

The complaint

Miss M complains that PayPal lent to her irresponsibly when she was unable to afford to sustainably repay her credit. She wants PayPal to refund the interest and charges she has incurred on her credit account.

What happened

Miss M is a homemaker. She has previously had issues with credit and tells us that her credit history had particular problems, including defaults and a CCJ, around 2011/2012.

In May 2018, Miss M applied for credit with PayPal credit. She completed an application online.

The application asked for 'Your financial information' including 'monthly income', 'monthly rent or mortgage', 'other monthly outgoings' and 'employment status'. Miss M selected Homemaker from a drop-down menu of employment options.

The application displayed a text box with 'Am I eligible to apply?' detailed. It set out that to apply, applicants needed to be:

- "At least 18 years of age and a mainland U.K. resident;
- Employed or retired with an annual income over £10,000; [and]
- Free of any county court judgements or bankruptcy, and have a good credit history."

As Miss M did not have a personal income, she provided details of her household income and expenditure. This suggested that she had disposable income of around £1500 per month.

PayPal carried out some checks, including an assessment of Miss M's credit worthiness and her affordability. These were based on complex data from other sources, and resulted in scores for Miss M. Miss M received average scores for affordability and credit risk.

PayPal approved Miss M's application and set her a credit limit of £500. This was rolling credit and had an interest rate of around 20% APR.

Miss M began using her credit immediately. In a relatively short time, she reached her limit and was repaying the minimum repayments only. She missed some repayments and had late payment fees charged to her account. She fell into difficulties managing her other debts.

She complained to PayPal. She felt that she ought not to have been lent to and that the interest and charges that had been applied to her account meant that she was using the credit to fund day to day living, and was not able to pay down the debt.

PayPal responded not upholding Miss M's complaint. It stated that it had done adequate checks and the lending was affordable.

Miss M complained to us.

Our investigator looked into this matter and did not recommend upholding the complaint. He considered that much of the information about Miss M's finances was not available to PayPal at the time it approved the lending, and that the checks it carried out were proportionate to the amount of credit.

Subsequently, PayPal has offered Miss M a goodwill payment of £150. Miss M considers that this is inadequate as the charges on her account amount to around £300.

Miss M did not accept the view and asked for an ombudsman decision.

I issued a provisional decision in relation to this complaint in September 2022. In that provisional decision I set out that I thought the lending was not appropriate as Miss M did not have a personal income as was required by the eligibility criteria. I also felt that PayPal had not asked for sufficient information to assess Miss M's income and expenditure as a household, I therefore did not think that the lending was responsible, or affordable.

That provisional decision has been shared with the parties and they have been invited to comment.

Miss M has responded accepting the provisional decision.

PayPal has acknowledged receipt of the decision and advised that it has nothing further to add.

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.

As no further arguments or evidence have been received, I remain of the view set out in my provisional decision and adopt that decision, as supplemented by this decision, as my final decision.

Putting things right

To put matters right, PayPal must refund all interest and charges which have been applied to the account over the lifetime of the account. If this results in a balance owed to Miss M this should be repaid to her with interest at a rate of 8% per annum added (from the date of her overpayment up until the date of settlement).

PayPal must also remove all negative information relating to this account from Miss M's credit file and not report any missed or late payments that occur before this decision becomes binding on the parties.

PayPal must then contact Miss M and agree a repayment plan for her outstanding debt. PayPal may report to credit reference agencies about the conduct of the repayment plan.

I have decided not to award compensation in the circumstances.

My final decision

For the reasons given above and in my provisional decision, I uphold Miss M's complaint and direct PayPal (Europe) Sarl et Cie SCA to:

- Refund all interest and charges to Miss M's credit account;
- If this refund results in a balance owed to Miss M to add to this interest at a rate of 8% per annum and pay this to Miss M;
- To remove any adverse data relating to this account which it has reported to credit reference agencies; and
- To work with Miss M to agree an affordable repayment plan for any remaining balance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 18 October 2022.

Laura Garvin-Smith
Ombudsman