

The complaint

Mr S complains that PayPal (Europe) Sarl et Cie SCA has recorded his credit agreement as a credit card on his credit file and that it's reduced his credit limit.

What happened

I issued a provisional decision on this complaint in March 2022 in which I described what had happened as follows:

"Mr S entered into a credit agreement with PayPal in July 2019 for running account credit with a credit limit of £750. PayPal reduced his credit limit in June 2021 and Mr S complained to it about that reduction and that his agreement was showing on his credit file as a credit card.

It said that the agreement was for running account credit, with similar features to a credit card, even though no credit card is issued, so it's classified in the same category as a credit card for reporting to the credit reference agencies. It said that it wrote to Mr S to advise that it had reduced his credit limit from £750 to £350 with effect from the previous day under section 1.6 of the agreement and that it wasn't possible for it to be increased. Mr S wasn't satisfied with its response so complained to this service.

Our investigator recommended that his complaint should be upheld in part. She said that Mr S's agreement isn't a fixed credit agreement, but running account credit, and that PayPal had recorded it correctly on his credit file. She didn't think that PayPal had treated Mr S fairly when reducing his credit limit and she recommended that it should: refund any additional interest or charges that Mr S had incurred as a result of the credit limit decrease, with interest; remove any negative markers relating to the credit limit decrease from Mr S's credit file; and pay him £150 compensation for the stress and confusion caused.

Mr S accepted those recommendations but he says that PayPal has blocked him from making payments to his account. PayPal has asked for this complaint to be considered by an ombudsman".

I set out in that provisional decision the following reasons that I considered that Mr S's complaint should be upheld:

- *"the credit agreement provides Mr S with running account credit and works in a way that is similar to a credit card even though no credit card is issued and I'm not persuaded that PayPal has acted incorrectly in classifying the agreement in the same category as credit cards for reporting to the credit reference agencies;*
- *section 1.6 of the credit agreement says: "We may also reduce your Credit Limit if we believe there is a risk you cannot repay, your credit usage is not sustainable or if there is another risk to us. We will usually give you notice of this beforehand*

but may do so without notice if appropriate to do so. Your Credit Limit will not be reduced below the outstanding balance, including any pending transactions”;

- *PayPal reduced Mr S's credit limit from £750 to £350 in June 2021 – the closing balance on his account shown on the statement that was issued to him in early June 2021, and which was dated the day before PayPal says that it decided to reduce his credit limit, was £308.01;*
- *Mr S had made a payment to his account of £436.34 in May 2021 but that payment was reversed at some time between the date of that statement and the date of the next statement;*
- *the effect of that was that Mr S's account went above the reduced limit of £350 and the balance shown on the statement that was issued to him in early July 2021 was £769.48;*
- *PayPal says that the payment was reversed on the same day that the decision to reduce his credit limit was made and I don't consider that it was fair or reasonable for it to reduce his credit limit at that time as the outstanding balance of his account after the reversal had been made was more than his credit limit;*
- *section 1.6 says PayPal will usually give notice of a reduction of a credit limit but: “ ... may do so without notice if appropriate to do so”;*
- *PayPal has explained the reasons that it decided to reduce Mr S's credit limit – and I consider that it had good reasons for wanting to do so – but I consider that it would have been fair and reasonable for it to have given Mr S reasonable notice of the reduction of his credit limit and I don't consider that it's provided enough evidence to show that it was appropriate for it to reduce his credit limit without notice in these circumstances;*
- *I don't consider that PayPal has acted fairly or reasonably in these circumstances and I find that it would be fair and reasonable for it to reinstate Mr S's credit limit of £750 and to rework his account as if his credit limit hadn't been reduced in June 2021 (which would include removing any additional interest and charges that have been applied to the account as a result of the credit limit being reduced) and, if that gives the account a credit balance, to refund the credit balance to Mr S (with interest for any period that the account was in credit at an annual rate of 8% simple);*
- *I also find that it would be fair and reasonable for PayPal to remove any adverse information that it's recorded on Mr S's credit file between June 2021 and the date of this decision that it wouldn't have recorded if his credit limit had remained at £750; and*
- *these events will have caused distress and inconvenience for Mr S and I find that it would also be fair and reasonable for PayPal to pay him £150 to compensate him for that distress and inconvenience”.*

Subject to any further representations by Mr S or PayPal, my provisional decision was that I intended to uphold this complaint in part. PayPal has responded to my provisional decision in detail and has explained why it considered that it was appropriate for it to reduce Mr S's credit limit without notice. It says that the payment that was reversed appears to have been done in error, and to re-instate Mr S's credit limit wouldn't be responsible lending and it's likely that it would immediately be reduced again. To resolve Mr S's complaint it has offered to make a one-off goodwill payment of £450 to recognise the time he has spent dealing with this complaint. Mr S says that he accepts that offer.

.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.

I consider that PayPal's offer to pay £450 to Mr S is fair and reasonable in these circumstances and Mr S says that he accepts that offer.

Putting things right

I find that it would be fair and reasonable for PayPal to pay £450 to Mr S.

My final decision

My decision is that PayPal (Europe) Sarl et Cie SCA should pay £450 to Mr S.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 7 June 2022.

Jarrold Hastings
Ombudsman