

The complaint

Ms M is unhappy with how PayPal (Europe) Sarl et Cie SCA have dealt with a transaction she made through it.

What happened

Ms M has explained that she purchased a tumble dryer, priced at £294.97, online on 30 September 2021. She explained that when purchasing the item, she paid part of the balance with a voucher, and selected to pay the remainder of the balance for the item through PayPal credit.

To pay via this method, Ms M noted she went through the relevant application process and agreed repay the £294.97 for the tumble dryer over a period of 18 months. With the repayment being around £18 a month. Ms M said the transaction went through as expected, and she received confirmation of the payment for the tumble dryer being made through PayPal credit.

Following this, Ms M said she received a text message from her bank – telling her she was going into her overdraft on her current account and would be charged for being within this. This didn't seem right to Ms M. So, she checked the transaction history on her bank account, and saw that PayPal had taken the funds for the tumble dryer straight from her current account, rather than the payment being made by credit. Ms M said this shouldn't have happened and complained to PayPal about the situation.

PayPal has said it hasn't done anything wrong here. It noted that its systems showed that the funding source Ms M selected for the transaction was her bank account, rather than PayPal credit. It said that whilst Ms M had made an application for credit, which was approved, this was blocked because Ms M went back and went to alter her address (which she didn't then actually change), which triggered a block on Ms M being able to select PayPal credit as a funding source.

PayPal said that it would have then shown Ms M that her bank account was being used for the transaction, and she then ordered the item. It said Ms M wouldn't have been able to pay through PayPal credit at this point.

Because Ms M is unhappy with the situation, she referred her complaint to this service for an independent review.

Our investigator looked at this complaint and thought it should be upheld. They said that Ms M had provided a screenshot showing she had paid for the item with PayPal credit. And so, PayPal shouldn't have taken the payment through another method. With this in mind, the investigator recommended that PayPal return the £294.97 to Ms M's bank account, and instead place these funds on PayPal credit as originally intended.

The investigator also acknowledged that Ms M had said she went into her overdraft because of the problem. And said it would be fair for PayPal to provide Ms M with £50 compensation for the trouble and upset she'd experienced.

Ms M agreed with our investigator's recommendations. PayPal disagreed. It again said PayPal credit was blocked as a funding source, and so Ms M had to have selected to pay for the tumble dryer directly through her bank account instead. It provided a screenshot of what it said Ms M would have seen – demonstrating that she would only have been able to select available funding sources, such as her bank account. So, Ms M wouldn't have been able to complete the transaction using PayPal credit.

Because PayPal disagreed with our investigator's opinion, this complaint has been referred to me to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I'm upholding this complaint. I've explained why below.

When considering a complaint such as this, the starting point is the terms of the user agreement between PayPal and Ms M. This being because it is the basis of the contract between the two parties. On looking at the user agreement I can see that PayPal explains the following:

"Linking and Unlinking a Funding Source

(...)

You can link or unlink a credit card, debit card, a prepaid card (where available) a bank account or PayPal Credit (where available) to your PayPal account as a funding source. We may limit the availability of your funding sources to manage risk."

Ms M has said she applied for PayPal credit, and linked this as a funding source – so she was able to choose to pay for the tumble dryer via this method.

I've seen screenshots from PayPal's system, which confirm this. They show Ms M successfully applied for PayPal credit, and it was added as a funding source very shortly after.

Given this, and Ms M's testimony, I'm satisfied Ms M applied for this funding source, with the intention of using it to buy the tumble dryer – along with the voucher she had. PayPal doesn't dispute this. But it does say that before Ms M completed the transaction it blocked PayPal credit as a funding source for this transaction. And it said this would have been clear to Ms M.

It said it would have been clear because it can see Ms M navigated away from the checkout page. And when she returned, PayPal credit would have been removed as a payment option. And Ms M couldn't have selected it. So, if Ms M had reviewed the page, she would have seen her bank account was now the payment method being used. PayPal has provided a generic screenshot, to show the sort of thing Ms M would have seen as payment options – after PayPal credit had been removed.

I accept the terms and conditions in the user agreement say PayPal is able to remove a funding source. And I acknowledge the generic screenshot provided, with PayPal credit removed as an option. But I'm not satisfied that Ms M wasn't able to select PayPal credit in this instance.

I say this because Ms M has provided her own screenshot. This shows a record of the transaction, after purchase was completed. And it shows PayPal credit and a voucher being used. Had this payment method been blocked, and therefore Ms M unable to select it, I wouldn't expect the payment confirmation to show her having used this method. It wouldn't have been a selectable option.

This service also reached out to the third-party website the tumble dryer was purchased through. And it also said payment was made through PayPal credit too.

Given the above, I'm satisfied it is most likely that Ms M was able to select PayPal credit, and it wasn't made sufficiently clear to her that a payment method had changed, so the funds would be taken from elsewhere. So, it doesn't seem reasonable for PayPal to simply take the funds out of Ms M's bank account. Ms M has said if it had been made clear that she couldn't pay with PayPal credit in that instance, she wouldn't have carried on with the transaction, as she didn't have sufficient funds to buy the item at the time. And Ms M has provided me with her bank account statements to show this.

With this in mind, I'm requiring PayPal to credit Ms M's bank account with the £294.97 it took from her account. Ms M does of course still need to pay for the tumble dryer. So, PayPal should debit the £294.97 from her PayPal Credit account, as per her original application.

Ms M has said she isn't seeking to have any overdraft charges returned to her, given these charges are linked to other things too. But she's raised the distress and inconvenience the situation caused her.

It's clear the situation has been distressing and inconvenient to Ms M. She didn't realise the transaction had been taken from her account until her bank warned her of entering her overdraft. And on realising this, and the difficult situation she found herself in, I can see why Ms M would have been worried. With this in mind, I agree that the compensation of £50, recommended by our investigator is fair. I think it recognises the upset the situation has caused. So, I'm requiring PayPal to pay this too.

My final decision

Given the above, my final decision is that I uphold this complaint. I require PayPal (Europe) Sarl et Cie SCA to:

- Refund the £294.27 to Ms M, and instead debit the balance from her PayPal credit account. Ms M will then need to pay off the balance through PayPal credit, as originally agreed.
- Pay Ms M £50 compensation for the trouble and upset caused to her.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 3 August 2022.

Rachel Woods
Ombudsman