PRACTICAL GUIDE · BANKING REGULATION · 2026

Forbearance: anticipate fragility before default

Detect customer fragility, assess their repayment capacity, intervene before the first missed payment — and prevent balance-sheet deterioration.

7 chapters | 15 min read | 2026 Edition

1 What is forbearance?

A **concession granted by a bank to a struggling borrower**: it modifies the loan terms to help the customer recover, without the situation turning into a definitive default.

EBA DEFINITION

An exposure is classified as "forborne" as soon as a concession has been granted because of the borrower's actual or anticipated financial difficulties — whether the loan is still being repaid normally or already in default.

What it can look like

Temporary measures

- Payment deferral (moratorium)
- Interest-only payments
- Temporary suspension of direct debits

Permanent measures

- Extending the loan term
- Reducing the interest rate
- Partial debt write-off (severe cases)

The 2-year rule: a file classified as "forborne" stays in that category for at least **2 years**, even if the customer resumes regular payments. This is the EBA "cure period" — exiting the status takes time and proof of stability.

2 The regulatory framework

Framework set by the **EBA** and the **ECB**. The central issue: distinguishing a genuine customer-support tool from a loss-concealment mechanism.

The 3 risk stages

Each file is classified in a category that determines how much the bank must **set aside** to cover a potential loss — this is called the **provisioning rate**.

~0 %	~10 %	~50 %
STAGE 1	STAGE 2	STAGE 3
Healthy	Fragile	Impaired

The further a customer drifts towards Stage 3, the more capital the bank must lock up. The goal is to prevent this deterioration and free up provisions as soon as the customer stabilises.

What it changes in practice: the link with prudential rules

To grasp the stakes, you need to understand a basic rule: banks are required to keep a capital reserve proportional to their risks. The riskier their loans, the more they must set aside. These are the **prudential rules**, defined internationally by Basel III.

The key indicator is the **CET1 ratio**. Think of it as the bank's "solidity level", expressed as a percentage. Regulators impose a minimum threshold, generally around 10.5%. Below that, the bank is considered fragile.

What does this have to do with forbearance? Everything. Here is the three-step mechanism:

- **The bank grants a concession** (rate cut, partial debt cancellation...).
- **It loses money on it.** From a regulatory standpoint, this loss is booked as a default, even if the customer keeps repaying.
- **It has to immobilise more capital** to cover this risk. Mechanically, its CET1 ratio drops — which reduces its capacity to lend to other customers.

The cost of inaction: a file wrongly placed in Stage 3 represents on average **2 years of locked-up capital**. Every day of delay in detection has a direct, measurable cost on your CET1 ratio.

In summary: every concession granted has a direct cost on the bank's balance sheet. Early detection is all the more important: the sooner you intervene, the lighter the measure, and the less it weighs on the ratios.

STATUS OF THE FRAMEWORK IN 2026

European regulation, but interpretation varies between countries. Most institutions are still in run-in phase: targeting strategies in progress, algorithms in calibration, no shared benchmark on effectiveness.

3 Signals to detect

Detecting fragility *before* the missed payment is the whole challenge. These signals are rarely obvious in isolation: it is their **combination and persistence** that indicate real risk.

Direct debit rejections

Multiple rejections over 30 days = real cash-flow tension, not a one-off oversight.

Unusual delays

A customer who used to pay on D+2 starting to pay on D+15 is changing behaviour vs. their history.

Drop in inflows

Decline in incoming transfers over 2 to 3 months vs. the historical average: signal of income loss.

Systematic overdraft

Balance close to the authorised limit on a repeated basis: no manoeuvring room.

Repeated micro-loans

Resorting to debt to finance everyday spending: structural imbalance between income and expenses.

Unusual incidents

Seizure fees, fines, rising health costs: a personal situation that is worsening.

Weak vs. strong signals: a single signal does not justify action. It is their combination and persistence that trigger an alert. Good algorithms weight them according to each customer's historical profile.

4 The intervention logic

As soon as a signal is detected, **the bank has less than 30 days to react**. Beyond that, the file can be automatically reclassified into a higher-risk category.

⚠ **Every day counts:** exceeding the 30-day window without documented action can trigger an automatic reclassification to Stage 3 — and lock up capital for at least **2 years**.

D0	<30d	30d+
Signal detected	Mandatory intervention	Auto-reclassification
Trigger	Action window	Too late

⚠ **Monthly review: not enough.** The intervention window is daily. A weekly or monthly review systematically arrives too late.

The 4-step process

Automatic signal detection

Scores and algorithms analyse every day: delays, rejections, inflows, deviations vs. history.

Automatic · Daily

Qualifying the difficulty

Is the difficulty

Temporary

(job loss, life accident) or

Structural

(over-indebtedness, lasting imbalance)? This distinction determines the appropriate measure.

Credit team · Algo support

Preventive intervention

Automated action (system-triggered deferral) or personalised support depending on severity.

Auto · Support

Follow-up and provision release

After the cure period (2 years minimum) and a return to normal, provisioning can be revised downwards.

2 years min

5 Best practices

⊗ What doesn't work

- ✗ Waiting for the missed payment to act
- ✗ Monthly file review
- ✗ Same measure for every profile
- ✗ No documentation = no reporting
- ✗ Deferral without prior diagnosis

✓ What works

- ✓ Detect before the first missed payment
- ✓ Daily automated monitoring
- ✓ Measure fit to the difficulty profile
- ✓ Full traceability of every decision
- ✓ Systematic diagnosis before action

Compliance checklist

- **Daily monitoring of indicators**
  Alert thresholds configured and checked every day, not weekly.
- **Documentation of each measure**
  Reason, type, date, post-measure follow-up. Mandatory for EBA reporting.
- **Performing / non-performing distinction**
  A forborne loan can still be repaid. This nuance affects provisioning.
- **Formalised status-exit criteria**
  After 2 years of cure: which indicators trigger the exit from "forborne" status?
- **Differentiated targeting strategies**
  An isolated delay is not handled the same as a progressive drift over 3 months.

6 The trap: zombie lending

Misused, forbearance can turn into an accounting-cosmetics tool: the bank avoids recognising that a loan is unrecoverable, postpones the deadlines, and artificially keeps the file alive.

ZOMBIE LENDING

Granting forbearance to customers whose situation has no way out, solely to push back the recognition of a loss. The loan is no longer repayable, but stays "alive" on the balance sheet.

Impact on ratios: keeping loans "alive" allows banks to defer loss recognition and inflate CET1 ratios. Regulators have been vigilant about this phenomenon since 2008.

The loss is there, it is just hidden. And the more it accumulates, the more it weakens the balance sheet. Resources tied up in these zombie files no longer fund solvent customers.

EBA safeguards: mandatory classification, 2-year cure period, detailed reporting. Their effectiveness depends entirely on the quality of the detection tools used.

Meelo & forbearance

> *"See default before it exists."*

Meelo detects financial fragility before default, and turns invisible signals into actionable decisions — in less than 30 days.

Solvency score in 2 to 5 seconds

Instant assessment of the customer's financial solvency, based on over 400 signals continuously analysed by AI.

Open Banking · 300+ banks

Connected to more than 300 banks, including neobanks, for a complete real-time view of customer flows.

400 signals analysed continuously

Daily automated monitoring to act within the 30-day window — with no manual monthly review.

Budget & repayment analysis

Dedicated support solutions: customer budget analysis, repayment-capacity assessment, tailored proposal. Meelo also identifies the **optimal direct-debit date** based on account behavioural history, to reduce the risk of rejection or payment incapacity.

REAL-WORLD SCENARIO

J0	30% drop in inflows over 45 days + 2 direct-debit rejections. **Alert generated automatically.**
J+1	Solvency score of **72 → 48**. The credit team is notified immediately.
J+3	Open Banking analysis: **probable job loss detected.** 3-month deferral proposed.
J+90	Flows back to normal. The file stays in **Stage 2** instead of sliding into Stage 3. Provisioning avoided.

CONCLUSION · 2026

Anticipate fragility before default with Meelo

400 signals analyzed continuously. A score in 5 seconds.
Intervention within 30 days — automatically.

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