

The complaint

Mr M complains that PayPal (Europe) Sarl et Cie SCA lent irresponsibly when it approved his credit card and later increased the credit limit.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

Mr M successfully applied for a credit card with PayPal in April 2016. In his application, Mr M said he was employed with an income of around £2,000 a month and was a tenant. PayPal says it considered outgoings like Mr M's rent and regular living costs. In addition, PayPal carried out a credit search to look at Mr M's other borrowing. The credit card application was approved with a credit limit of £1500.

PayPal increased the credit limit to £1,800 in November 2016, £2,300 in November 2017, £2,800 in July 2018 and £3,800 in February 2019. PayPal says it carried out lending checks before each credit limit increase to ensure Mr M could afford to proceed.

Mr M's card entered into arrears in the autumn of 2019 and was closed in December 2019. A default was reported on Mr M's credit file.

Last year, Mr M complained that PayPal had lent irresponsibly and it issued a final response. PayPal didn't agree it had lent irresponsibly and didn't uphold Mr M's complaint. Mr M referred his case to this service and it was considered by an investigator. They thought PayPal had dealt with Mr M's complaint fairly so didn't ask it to take further action. Mr M asked to appeal, so his complaint has been passed to me to make a decision.

What I've provisionally 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.

Before agreeing to lend, PayPal was required to complete a reasonable and proportionate assessment of Mr M's ability to sustainably repay the debt. This is often referred to as an affordability check and had to be borrower focused. That means PayPal needed to consider whether Mr M could sustainably afford the borrowing having taken his circumstances into account. The sorts of information PayPal needed to consider were:

- The amount of credit;*
- The total figure repayable and size of regular payments;*
- The duration of the agreement;*
- The cost of the credit; and*
- The borrower's individual circumstances.*

That means there's no set list of checks a business has to consider. What's considered proportionate may change based on various factors, including the above points. I've looked

at the different lending decisions PayPal has made since Mr M successfully applied for a credit card to see whether it completed proportionate checks to ensure it lent responsibly.

Mr M first applied in April 2016 and gave his income as between £2,000 and £2,500 a month after tax. PayPal used a rent figure of £500 per month along with living expenses of £500 a month. PayPal carried out a credit check but says it doesn't have a record of what it found. But Mr M has provided a copy of his credit file and I can see PayPal has submitted information that shows he owed around £18,000 in November 2016 (when it approved the first credit limit increase).

PayPal took Mr M's income and outgoings and says Mr M was left with enough disposable income to maintain a credit card with a £1,500 credit limit. I've considered the information PayPal had available and I think its decision to approve Mr M's credit card application was reasonable. I haven't found that PayPal lent irresponsibly when it approved the original application.

PayPal carried out a reasonably modest credit limit increase to £1,800 in November 2016. At this stage, I still think the decision to increase the credit limit was reasonable. PayPal has provided copies of its lending checks and there were no missed payments or other adverse credit reported. The increase was reasonably small and Mr M had maintained his credit card without issue. I haven't been persuaded there were signs at this stage Mr M wasn't able to afford a further increase in the credit limit so I'm unable to agree PayPal lent irresponsibly.

I've reached a different view concerning the credit limit increase to £2,800 in November 2017. PayPal has provided the affordability information it used. It found Mr M's level of unsecured borrowing had increased from £18,000 in November 2016 to over £20,000 in November 2017. An increase of £2,000 in a year should've indicated Mr M may have become reliant on credit to make ends meet. In addition, the affordability information PayPal has provided shows that despite finding Mr M had £20,073 of unsecured credit it used a total minimum monthly payment figure of £100. That figure is unreasonably low when compared to the total outstanding balance Mr M had at the time.

Had PayPal used a more realistic figure, I think it would've found it was likely Mr M would struggle to make higher repayments and considered carrying out better, more comprehensive checks.

In much the same way, the credit limit increase in July 2018 found outstanding unsecured credit of £17,691 but used a figure of £0 for the minimum repayments required when assessing affordability. In February 2019 the affordability date found Mr M now owed £26,239 (up nearly £10,000 from July 2018) but used a total repayments figure of £7 a month. In my view, the increasing level of Mr M's unsecured debt should've highlighted the need to carry out more comprehensive checks to PayPal. And I also think the level of outgoings it used to assess the ongoing monthly payment was unrealistically low based on the evidence PayPal has supplied.

There is a range of options PayPal could've taken to complete more comprehensive checks. PayPal could've asked for bank statements to verify Mr M's income and outgoings or evidence of his income for instance. Had PayPal carried out better checks, I think it would've found Mr M was struggling and had become reliant on credit. In my view, better checks would've led PayPal to decline credit limit increases from November 2017 onwards. I agree with Mr M that PayPal lent irresponsibly in this case. As a result, I intend to uphold Mr M's complaint and direct PayPal to refund all interest, fees and charges applied from November 2017 to date.

It wouldn't be fair for PayPal to record adverse information about a debt that was lent irresponsibly. As a result, I also intend to tell PayPal to remove any adverse information its recorded on Mr M's credit file from November 2017 onwards.

I invited both parties to respond with any additional comments or information they wanted me to consider. PayPal responded to confirm it had nothing further to add. Mr M responded and said he was confused that other complaints he's made about different businesses have been rejected despite this case being upheld.

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.

Mr M has queried why there are different outcomes in relation to complaints he's referred to us. We consider complaints on an individual basis. That means, we look at whether a business has treated its customer fairly in terms of the individual circumstances of that case.

I want to assure Mr M that I've considered the specific circumstances of his complaint about PayPal and agree it lent irresponsibly, as set out in my provisional decision. As neither party has provided new information for me to consider I see no reason to change the conclusions I reached. I still think Mr M's complaint about PayPal should be upheld, for the same reasons.

My final decision

My decision is that I uphold Mr M's complaint and direct PayPal (Europe) Sarl et Cia SCA to settle as follows:

- Refund all interest, fees and charges applied to balances over £1,800 from November 2017 to the date of settlement
- If the debt has been sold to a third party, PayPal should take steps to either retrieve it or work with the new lender to put the agreed settlement in place
- Once the above refunds have been made, PayPal should contact Mr M to discuss affordable repayment options
- Amend Mr M's credit file to remove all adverse information recorded from November 2017 to date
- 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 M along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement

† HM Revenue & Customs requires PayPal to take off tax from this interest. PayPal must give Mr M a certificate showing how much tax it has taken off if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 2 June 2022.

Marco Manente
Ombudsman