives a delinquency notice or knows they have not recently made a payment on their COVID-19 EIDL loan, they can log in to the SBA portal (https://lending.sba.gov/) to determine how many days delinquent the SBA considers the loan. If the loan is still with the SBA, borrowers can call the assigned servicing center (find contact information at sba.gov). Borrowers can also contact their SBA District Office (find contact information at https://www.sba.gov/about-sba/sba-locations/sba-district-offices) to alert the office to their financial hardship and request assistance in navigating repayment.

Borrowers should also assess whether their inability to keep up with EIDL payments is likely to be temporary or long-term. This evaluation can help them decide whether to pursue business or personal bankruptcy or explore other options.[29] If borrowers are at risk of default, it is important to seek legal advice, especially if they have been delinquent for 90 days or more, their loan has been charged off, their initial loan amount was $200,000 or more, or they signed a personal guarantee.

12. What triggers a default, and when does the SBA refer an EIDL loan to the Treasury?

Federal law requires the SBA to refer loans that are seriously delinquent (generally 120–180 days past due) to the U.S. Treasury for collection.[30] Before that happens, the SBA must send borrowers a "60-Day Notice" stating that the debt is legally enforceable, that the agency intends to collect it through the Treasury Offset Program, and that the borrower has a chance to dispute the debt or delinquency or to work out a temporary, modified payment arrangement.[31] If a

[29]Individual SBA borrowers generally evaluate Chapters 7, 11, or 13 when seeking bankruptcy relief. SBA debt is dischargeable in Chapter 7, *see* 11 U.S.C. § 727(a), though non-individual entities do not receive a discharge, *id.* § 727(a)(1). Debtors with disposable income or those restructuring operations may modify loan terms through a repayment plan under Chapter 11 (including Subchapter V) or Chapter 13. *See id.* §§ 1123, 1190, 1322, 1325. However, the SBA or lender may challenge dischargeability by filing an adversary proceeding if it believes the loan was obtained through material misrepresentations or fraud. *See id.* § 523(a)(2)(A)–(B); Fed. R. Bankr. P. 7001(6). Borrowers should consult commercial bankruptcy counsel prior to filing.

[30]Under the Debt Collection Improvement Act of 1996, federal agencies (including the SBA) must refer non-tax debts delinquent over 180 days to Treasury's Cross-Servicing Program for collection. *See* 31 U.S.C. § 3711(g)(1); 31 C.F.R. § 285.12(c). Treasury granted the SBA a temporary two-year waiver pursuant to 31 U.S.C. § 3711(g)(2) and 31 C.F.R. § 285.12(g) in April 2024, which expired on March 31, 2026. *See* U.S. Small Bus. Admin. Off. of Inspector Gen., Rep. No. 25-23, *SBA's Collection Efforts on Delinquent COVID-19 EIDLs* at 4 (2025), https://www.sba.gov/document/report-25-23-sbas-collection-efforts-delinquent-covid-19-eidls

[31]*See* 31 U.S.C. § 3716(a); 31 C.F.R. § 285.5(d)(6)(ii); 31 C.F.R. § 285.12(c)(5); *see also* U.S. Small Bus. Admin., SOP 50 30 9, *Disaster Loan Program*, ch. 12 (2021) (establishing pre-referral demand and 60-day due process notice requirements for direct disaster loans); *Supra*, note 28, *SBA's Collection Efforts on Delinquent COVID-19 EIDLs* at 4.

borrower never received this notice, that may be grounds for the borrower to challenge the referral and ask the SBA to recall the loan from the Treasury.[32]

Once a loan is referred to the Treasury, the SBA no longer services it, and all communications must be directed to the Bureau of the Fiscal Service.

13. What can borrowers do before Treasury referral (while the SBA still holds the loan)?

While the SBA notice will commonly state that the entire loan balance is now due, it should also state the amount of the loan past due (from the time the Borrower stopped making payments). Many borrowers do not have the capital reserves to pay off the loan balance or to bring the loan entirely current, but if they receive a notice from the SBA that their loan is past due or at risk of Treasury default, borrowers should log in to the SBA portal and make a good faith payment of an amount with reasonable proportionality to the amount past due.

Borrowers should also email proof of payment to the email address or entity identified in their notice from the SBA, stating that the payment has been made, that the borrower intends to resume regular payments or work with the SBA to enroll in a hardship plan (if eligible), and requesting that the loan remain with the SBA for servicing. Advocates are also suggesting that borrowers cc any former SBA loan servicing agents they have been in communication with, as well as their state and federal representatives, to alert them to the issues. Borrowers can find their representatives by entering their home address in the locator found here.

Borrowers can also formally challenge the default notice within 60 days of the notice date on grounds including whether the debt is owed, whether it has been properly discharged, whether the amount is correct, or whether the government has legal grounds to collect it, if any of these points are in dispute. If the challenge is successful, collection must stop, and the loan should not be referred to the Treasury.[33]

Send the dispute to the SBA loan servicing center identified in the notice, including:

- SBA COVID-19 EIDL loan number.
- A clear statement of what is in dispute.

[32] *See* 31 U.S.C. § 3716(a); 31 C.F.R. § 285.5(d)(6)(ii) (requiring creditor agency certification of pre-offset notice). Once transferred to Treasury's Cross-Servicing program, dispute procedures are handled under general cross-servicing operating standards. Borrowers subjected to referral without notice may file an administrative dispute compelling the SBA to recall the debt from Treasury, waive the 28%–30% cross-servicing fee, and refund improperly offset funds; *See* 31 C.F.R. § 285.12; *see also* U.S. Dep't of the Treasury, *Treasury Financial Manual*, vol. 1, pt. 3, ch. 5000, § 5030.50d (mandating that a creditor agency "must recall a transferred debt immediately" upon learning of a bankruptcy filing, lack of legal enforceability, invalidity, or erroneous certification), *see also* Administrative Procedure Act, 5 U.S.C. § 706(2)(D) (authorizing courts to set aside agency actions taken without observance of procedure required by law).

[33] *See* 31 U.S.C. § 3716(a)(2) (requiring creditor agencies to provide debtors an opportunity to inspect agency records regarding the debt); 31 C.F.R. § 285.5(d)(6)(ii)(C) (mandating a 60-day window from the date of notice for debtors to present evidence challenging the existence, amount, or legal enforceability of the debt prior to administrative offset); 31 C.F.R. § 285.12(c)(5) (prohibiting referral of debt to the Treasury's Cross-Servicing Program while a timely submitted administrative challenge is under review by the agency); *see also* U.S. Small Bus. Admin., SOP 50 30 9, *Disaster Loan Program*, ch. 12 (2021).

- Supporting documentation (e.g., proof of prior payments, evidence that the balance is wrong, or proof that the borrower never received the 60-Day Notice).

Keep copies of everything and use certified mail with a return receipt for proof of delivery.

14. Why isn't the SBA responding to borrowers' emails and phone calls? How can borrowers contact the SBA after receiving a delinquency or acceleration notice?

Borrowers are finding it increasingly difficult to contact SBA representatives because of severe administrative bottlenecks, including the closure and consolidation of local COVID EIDL servicing centers, reliance on automated email queues (CESC@sba.gov), and massive backlogs of millions of concurrent loan files.

Furthermore, once a delinquent loan is 60 to 120 days past due, the SBA often accelerates the debt and transfers the file to the U.S. Department of the Treasury's Bureau of the Fiscal Service for Cross-Servicing; at that stage, SBA representatives are legally barred from servicing or negotiating the account, leaving borrowers in a communications loop.

To establish a clear paper trail demonstrating a good faith effort to cure delinquencies and address outstanding notices, borrowers should take the following documented steps:

- Send all correspondence electronically through the official MySBA Loan Portal or via email to CESC@sba.gov. Ensure every message explicitly includes the Loan Number, Business Name, Applicant Name, and Reason for Outreach in the subject line and body. Save timestamped PDF copies or screenshots of every submission.
- If borrowers have received a delinquency or default notice, or any other request for communication with the SBA, they should respond to the email listed on the notice, cc CESC@sba.gov, and cc any SBA servicing agents they contacted or have been in contact with over the course of their loan.
- CC your U.S. House Representative and U.S. Senators on all written email correspondence with the SBA. Reaching out to your federal representatives creates an official congressional inquiry track, documents that you escalated the responsiveness issue through legal channels, and draws attention to systemic agency bottlenecks. You can also formally submit a constituent casework request through their official congressional office websites. Borrowers can find their representatives by entering their home address in the locator found here.
- Make past-due payments or catch-up amounts through the MySBA secure portal. While full reinstatement is pending, consistent electronic payments demonstrate financial intent to fulfill the obligation and will be credited toward a borrower's balance, even if the loan defaults.
- If struggling financially, formally apply for available SBA payment assistance or Hardship Accommodation Plans directly within the portal and by emailing a request to CESC@sba.gov before default acceleration occurs.
- Keep a detailed record of every telephone attempt (including date, time, phone number called, and agent ID/notes) and written notice received. If possible, take screenshots showing the phone number you called, and the amount of time spent on hold/on the call.
- If the loan has already received a final demand letter or is transferred to the Treasury Department, contact the Treasury's Cross-Servicing Call Center directly at 1-800-289-

7388, referencing the demand notice, as the SBA can no longer directly resolve transferred files.

15. What happens once an EIDL loan is transferred to the Treasury?

Once the loan is referred, the SBA discontinues servicing it. This means the SBA is no longer responsible for collecting payments from borrowers or issuing notices. The Treasury then takes over collection of the loan using two programs:

- The Treasury Offset Program ("TOP") allows the government to intercept ("offset") federal payments owed to the borrower, such as tax refunds, up to 15% of Social Security benefits, federal pensions, and government contractor payments, without going to court.[34]
- The Cross-Servicing Program ("CSP") uses various methods to collect debt, including administrative wage garnishment, engaging private debt collectors, reporting to credit bureaus, using the TOP, and, in some cases, referring debt to the Department of Justice for litigation.[35]

When SBA COVID-19 EIDL loans are referred to the Treasury due to default, a 30% administrative fee is added to the total balance.[36] *This is a statutory penalty intended to cover collection costs, not a fine imposed by the SBA.*

16. What options do borrowers have once an SBA COVID-19 EIDL loan has been referred to the Treasury?

Currently, options for EIDL borrowers referred to the Treasury are limited. Borrowers who receive notice that their loan has been referred to the Treasury should contact the Bureau of the Fiscal Service directly.

For specific questions about a debt referred to the Bureau of the Fiscal Service's Cross-Servicing Program for collection, please contact the Cross-Servicing Call Center at 1-800-289-7388, Monday through Friday, between 7:30 a.m. and 4:30 p.m. (Central Time) for English. Spanish-speaking agents are available from 8:30 a.m. to 11:30 a.m. and from 12:30 p.m. to 3:30 p.m. (Central Time). For specific questions about a debt referred to the Fiscal Service's Treasury Offset Program (TOP), borrowers must contact the referring creditor agency, in this case the SBA, at CovidEIDLServicing@sba.gov.[37]

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[34] *Treasury Offset Program: Summary of Program Rules and Requirements*, *supra* note 18.

[35] For the Treasury's debt-collection tools, *see Cross-Servicing*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/debt-management/cross-servicing (last updated Mar. 26, 2026).

[36] Upon referral of a delinquent COVID-19 Economic Injury Disaster Loan (EIDL) to Treasury's Bureau of the Fiscal Service for cross-servicing, an administrative fee of up to 30% is assessed on the total obligation, including principal and accrued interest. *See* 31 U.S.C. §§ 3711(g)(6), 3717(e); 31 C.F.R. §§ 285.12(j), 901.9(a) (authorizing and mandating the assessment of administrative collection fees and processing costs); *see also Treasury Offset Program*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/top (detailing federal administrative offset procedures, private collection agency involvement, and administrative wage garnishment mechanisms).

[37] *Contact Us*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/debt-management/contact

For borrowers whose SBA COVID-19 EIDL loan is over $200,000, who signed a personal guarantee, or whose loan is already being collected by the Treasury, we recommend speaking with an attorney who handles federal debt cases, as deadlines are strict. Legal representation is also strongly recommended for offers in compromise, bankruptcy filings, and Treasury disputes. If debt is settled or discharged, talk to a tax professional about whether taxes are owed on the forgiven amount.[38]

17. What happens to COVID-19 EIDL debt if a business closes?

Business closure does not eliminate a borrower's COVID-19 EIDL debt obligations. Borrowers remain responsible for the debt under the terms of their loan agreement. Depending on those terms, the SBA and potentially the Treasury may attempt to collect from remaining business assets or, in the case of personal guarantees, from personal assets, bank accounts, or wages, as described above.

COVID-19 EIDL loan agreements also outline specific steps a borrower must take when closing a business, including notifying the SBA and working with the SBA to resolve repayment.[39] Failing to do so could constitute a breach of contract, which may allow the government to pursue legal action to recover the debt. Borrowers closing their businesses should keep detailed records, including loan documents, financial statements, and all communications with their lender, the SBA, or the Treasury, and consider seeking legal or financial advice about their debt obligations to better understand their rights and options.

18. What are some pathways for borrowers to resolve outstanding COVID-19 EIDL debt?

These options are not mutually exclusive, and borrowers can pursue more than one at the same time (for example, negotiating a payment plan while preparing a settlement offer or consulting a bankruptcy attorney):

- **Offer in Compromise (OIC):** An OIC is an agreement that allows borrowers to settle their loan debt for less than the full amount owed through a one-time lump-sum payment. It is generally accepted only if the offer is equal to or greater than the "reasonable collection potential" (RCP), which is the amount the Treasury could realistically collect based on the borrower's assets and future income. As of the date of publication, the SBA

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[38]Debt forgiven by the SBA under an Offer in Compromise is reportable as cancellation-of-debt (COD) gross income in the tax year discharged. *See* I.R.C. § 61(a)(12); Treas. Reg. § 1.6050P-1 (requiring Form 1099-C for discharges of $600 or more). However, taxpayers may exclude COD income if the discharge occurs in Title 11 bankruptcy, *see* I.R.C. § 108(a)(1)(A), or to the extent the taxpayer is insolvent immediately before discharge, *see id.* § 108(a)(1)(B), (a)(3). Non-C-corporation debtors may also elect to exclude qualified real property business debt by reducing depreciable property basis. *See id.* § 108(a)(1)(D), (c). Exclusions require filing IRS Form 982 with the tax return for the year of discharge. *See id.* § 108(d)(9); Treas. Reg. § 1.108-7. Borrowers should consult with a qualified tax professional to understand the financial implications of COVID-19 EIDL loan debt forgiveness.

[39] For loans over $25,000, the SBA maintains a blanket UCC-1 lien on all business personal property, prohibiting asset transfers or sales without prior SBA consent. Liquidation requires written notification to the COVID-19 EIDL Servicing Center (CESC@sba.gov), formal authorization for collateral releases, remitting 100% of net asset sale proceeds to pay down the loan balance, and submitting final accounting alongside state business dissolution filings. Detailed closing procedures and collateral release requests can be accessed via the MySBA Loan Portal or at sba.gov/manage-your-eidl.

is not accepting offers in compromise on COVID-19 EIDL loans without total liquidation of all collateral pursuant to agency guidelines.[40] The below are requirements for consideration of an OIC submission:

- Borrowers must cease operations, liquidate available business assets, and submit applicable paperwork demonstrating financial hardship (SBA Forms 1150[41] and 770[42]). The SBA may also require IRS Form 4506-C,[43] which authorizes the agency to verify the borrower's tax return information directly with the IRS.
- The SBA will conduct a thorough review of the borrower's personal and business financial records, including tax returns and bank statements, to verify that the borrower cannot pay the debt in full. The OIC must typically address both the business entity's liability and the personal guaranty obligations of guarantors.
- For borrowers with a UCC lien or those who provided collateral to secure the EIDL loan, any proceeds from the sale of assets or inventory must be paid to the SBA and included in the OIC.[44]
- The forgiven portion of the loan may be treated as taxable income.[45]

The SBA does not publicly disclose specific acceptance rates for COVID-19 EIDL OICs, but current reports on COVID-19 EIDL loan repayment and default suggest this path is extremely limited for COVID-19 EIDL borrowers.[46] As of early 2026, there is no data indicating any confirmed SBA approvals for OICs on COVID-19 EIDL loans, even though the SBA continues to accept the required paperwork. During this time, even if the loan is in "liquidation status," the SBA may continue collection efforts, such as Treasury offsets or wage garnishment, if a settlement is not actively being negotiated.

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[40] Offer in Compromise, U.S. Small Bus. Admin., https://www.sba.gov/document/sba-form-1150-offer-compromise; NOTE: Liquidation requires written notification to the COVID-19 EIDL Servicing Center (CESC@sba.gov), formal authorization for release of collateral (including documented valuation of collateral, a signed explanation letter and executed sale documents (if applicable), federal business tax returns from the last two years, and any other documentation required by the SBA), remitting 100% of net asset sale proceeds to pay down the loan balance, and submitting final accounting alongside state business dissolution filings.

[41] *Supra*, Offer in Compromise.

[42] SBA Form 770: Financial Statement of Debtor, U.S. Small Bus. Admin., https://www.sba.gov/document/sba-form-770-financial-statement-debtor; SBA Form 770 requires detailed personal and business financial disclosures (including bank accounts, real property, vehicles, assets, income, and expenses) to evaluate the debtor's reasonable collection potential under 31 C.F.R. § 902.2. Every figure must be substantiated by supporting documentation; underreporting assets or overstating expenses may constitute a federal offense. *See* 18 U.S.C. §§ 1001, 1014. Debtors should consult legal and financial counsel before submitting an Offer in Compromise.

[43] Form 4506-C: IVES Request for Transcript of Tax Return, U.S. Dep't of the Treasury, Internal Revenue Serv., https://www.irs.gov/pub/irs-pdf/f4506c.pdf

[44] For COVID-19 EIDL loans secured by UCC-1 liens, the SBA requires complete liquidation and accounting of all encumbered collateral before evaluating an Offer in Compromise (OIC). Although buyers in the ordinary course take inventory free of the security interest, *see* U.C.C. § 9-320(a), any non-ordinary disposition of equipment, fixtures, or accounts requires prior written SBA approval, arm's-length fair market value, and no insider self-dealing. *See* U.C.C. § 9-315(a)(1); SBA SOP 50 57 2, Ch. 20. Net sales proceeds must reduce loan principal, while OIC settlement funds must originate from third-party, non-collateral sources. *See* SBA Form 1150; 31 C.F.R. § 902.2.

[45] *Supra*, note 36

[46] Kriss, Randa, *What Happens If You Can't Pay Your EIDL Loan?*, NerdWallet, https://www.nerdwallet.com/business/loans/learn/cant-pay-eidl-economic-injury-disaster-loan; *see also:* Venar Ayar, *SBA Offer in Compromise EIDL Debt*, Ayar Law Group, https://ayarlaw.com/sba-debt-relief/sba-offer-in-compromise-eidl-debt

- **Negotiate a new payment plan:** Borrowers who can resume payments but need different terms may be able to negotiate a new payment schedule directly with the Treasury or the collection agency assigned to their account.[47]
- **Bankruptcy:** This may be an option for borrowers who simply cannot pay, especially those who signed personal guarantees.
  - Chapter 7 eliminates the debt but shuts down the business.[48]
    - For borrowers who personally guaranteed the loan, a Chapter 7 discharge of the business does not discharge personal liability.[49]
    - Borrowers who have pledged collateral or have assets at risk may also want to consider filing for personal bankruptcy.
  - Chapter 11 Subchapter V (for total debts up to $3,424,000) allows businesses to continue operating while repaying a reduced amount over three to five years.[50]
  - Either type of bankruptcy triggers an "automatic stay"—a court order that immediately stops all collection activity.[51]
  - Borrowers considering bankruptcy should consult with an attorney to determine whether bankruptcy will have long-term consequences.

19. Can outstanding EIDL debt affect a borrower's ability to obtain new business financing?

Yes. Federal Reserve data show that businesses carrying EIDL debt are more likely to be denied new loans, with half of those denied citing excessive debt as the reason.[52] These businesses also tend to be less profitable and have a harder time keeping up with all their payments.[53] For borrowers who signed a personal guarantee, defaulting can have serious consequences for personal credit scores and financial health, making it difficult to secure the capital needed for recovery.

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[47] Once a defaulted COVID-19 EIDL is referred to Treasury, servicing is managed directly through Cross-Servicing or an assigned Private Collection Agency (PCA). *See* 31 U.S.C. § 3718(a); 31 C.F.R. § 285.12(c)(5), (h) (authorizing Fiscal Service to compromise debts or execute repayment agreements on behalf of creditor agencies). Borrowers seeking repayment options or a lump-sum compromise must submit financial disclosures to Treasury (1-800-289-7388 or 1-888-826-3127) or their assigned PCA. *See Frequently Asked Questions about the Cross-Servicing Program for Debtors*, Bureau of the Fiscal Service, U.S. Dep't of the Treasury, https://fiscal.treasury.gov/debt-management/faqs/for-the-general-public (last updated Mar. 17, 2026). Executing a compliant written agreement suspends active involuntary collection, including Administrative Wage Garnishment and Treasury Offset Program remedies. *See* 31 C.F.R. §§ 285.5, 285.11.

[48] *See* 11 U.S.C. § 727.

[49] *See id.* § 524(e) (providing that discharge of a debtor's debt does not affect the liability of any other entity or guarantor); *see also id.* § 727(a)(1) (denying Chapter 7 discharge to non-individual entity debtors, such as corporations or LLCs).

[50] *See id.* §§ 1181–1195; *id.* § 1191(c) (governing plan confirmation and the three-to-five-year disposable income repayment period).

[51] *See id.* § 362(a).

[52] Lucas J. Misera, *From Short-Term Relief to Long-Term Hardship: Some Small Businesses Struggle with Debt Burdens from COVID-19 Economic Injury Disaster Loans*, Fed. Rsrv. Bank of Cleveland at 3-4, (Aug. 20, 2024), https://www.fedsmallbusiness.org/analysis/2024/some-small-businesses-struggle-with-debt-burdens-from-covid-19-economic-injury-disaster-loans (finding that 50% of small-business applicants with outstanding EIDL loans who were denied new credit cited excessive debt levels as the primary cause and that EIDL borrowers were nearly twice as likely to experience debt-service difficulties compared to non-EIDL borrowers).

[53] *Id.* At 3

20. Are there tax consequences for borrowers whose EIDL debt is settled or discharged?

When any lender (including the SBA) forgives part or all of the outstanding debt, the IRS generally treats the forgiven amount as taxable income, known as "cancellation of debt income" (COD income).[54] For example, a borrower who owed $200,000 and settled for $50,000 could see the remaining $150,000 reported as income on their tax return, resulting in an unexpected tax bill.

There are two key exceptions: (1) debt discharged in a bankruptcy order is generally not taxed; and (2) a borrower who is "insolvent" when the debt is canceled (meaning that the borrower owed more than their assets were worth) may be able to exclude some or all of the forgiven amount.

The exact treatment depends on how the debt was resolved, the borrower's financial situation, the type of business entity, and state tax laws. Borrowers should factor in potential tax consequences when choosing a resolution option and consult a qualified tax professional for guidance specific to their situation.

21. Does defaulting on an EIDL loan affect eligibility for future SBA loans?

Likely, yes. As noted above, an EIDL default appears on a borrower's credit report and can affect both the borrower's business and personal credit scores. Federal Reserve data show that businesses with outstanding EIDL debt already face significantly higher denial rates for new credit.[55]

Under the federal Debt Collection Improvement Act (the same law that governs Treasury referrals), individuals who are delinquent on federal debt are generally ineligible for federal financial assistance, including SBA-guaranteed loans.[56] The SBA's standard loan application (SBA Form 1919) asks whether the applicant is currently delinquent on or has defaulted on any federal debt. Answering "yes" or having a CAIVRS (Credit Alert Verification Reporting System) flag on the borrower's record due to an unresolved SBA default will typically result in the denial of a new SBA loan application. This applies to all SBA loan programs, not just EIDL.

If a borrower fully resolves defaulted EIDL debt (whether by paying it off, having an OIC accepted, or receiving a discharge in bankruptcy) and sufficient time passes for their credit to recover, they may eventually become eligible again. However, the SBA does not publish a specific waiting period, and eligibility will depend on the totality of the borrower's financial profile at the time of any future application.

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[54] *See supra* note 36.
[55] Misera, *supra* note 49.
[56] 31 U.S.C. § 3720B(a) (barring delinquent non-tax federal debtors from obtaining direct or guaranteed loans); *see also* 31 C.F.R. § 285.13 (Treasury regulations implementing the financial assistance bar); 13 C.F.R. § 120.110(n) (rendering delinquent federal debtors ineligible for SBA 7(a) and 504 business loans); SBA SOP 50 10 7.1, Subpt. B, Ch. 1, ¶ A.11 (requiring CAIVRS and Treasury screening for outstanding federal debt delinquencies).