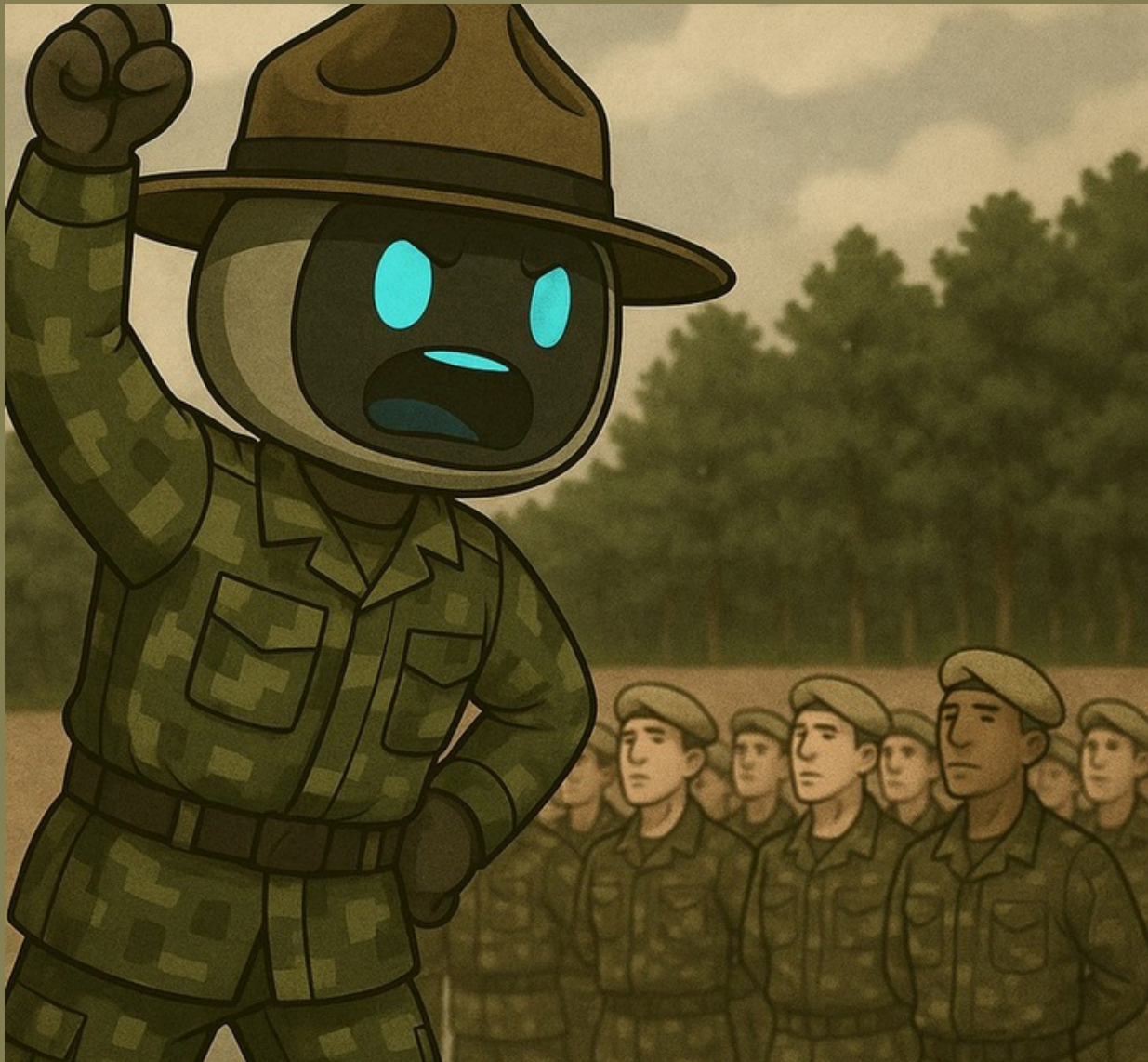


SMALLBIZ RECON™ COVID EIDL COMPLIANCE & VIOLATION SURVIVAL GUIDE



FREE GUIDE SERIES - EXCLUSIVE





SmallBiz Recon™

COVID EIDL Compliance & Violation Survival Guide Understanding the Terms, Risks, and Recovery Options 2.0 Last Updated: January 30, 2026

The SmallBiz Recon™ COVID EIDL Compliance & Violation Survival Guide offers a comprehensive overview for businesses navigating the complexities of the Economic Injury Disaster Loan (EIDL) compliance landscape. As of January 30, 2026, this guide is an essential resource for understanding the terms, risks, and recovery options associated with EIDL loans. It provides detailed explanations of the loan requirements, including eligible use of funds, documentation necessities, and the importance of maintaining accurate records to avoid potential violations.

The guide also delves into common compliance pitfalls and outlines strategies for businesses to rectify any issues, should they arise. Additionally, it highlights recovery options available to borrowers, ensuring they can effectively manage their loan obligations while continuing to focus on business growth. Whether you're a seasoned entrepreneur or a small business owner, this guide equips you with the knowledge to navigate the EIDL program confidently and successfully.

Understanding Your Loan Authorization and Agreement (LA&A)

By accepting a COVID EIDL loan, you entered into a binding Loan Authorization and Agreement (LA&A). This document establishes the legal framework for your business' operations and your responsibilities while the loan is active. Ensuring you understand and adhere to these terms is paramount.

Failure to comply with any of these terms, even if payments are current, constitutes a non-monetary default. Such a default can initiate severe collection actions and may impact your personal assets. Please be aware that, unlike some other programs, COVID EIDL loans are not forgivable and require full repayment.

☁ Sabbi Says: "Your LA&A is a living document. Stay informed, stay compliant, and protect your business."

Verification: The SBA's Standard Operating Procedure (SOP 50 52 2) and 13 CFR § 123 confirm that non-compliance with LA&A terms can lead to default, collection actions, and personal asset liability for guarantors.

Recommendation: Borrowers should always review their specific LA&A, as terms can vary slightly depending on loan size and approval date. You can and should download a copy from the MySBA Loan Portal if not already saved.



⚠️ What Is a Non-Monetary Default?

Non-monetary default means breaking a term of your loan other than missing payments. Examples include:

- Selling SBA-secured assets without permission
- Changing ownership without SBA approval Moving, dissolving, or significantly restructuring the business
- Letting required insurance lapse A partner leaving with company property or value

Consequences include:

- Your loan being called due in full Loss of access to servicing actions (like changes or lien releases) Referral to the U.S. Treasury for collections
-

Crucially, if you don't respond to SBA requests for information or action, it can be considered an admission of non-compliance, leading to adverse outcomes for your loan.

Verification: The SBA's Policy Notice 5000-857729 (effective August 5, 2024) emphasizes compliance with LA&A terms and the consequences of non-compliance, including Treasury Offset Program (TOP) actions. Ignoring SBA requests can indeed be interpreted as non-compliance, as noted. Recommendation: Borrowers should proactively communicate with their SBA loan specialist to avoid unintentional defaults, especially for complex actions like ownership changes and collateral release.

Collateral: What You Can't Sell Without SBA Approval

If your loan was \$25,001 and above, SBA likely filed a UCC-1 lien against your business's personal property. This may include:

- Equipment
- Inventory
- Fixtures
- VIN-tagged vehicles (business assets)

? Check with your assigned SBA loan specialist to confirm whether an asset is listed under the UCC lien.

Selling, transferring, or gifting covered assets without SBA's written permission can trigger default, legal enforcement, and Treasury referral.

🧠 Sabbi Says: "Think of it like this, if it's tied to your loan, it's not yours to sell—not without asking first."

Verification: SOP 50 52 2 confirms that UCC-1 liens are standard for EIDL loans \$25,001 and above, covering general business assets unless specified otherwise. VIN-tagged vehicles may be included if listed in the LA&A.

Recommendation: Borrowers may request a copy of their UCC-1 filing from their state's Secretary of State office (see our UCC site tracker) or check with your assigned loan specialist at the SBA to confirm covered assets.

NOTE: real estate collateral may also be required for larger loans (see "Real Estate" section below).



Post-Compliance Review: When SBA Investigates

This happens when SBA needs to verify if your business still complies with your LA&A.

Triggers include:


- Requesting a servicing action (e.g., subordination or ownership change)
- A flagged issue in public records
- A partner complaint or internal review

SBA May Request:

- Profit & Loss statements
- Balance Sheets
- Tax returns
- Proof of insurance
- UCC search
- VINs, asset records
- Dissolution or transfer documentation

What to Expect:

The SBA will set a deadline for you to provide the requested information. While specific timelines can vary, it's vital to respond promptly and thoroughly. Failure to do so can result in your loan being deemed in default.

 Sabbi Says: "If they're asking questions, assume they already know the answers. And don't drag your feet responding."

Verification: SOP 50 52 2 outlines the SBA's authority to conduct compliance reviews and request documentation. Failure to respond can result in adverse actions, including loan acceleration.

Recommendation:

If a situation becomes a little too much to understand or you can't get a clear direction on how to clean up your issue. Retaining a professional (e.g., CPA or attorney) for complex reviews, especially if financial records are incomplete or the business is under scrutiny, may save you a huge headache later down the road.



Payment Assistance (Effective March 19, 2025)

As of March 19, 2025, the program known as the Hardship Accommodation Plans (HAP) program through the MySBA Portal has ended. It has been replaced with the Payment Assistance program.

You can still access MySBA Loan Portal: MySBA Loan Portal But there are different guidelines for the Payment Assistance program! Borrowers experiencing short-term financial hardship must now email: CovidEIDL Servicing@sba.gov to request payment relief.

New Terms:

- One-time 50% reduced payment for six months
- Interest continues to accrue
- A balloon payment may result later

Eligibility:

- Loan must be under 120 days delinquent
- Loan must not be charged off
- Must submit:
 - Explanation of temporary hardship or cash flow issue
 - Why the issue is short-term

If approved, SBA will notify you with payment terms. After six months, full payments resume.

 Sabbi Says: "No more auto-enroll, but help's still there—if you ask the right way."

Verification: The SBA's website and Policy Notice 5000-857729 confirm that HAP self-enrollment has ended, and borrowers must contact the SBA directly. The email address provided is accurate.

Recommendation: The borrower should provide detailed financial documentation (e.g., cash flow projections, profit & loss statement, etc.) when requesting Payment Assistance to strengthen your case.
NOTE: Relief is NOT guaranteed and is dependent on a thorough review and SBA approval.



What Is “Consideration”?

Consideration is what you offer in exchange for a servicing action. A servicing action refers to any request you make to the SBA to modify the terms of your loan or release part of its security.

Common types of consideration include:

- Partial loan paydown
- Pledging new collateral
- Adding a new guarantor

Often required when requesting:

- Release of Collateral
- Subordination
- Ownership Change
- Assumption

Sabbi Says: “Asking SBA for something? Be ready to give something in return.”

Verification: SOP 50 52 2 details the SBA’s requirement for consideration in servicing actions to protect its interests.

Recommendation:

The SBA evaluates consideration on a case-by-case basis, and borrowers should propose reasonable offers based on their financial capacity. Discuss this with your assigned loan specialist.



Guarantor Rules

Required:

- Any owner with 20% or more interest must guarantee the loan if it's over \$200,000. Loans \leq \$200,000 generally do not require a
- personal guarantee unless SBA flags risk.

What It Means:

- You're personally liable for the full
- debt. The SBA can:
 - Intercept tax refunds (through the Treasury Offset Program -
 - TOP) Garnish wages Place liens on personal assets
- Leaving the company does not remove your guarantee. Only a formal release by SBA can do that.

- Sabbi Says: "Once you're a guarantor, you're in it 'til SBA says you're not." Verification: SOP 50 52 2 and 13 CFR § 123.11 confirm guarantor liability and the SBA's ability to pursue personal assets. Release from a guarantee requires SBA approval, which is rare without full loan repayment or substitution.

Recommendation:

When in doubt, Guarantors should seek legal advice before attempting to negotiate release, as it's a very complex process and approval is determined on a case-by-case basis.



Real Estate May Be Required

SBA may now require real estate collateral security, even for loans under \$500K.

This might come up if:

- Your collateral is NO longer sufficient
 - You request ownership or structure changes
 - You're under post-compliance review
- Sabbi Says: "Just because they didn't ask for your building before doesn't mean they won't now."

Verification: Policy Notice 5000-857729 and SOP 50 52 2 allow the SBA to request real estate collateral for loans of any size if deemed necessary.

Recommendation:

Advise borrowers to check their LA&A for existing collateral requirements and consult with the SBA before making assumptions about real estate obligations.



Keep Your Records and make sure they are organized.

Hold onto:

- LA&A and UCC filings
- Asset purchase and sale records
- Tax returns and insurance docs
- SBA correspondence
- Receipts showing proper use of loan funds
- Business closure documents, if applicable

 Sabbi Says: "If you throw it out, you might throw away your defense. Save. Everything."

Verification:

The SBA's website and SOP 50 52 2 emphasize the importance of maintaining records for at least three years after loan repayment or closure to defend against audits or reviews.

Recommendation: Paper records can be messy and take up a lot of space! You can look into digitizing records and storing backups securely to prevent loss. Include a note about retaining proof of loan fund usage for at least seven years, as IRS audits may also apply.

✘ Improper Use of Funds


Your EIDL funds are meant for specific purposes. Proper uses generally include working capital and normal operating expenses, such as:

- Payroll
- Rent or mortgage payments
- Utilities
- Fixed debt payments

Misuse includes:

- Personal expenses (vacations, home renovations)
- Paying off unrelated debt not disclosed or approved
- Investing in unrelated businesses
- Continuing to spend loan money after closing the business

Improper use can trigger collections or Treasury referral, even if you're making payments. Be aware that 13 CFR § 123.9 details penalties, including civil penalties of one and a half times the misapplied amount.

 **Sabbi Says:** "If your COVID EIDL funds were used to buy you a boat, the Treasury might be setting sail."

Verification: 13 CFR § 123.9 explicitly prohibits using EIDL funds for nonbusiness purposes and outlines civil penalties. The SBA's COVID EIDL FAQs reinforce this.

Recommendation: Some sources within the SBA and outside of the SBA, have suggested that borrowers should maintain a separate bank account for EIDL funds to track usage and simplify audits.

NOTE: it is important to understand that if misuse is discovered by the SBA during a review can lead to criminal penalties in extreme cases (e.g., fraud). Contact an attorney if you are unsure of what constitutes misuse of funds.

Closing your Business

Before shutting down:


- **Notify SBA in writing**
- **Resolve the remaining balance, or ask about payment options**
- **Request lien release or submit a wind-down plan**

Provide:

- **Final tax returns or dissolution docs**
- **UCC search**
- **Signed authorization**
- **Asset disposition statement**

Failing to do this may result in:

- **Loan default**
- **Referral to Treasury**
- **Personal collections**

 **Sabbi Says: "There's a right way to shut it down. Don't ghost the SBA. They will find you."**

Verification: SOP 50 52 2 and the MySBA Loan Portal guidance confirm the process for business closure and lien release requests.


Recommendation: If this process is overwhelming, you may consider consulting a bankruptcy attorney if the business cannot repay the loan before closure, as personal guarantees may complicate dissolution.

Avoid Scams

SBA does NOT:

- **Forgive COVID EIDL loans automatically**
- **Send third-party negotiators**
- **Offer secret forgiveness forms**

Anyone claiming this is running a scam. Remember, COVID EIDL loans are not forgivable.

 ***Sabbi Says: "If someone wants money to make your loan disappear, tell them to disappear instead."***

Verification: The SBA's website and fraud alerts consistently warn against EIDL-related scams, emphasizing direct communication through official channels like CovidEIDLservicing@sba.gov.

Recommendation: Report fraud, waste, abuse, or mismanagement of federal funds involving SBA programs, operations, or personnel to the SBA OIG Hotline. Information collected through the Hotline helps keep the SBA OIG aware of risks and trends that affect the SBA's programs.

SBA Fraud Reporting Information: [Office of Inspector General Hotline | U.S. Small Business Administration](#)


Before you begin, make sure you have the following information available:

- **SBA program being affected by your complaint;**
- **Name and contact information of the person, business, or department that the complaint is against;**
- **Narrative explaining the nature, scope, and time frame of the activity in question; and**
- **Any attachments or documentation to support your complaint.**

Please note you are not required to disclose personally identifying information when submitting your complaint to the OIG, and the OIG does not automatically capture such information in its intake processes. Anonymous reports are, however, more difficult for the SBA to process as they are not able to clarify initial reports or obtain follow-up information.

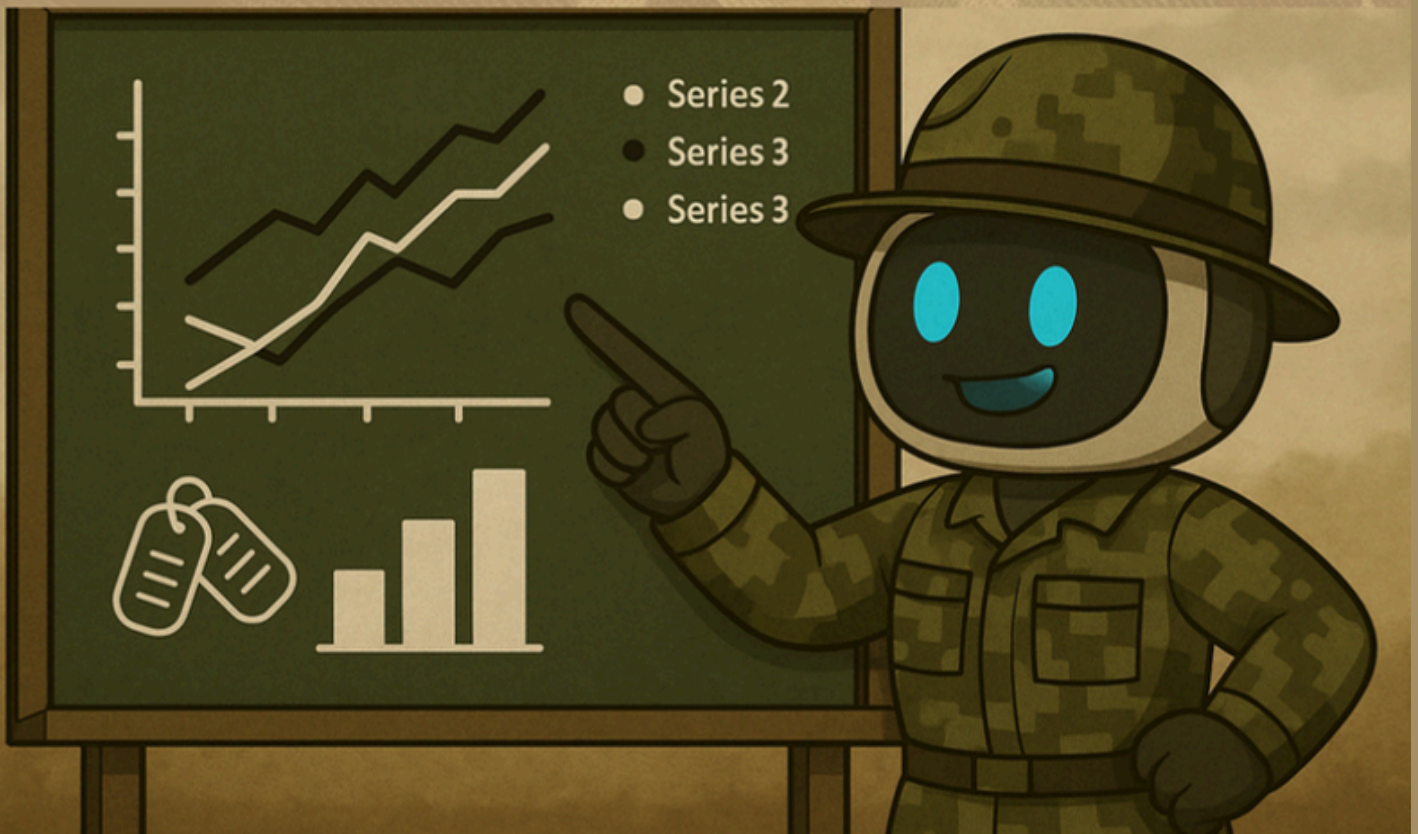
Final Checklist

Situation	Contact SBA or Legal Counsel?
Selling a VIN vehicle or equipment	<input checked="" type="checkbox"/>
Changing ownership or equity	<input checked="" type="checkbox"/>
Shutting down the business	<input checked="" type="checkbox"/>
Asked for more documents	<input checked="" type="checkbox"/>
Unsure what SBA has a lien on	<input checked="" type="checkbox"/>
Need help making payments	<input checked="" type="checkbox"/>

 Sabbi Says: "If you're not sure, ask. Before it costs you."

Verification: All listed situations (e.g., selling assets, changing ownership, responding to document requests) require SBA communication, as per SOP 50 52 2.

Recommendation: Include our contact spreadsheet which is included in all of our Toolkits to document all SBA communications in writing for legal protection.



Reference Page

- SBA SOP 50 52 2: Disaster Loan Servicing & Liquidation
- SBA Policy Notice 5000-857729: (Effective Aug 5, 2024)
- MySBA Portal: <https://lending.sba.gov>
- Treasury Offset Program (TOP): <https://fiscal.treasury.gov/top/>
- SBA Loan Servicing Email: CovidEIDLservicing@sba.gov - Manage your EIDL | U.S. Small Business Administration
- 13 CFR § 123.9: Misapplication of disaster loan proceeds; penalties.





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Thank
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