

The complaint

Mr S says PayPal (Europe) Sarl et Cie SCA ('PayPal') irresponsibly lent to him.

What happened

This complaint is about a credit card account PayPal provided. The PayPal Credit account was opened initially in May 2017 with a credit limit of £250. The following credit limit increases took place on the account:

- March 2018 - £250 increase = £500 total limit
- October 2018 - £500 increase - £1,000 total limit
- May 2019 - £1,000 increase = £2,000 total limit
- November 2019 - £1,000 increase = £3,000 total limit

Our investigator partially upheld Mr S's complaint and thought that PayPal ought to have undertaken proportionate checks in November 2019 before making the lending decision to increase Mr S's borrowing to £3,000 on his account. Our investigator thought that lending decision was not responsible. PayPal disagreed with our investigator, so the complaint has passed to me for a decision.

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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website.

PayPal needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr S could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that PayPal should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the frequency of borrowing, and the longer the period of time

during which a customer has been indebted (reflecting the risk that prolonged indebtedness may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Our investigator thought that the early increases to the credit limit on the account were not examples of irresponsible lending. But he thought the last credit increase was an example of irresponsible lending. I have fully reviewed all the submissions made in this case. Having done so, I agree with our investigator's findings and for the same reasons.

Our investigator has issued two assessments in support of these findings. And in delivering them our investigator has addressed the merits of the complaint and the objections of both Mr S and PayPal. And as these matters have been addressed in such detail already, I am emboldened to make this decision shorter than I might otherwise have done.

I haven't seen anything to make me think PayPal should have been concerned about Mr S's ability to afford the limits given before the increase in November 2019. In saying that I have had regard for the initial information supplied by Mr S on his application in May 2017. PayPal was entitled to rely on Mr S's information supplied in respect of his credit request to an extent. And as the initial credit amount was so modest, no further checks would have been necessary in order for them to be proportionate. Mr S declared an income that was not modest in nature. And he declared an expenditure that was not incredible. And the early lending decisions were for amounts that were modest, and the repayments on those amounts would have been modest also, such that I wouldn't have expected PayPal to verify the information Mr S gave them.

Mr S's other commitments didn't seem to be burdensome in relation to his income. And Mr S's credit record showed no defaults or CCJ's and was largely clean. And Mr S's management of his PayPal account was good, including large payments and the clearance of the balance, and this was something PayPal could take into account when considering the credit limit increases. So, there was no reason for PayPal to make more searching enquiries into Mr S's finances at the time of the credit limit increases (except November 2019), either his income or his expenditure. And had PayPal made more searching enquiries, for the same reasons given above, I do not think they would have seen anything to put them off providing the credit they did. But I think differently about the credit increase provided in November 2019.

Our investigator set out in some detail why he thought PayPal shouldn't have provided Mr S with the credit limit increase in November 2019. The total other borrowings were a little over £18,000. Our investigator noted that the credit check PayPal completed showed Mr S's credit commitments had a significant increase at that time compared to only six months earlier. Mr S owed around £5,000 more in November 2019 and the majority of that was in increased credit card debt. Mr S's debt to income ratio had likewise increased a significant amount in such a short time rising from 43% to 61% in the same six month period. And Mr S was managing his balance close to the credit limit. And Mr S seemed to have made little or no headway in reducing his balance in that six month period. I think that all of the above should have suggested that things may have changed for Mr S in the two and a half years since he took out the credit with a most modest opening credit limit such that a closer look of his finances might be proportionate.

I also think a proportionate check would have had a closer look at what was going on with Mr S's finances considering it had been two and a half years since PayPal had obtained any information regarding Mr S's income and expenditure. And that information had been used to

provide a credit limit of £250 which is far away from the £3,000 that was being offered in November 2019. Instead, Paypal stuck with its process and gave Mr S an increased credit limit. But, in doing so, it ran the risk that things could have changed for Mr S and that PayPal were adding to his indebtedness in a way that was not responsible.

And that is what seems to have happened from Mr S's bank statements and his testimony. Whilst Mr S's credit file had not been compromised by his handling of his other borrowings, Mr S's bank statements show that he was working hard to avoid that happening. And that his income was no longer steady. And Mr S seemed to have made little or no headway in reducing his balance in that six month period.

PayPal has sought to rely on its calculation that the credit increase lead to Mr S's monthly obligation having reduced. But that is to focus on one small aspect at the expense of the wider picture in this case, which I have provided above.

So, having considered all the submission made in this complaint, and for the reasons given above, I think that in November 2019 PayPal ought to have had cause for concern that Mr S could not afford to repay what he was being lent in a sustainable manner. And I think PayPal should reasonably have seen that further lending was unsustainable, or otherwise harmful such that they shouldn't have increased Mr S's credit limit. I also think there was a significant risk that further increases to his credit limits could have led to his indebtedness increasing unsustainably, such that he had no funds available to meet his regular outgoings.

It follows that I think that Mr S lost out because PayPal provided him with further credit from November 2019 onwards. In my view, PayPal's actions unfairly prolonged Mr S's indebtedness by allowing him to use credit he couldn't afford over an extended period of time and the interest being added would only have the effect of putting him into further debt.

It follows that PayPal should put things right.

Putting things right

PayPal should:

- Rework Mr S's account to ensure that from November 2019 onwards interest is only charged on balances up to the total credit limit of £2,000, (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made PayPal should contact Mr S to arrange an affordable repayment plan for this account. Once Mr S has repaid the outstanding balance, it should remove any adverse information recorded on Mr S's credit file from November 2019 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr S, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. PayPal should also remove any adverse information from Mr S's credit file from November 2019 onwards.†

HM Revenue & Customs requires PayPal to take off tax from this interest. PayPal must give Mr S a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons set out, I'm partially upholding Mr S's complaint. PayPal (Europe) Sarl et Cie SCA should put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 24 February 2023.

Douglas Sayers
Ombudsman