

The complaint

Ms S complains about PayPal (Europe) Sarl et Cie SCA and their decision to provide her with a credit account that she feels was unaffordable. Ms S also complains about PayPal's decision to default her account, and the process they followed when doing so.

What happened

In May 2018, Ms S applied for a credit account with PayPal. This application was approved and Ms S was provided with a credit limit of £5,000. This limit was increased to £6,000 in December 2018, seven months later.

Ms S continued to meet the monthly minimum repayments on the account until early 2021, when she asked for a payment holiday due to a change in her household income. PayPal and Ms S agreed a repayment plan of £50 per month. But Ms S says she was told this payment would be taken automatically. But it wasn't. And as Ms S failed to make this payment each month, and arrears built on her account, PayPal took the decision to default her account in July 2021. Ms S was unhappy about this, so she raised a complaint.

Ms S didn't think PayPal's application of the default was fair. She didn't think she was issued with a default notice as she should've been. And she didn't think PayPal made it clear the agreed repayment amount of £50 wouldn't be taken automatically. And further to this, Ms S didn't think the account itself should've been provided as she didn't think it was affordable. Ms S thought PayPal should've realised this before her application was approved in May 2018 and that making payments to maintain the account had placed her in greater financial difficulty. So, Ms S wanted any interest and charges applied to the account to be refunded to her, plus 8% simple interest. And she wanted any negative information recorded to her credit file to be removed.

PayPal didn't think they'd acted unfairly when approving Ms S's credit application. And they thought they'd applied the default fairly, in line with the relevant guidance, with the necessary notice being provided. So, PayPal didn't think they needed to do anything further. Ms S remained unhappy with this response, so she asked our service to continue with our investigation.

Our investigator looked into the complaint and upheld it. They didn't think PayPal conducted proportionate checks to ensure the credit they were providing was affordable. They thought PayPal should've done more to understand Ms S's income and monthly expenses. And they thought if PayPal had, they would've made a different lending decision. And they explained it followed that the account shouldn't have been defaulted, as it shouldn't have been provided in the first place. So, they thought PayPal should reduce Ms S's outstanding debt by refunded any interest and charged applied to the account with 8% simple interest from the date of payment to the date of settlement. And if this led to a surplus, this surplus should be paid to Ms S. And they thought any negative information recording to Ms S's credit file should be removed.

Ms S accepted this recommendation. But PayPal didn't. They thought they'd completed proportionate checks and that the checks on Ms S's credit file showed no concerns

regarding the affordability of the account. And they thought Ms S's maintenance of the account up until 2021 showed she was able to afford the minimum payments. So, they didn't think they should do anything more.

Our investigator considered these comments, but their view remained the same. And they explained Ms S's ability to meet the minimum repayment didn't mean the account was affordable and they believed Ms S had a reliance on credit, repaying credit with other credit, which would've been apparent to PayPal had they made further checks before approving the application. So, their recommendation remained the same. PayPal didn't agree, so the complaint has been 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.

Having done so, I'm upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

I've first thought about PayPal's initial decision to lend to Ms S, and whether I think they acted responsibly when doing so as without this decision, there wouldn't have been an active account to default.

There isn't a set list of checks a lender such as PayPal must carry out before deciding to lend. Instead, the rule set by the industry regulator, the Financial Conduct Authority (FCA) say these checks should be reasonable and proportionate to ensure the lending is affordable. And this means satisfying themselves that a customer is able to repay the debt in a sustainable way.

In this situation, PayPal considered the information Ms S provided in her application against the information reported to her credit file. And from this, PayPal offered a credit limit of £5,000. So, I've thought about whether PayPal's checks were proportionate to the limit Ms S was provided. And I don't think they were.

Ms S stated her monthly income was in the band of £1,500 - £2,000 a month. But this was a general banding, and PayPal didn't seek to clarify the actual income Ms S received on average. But at both ends of the scale, the credit limit provided was between 2 to 3 times the amount of Ms S' monthly income. So, I think the actual amount of credit Ms S was provided was substantial, and I don't think PayPal using a general income banding without any insight into the actual income was proportionate to this.

I can also see that as part of the application, Ms S was asked to provide information regarding her living expenses and contributions towards her monthly mortgage. And again, both of these were providing in general bands with a £500 range. So, I don't think PayPal had a clear picture of Ms S' exact expenses and mortgage payments. And because of this, I don't think they would've had an accurate idea of how this compared to her income. Considering the amount of credit being provided, I would've expected PayPal to have done more to build a clearer picture of Ms S' actual financial situation by, for example, requesting bank statements at the time.

Ms S has been unable to provide bank statements from the time of the application due to the time that has elapsed. But she has provided bank statements from around a year later and she's confirmed her outgoings were similar, less the payments to her PayPal credit account.

PayPal have also been unable to provide our service with a copy of the credit file they would've seen at the time of the application. So, I'm unable to know for certain exactly what outgoings or incomings Ms S had at the time. But as both parties have been able to provide real time information from May 2018, I think it's reasonable for me to refer to the statements Ms S has been able to provide and rely on her testimony that her outgoings were similar around a year before.

And having looked through these, I can see that Ms S' income averaged around £1,500 which was the bottom of the income band she supplied at application. And I can see her financial commitments, including payments to manager her existing credit excluding her PayPal account, plus insurance, council tax and other utilities alongside her payment to her mortgage equated to just over £1,000, which is at the top of the expenses band she selected at the point of application.

So, Ms S would be left with just under £500 after these financial commitments. And I can see that Ms S paid on average £75 on food, leaving Ms S with just under £200 a month to account for travel costs, clothing and other disposable income needs before her PayPal credit account payment is taken into consideration. And when I think about affordability, I must assume Ms S would utilise the full balance of the account limit she was provided and calculate any minimum payments on that basis. So, Ms S' monthly payments would equate to around £100 a month at a minimum considering the payment information set out in the accounts terms and conditions of 2% of the outstanding balance plus any promotional purchase offer transaction payment amounts.

And it's important to note this would be only the minimum payment. And continued payments of only the minimum amount wouldn't been a sustainable way to repay and maintain an account, as Ms S would struggle to ever repay the debt in full.

So, because of the above, I don't think PayPal would've deemed the credit account with a limit of £5,000 to be affordable had they have completed reasonable and proportionate checks. And so, I think they acted unfairly, and irresponsibly, when deciding to lender to Ms S.

I understand PayPal don't agree with this. And they have pointed to Ms S's actual management of the account, where she's continued to make minimum and sometimes over payments. But from Ms S' bank statements, I can see that she was entering into her overdraft each month, to maintain her credit commitments. So, essentially, Ms S was using credit to repay other credit, which I don't think is a sustainable way to maintain her finances. So, I can't agree that Ms S' management of her account with PayPal should automatically mean the account was affordable, and should've been provided, in May 2018.

As I think PayPal acted irresponsibly when lending to Ms S initially, it follows that I think the limit increase in December 2018 was also unreasonable. And as I don't think Ms S should ever have been provided the account, it also follows that PayPal's decision to default the account was unfair as Ms S should never have been in a position of needing to maintain the account in the first place.

As I think PayPal have acted unfairly, I've then thought about what I think PayPal should do to put things right.

Putting things right

Any award or direction I make is intended to place Ms S back in the position she would've

been in, had PayPal acted fairly in the first instance. But it shouldn't place Ms S in a position of betterment, as we are an independent and impartial service. So, as Ms S has been able to utilise the credit limit for purchases, any capital she has spent should be repaid.

But had PayPal acted fairly, I think they would've completed proportionate checks before approving the application. And if they had, I think the application would've been declined, deeming it unaffordable to Ms S.

So, Ms S wouldn't have been able to spend on the account. And this means the account wouldn't have accrued interest and charges. So, I think PayPal should reduce Ms S' outstanding debt by refunding all interest and charges that have been applied to the account, alongside 8% simple interest from the date of any payments Ms S made towards these to the date of settlement. And if this leads to a surplus on the account, this surplus should be refunded to Ms S.

And had the account not been provided, the account would not have been reported to Ms S' credit file. So, I think any negative information reported to her credit file relating to this account should be removed. And I think this adequately resolves Ms S' complaint relating to the default PayPal placed in 2021.

My final decision

For the reasons outlined above, I uphold Ms S' complaint about PayPal (Europe) Sarl et Cie SCA and I direct them to take the following action:

- Reduce Ms S' outstanding debt by refunding all the interest and charges applied to the account with 8% simple interest of the date of any payments Ms S made to these to the date of settlement. If this leads to a surplus on the account this should be refunded to Ms S; and
- Remove any negative information regarding this account on Ms S' credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 29 August 2022.

Josh Haskey
Ombudsman